البنك الوطني العماني
NBO

50
Since 1973

Annual Report
2022

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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2022 **Overview**

To unlock opportunities as one

Our *values*

Authentic, first and foremost

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

Creating value through connection

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

Relentlessly pioneering

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

Pursuing simplicity

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

"NBO's net profit for the year 2022, stood at OMR 48.2 million, compared to OMR 30.3 million for the same period last year, reflecting an increase of 59.2 percent."

Amal Suhail Bahwan
CHAIRPERSON

Chairperson's Annual Report 2022

On behalf of the Board of Directors of National Bank of Oman SAOG, I am pleased to present the 2022 Annual Report for the period ended 31st December 2022.

Oman's Economy

In 2022, Oman remained committed to delivering on its 2040 Vision and further improving economic resilience. To this end, the Government continued to focus on long-term economic growth and diversification, as well as on a strong and sustainable development.

Oman's gross domestic product (GDP) growth was projected at 4.3 percent in 2022, against 3 percent in 2021, according to a report published by the International Monetary Fund (IMF) in October 2022. During the same period, Moody's Investors Service (Moody's) changed the outlook on Oman's issuer rating to positive from stable and affirmed its Ba3 rating. Meanwhile, the overall fiscal deficit was expected to turn into a surplus of nearly 6 percent of GDP in 2022, according to the Gulf Economic Update published by the World Bank, however Oman achieved a fiscal surplus of OMR 1.1 billion in 2022 compared to a budgeted deficit of OMR 1.55 billion.

Oman's economic rebound has been driven by increased energy prices that reached multi-year highs in 2022, expansion of oil and gas production, and continued recovery of non-hydrocarbon economic activity, while the Government continued to invest in non-oil sectors. Other drivers included the Government maintaining safe and sustainable levels of public spending under the framework of the Government's Medium-Term Fiscal Plan (MTFP 2020-2024), as well as a determined implementation of wide-ranging structural reforms underpinning Vision 2040.

NBO's Operating Performance

Given this backdrop, the bank's net profit for the year 2022, stood at OMR 48.2 million, compared to OMR 30.3 million for the same period last year, reflecting an increase of 59.2 percent.

59.2%

Net Profit increase

16.9%

Capital Adequacy Ratio

Net Interest for the year 2022 is OMR 103.5 million, reflecting an increase of 13.1 per cent over the corresponding period last year. In addition, the NII margin for 2022 registered 2.8 per cent and is higher compared to 2.6 per cent for the corresponding period last year. Meanwhile, the bank continued to support the borrowing needs of its customers during what has continued, for many, to be turbulent times, and grew the loan book by 8.4 per cent during the year.

Fee income for the year 2022 is OMR 34.7 million, compared to OMR 31.8 million last year, registering a growth of 9.2 per cent. The increase is due to strong performance across various fee lines.

Operating expenses for the year ended 31 December 2022 was OMR 60.5 million, compared to OMR 63.5 million for the corresponding period in 2021, a decrease of 4.7 per cent. The reduction year on year is due to various efficiency measures and optimization initiatives undertaken across the bank. The bank continues to invest in its People, Technology, and Infrastructure.

Net Impairment charge for 2022 is OMR 20.3 million, compared to OMR 24.0 million for the corresponding period last year, a decrease of 15.6 per cent.

Gross loans and advances as at 31 December 2022 are at OMR 3.51 billion, reflecting growth of 8.4 per cent over last year. Customer deposits correspondingly are at OMR 3.0 billion, with the bank continuing to maintain a healthy CASA mix.

The bank's core equity and total capital Adequacy Ratio stands at 11.9 per cent and 16.9 per cent respectively.

Overall, and by looking not just at our profitability but also at our growth, we have been pleased with the bank's performance as we remain on a sustainable path. Our core business remains strong while we have further diversified revenue streams and maintained a strong balance sheet. We believe these results highlight our resilience, global reputation and reputation for safe investing. Our commitment to our strategic objectives has bolstered our resilience, while we will continue to reinvent and improve our services as a future-ready bank.

> "Our commitment to our strategic objectives has bolstered our resilience, while **we will continue to reinvent and improve our services** as a future-ready bank"

Organizational Updates

NBO is underpinned by its mission aims to unlock new possibilities for its customers through innovation, delivering growth opportunities associated with bringing high-class banking experiences to Oman. Within this context, and contributing to our Omanisation efforts, we appointed Ms. Aliya Al Balushi to our senior management team as Assistant General Manager - Head of Talent and Performance Management, Mr. Mohamed Al Dhahab as Assistant General Manager - Head of Large Corporates and Ms. Ghadeer Al Lawati – Head of Project Finance and Syndication.

Key Achievements

In 2022, we continued to focus on our customer-centric approach by simultaneously simplifying and upgrading our customer experience. To this end, we embraced and leveraged technology by integrating it into our services to meet the ever-evolving needs of our customers. We also centralised our efforts towards building partnerships and realising our financial targets, in line with our strategy.

On the retail banking side, we launched NBO's Private Banking in mid-2022 offering high-net-worth customers the opportunity to invest in a wide range of robustly managed products to leverage market opportunities. We also introduced financial solutions including a Car Financing Facility that was added to our competitive loan portfolio to meet the growing demand for vehicles. And as it is every parent's ultimate goal is to ensure a safe, secure and comfortable future for their child, we launched our new NBO Children's Account.

We signed a Memorandum of Understanding with the Ministry of Housing and Urban Planning to facilitate the financing of property on lands made available by the Government to Omani citizens through the Sorouh Initiative for Integrated Residential Neighborhoods. Furthermore, we signed a partnership with Muscat Bay enabling interested customers to buy property. Another major milestone was the launch of our Escrow and Custodian Services in support of government requirements for real estate development.

On the corporate banking side, we successfully arranged for a USD 4.0 billion syndicated term finance facility for Oman in cooperation with seven Initial Mandated Lead Arrangers and Bookrunners (IMLABs) through the Ministry of Finance. Moreover, we have engaged as an original lender in the Oman Government's innovative Revolving Supplier Financing Facility for Omani companies. In the corporate digital sphere, we launched Automated Clearing House (ACH) service for 24/7 and our fully automated Online Trade Portal through our Corporate Internet Banking (CIB).

Muzn Islamic Banking

Muzn, NBO's Islamic Banking Window, recorded robust business growth during 2022. In June 2022, Muzn and Investment Banking were successful in extending structuring support to the Ministry of Finance for its Oman Sovereign Sukuk. Broadening its services further, Muzn also entered into a funding arrangement for the development of first ever Penicillin production facilities within the GCC, which will provide local capabilities for producing critical medical supplies in the region.

Muzn also launched the Kids Wakala account and financing service through Direct Debit for non-customers, providing them with a simple, safe and convenient way to make recurring payments.

People and Learning & Development

We always put our team at the center of our growth ambition and we launched several initiatives in 2022 to optimize and retain the pool of talent we have. This includes the launch of 'Tamayuz' program, employee-focused customized development program, targeted at high-potential employees from across the bank, including NBO's Muzn Islamic Banking. Furthermore, we initiated the Rawabit Program, which consists of a thorough series of interactive workshops focusing on reinforcing the bank's values to deliver superior services. We also introduced a dynamic customer experience programme for all branch employees. 'Dhiyafa' is a three-month course that focuses on communication etiquette, customer expectations, standards for serving customers, face-to-face interactions and all aspects of the NBO customer experience.

As part of our drive to encourage excellence through learning, we have partnered with the International Chamber of Commerce (ICC) Academy to develop our teams' trade finance skillset. Also throughout the year, our teams received multiple certifications, such as in Banca Blended Certification, Sadara Relationship Managers Certification, Sales Star Certification, Universal Banker Certification and others.

Community Values

The aspirations of people continue to drive our business as we continue to partner with multiple entities to support our communities. Following the Memorandum of Understanding we have signed with the Ministry of Labour in October 2021 to provide a supplementary course for graduates of the National Leadership Development Programme, Etimad, the first batch of participants have embarked on the journey. The initiative offered a platform for participants to share their experiences and knowledge and improve their leadership skills. We also welcomed members from several ministries for learning and development sessions at our HQ.

"We always put our team at the center of our growth ambition and we launched several initiatives in 2022 to optimize and retain the pool of talent we have"

Having welcomed over 600 interns in 2022 alone, NBO's Internship Programme is making enormous strides towards upskilling Omani graduates, enhancing their banking and financial experience, equipping them with the professional and social skills to confidently enter the job market and ultimately, add value to Oman's future workforce. We also partnered with the Ministry of Culture, Sports and Youth to send 25 science students on a trip to Expo 2020 in Dubai.

In 2022, NBO also hosted the first-of-its-kind orphan care forum in Oman, Tatmeen, while we undertook the full refurbishment of the children's playroom at Oman Cancer Association or OCA's Dar Al Hanan Centre. Sharing the spirit of giving and as per our annual commitment during the Holy Month of Ramadan, we utilized our annual community outreach program to distribute food hampers to families in need and people with disabilities.

Local and Global Recognition

Our ongoing efforts to strive for excellence were recognized with multiple awards. As well as being named Best Performing Company in the Large Capital category at the Alam al-Iktisaad Wal A'mal (AIWA) Awards, we have received awards from the Ministry of Social Development, World Business Outlook, Citibank, World Economic Magazine, MEA Finance Banking Technology and The Banker Awards. Muzn also received multiple awards from The Banker, Alam al-Iktisaad Wal A'mal (AIWA) Awards and World Economic Magazine.

Appreciation

On behalf of the NBO Board of Directors, I want to close by thanking our clients, shareholders, executive management, and the entire team of NBO for their continuous support, trust and efforts. Together, we have been implementing the bank's strategy and achieving its goals and objectives, while always striving for better. We would also like to express our appreciation to our regulators, the Central Bank of Oman, the Central Bank of the United Arab Emirates and the Capital Market Authority for their constant support and dedicated efforts to further nurture the growth of the banking sector.

We pay tribute to His Majesty, Sultan Haitham bin Tarik Al Said, for his visionary leadership and under whose wise guidance Oman steadfastly continues on towards sustainable socio - economic development as per the Vision 2040.

Thank you.

Amal Suhail Bahwan
Chairperson

Board of Directors

Board of Directors

Ms. Amal Suhail Bahwan

CHAIRPERSON

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

Ms. Amal Suhail Bahwan is the Vice Chairperson of Suhail Bahwan Group Holding LLC. She has extensive experience in managing companies across the Bahwan Group since 1998.

She is also the Chairperson of Board and Nomination and Remuneration Committee (NRC) of Al Jazeera Steel Products Co. SAOG and Director and Board Executive Investment Committee member of Oman Oil Marketing Co. SAOG. Ms. Bahwan is also Chairperson of Al Afia Healthcare Development and Investment Company SAOC and a Board member of National Pharmaceutical Industries Co SAOC and also a Member of the Board of Trustees member for the "Celtec Corporation" in Qatar.

She was ranked among the list of the most influential women in the Middle East for 2018 by Forbes Middle East, the list of the most powerful Arab Women for 2017 and the list of most powerful businesswomen in 2023.

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

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

DEPUTY CHAIRMAN

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

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

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

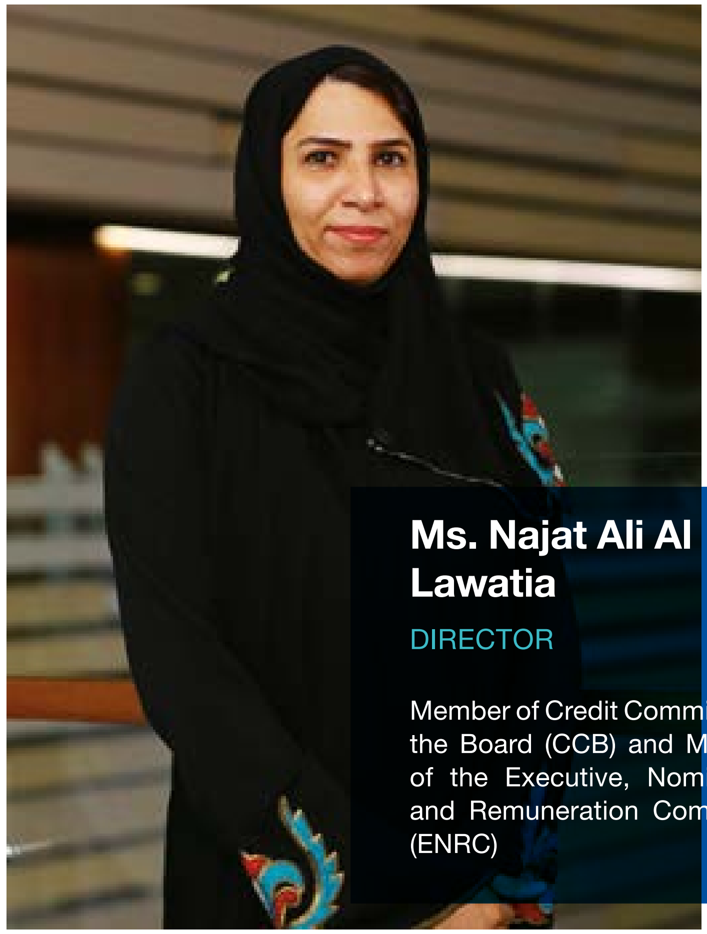
Mr. Hamad Mohammad Al Wahaibi has been a Director of the Bank since March 2014. He has more than 20 years of experience in areas of investment, assets management, business development and financial sector. He is the General Mananger of investment with the Ministry of Defense Pension Fund. Mr. Al Wahaibi is also a member of the boards of Renaissance Services Company and Oman Flour Mills Company.

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

Mr. Hamad Mohammad Hamood Al Wahaibi

DIRECTOR

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



Ms. Najat Ali Al Lawatia

DIRECTOR

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

Mrs. Najat Ali Al Lawatia has been a Director of the Bank since March 2017. She holds a Bachelor's degree in Accounting. She is the Deputy Director General for Support Services with the Civil Service Employees Pension Fund and has more than 26 years of relevant experience. She has attended various courses in diverse fields of financial management, audit and investments.

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

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

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

Mr. Mohammed Ismail Mandani Al Emadi

DIRECTOR

Member of the Credit Committee of the Board (CCB)

Mr. Rahul Kar

DIRECTOR

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

Mr. Rahul Kar has been a Director of the Bank since April 2016. Mr. Kar is a Chartered Accountant and the Financial Advisor to the Chairman of Suhail Bahwan Group Holding LLC.

Mr. Kar is a Director and an Audit Committee member of Al Jazeera Steel Products Co. SAOG. He is also a Director and Nomination & Remuneration Committee member of Oman United Insurance Company SAOG.

Mr. Fahad Badar 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 22 years. Prior to his current role as Executive General Manager, International Banking, he held a number of key roles in the international banking, the government and public sector relations and the wholesale banking divisions.

Mr. Badar holds an MBA from Durham University, UK, and a Bachelor of Arts Degree, BA in Banking and Finance from the University of Wales.

Mr. Fahad Badar

DIRECTOR

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

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.

Mr. Said Hilal Al Habsi

DIRECTOR

Chairperson of the Board Audit Committee (BAC)

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

Mr. Said is an Investment Director at Oman Investment Authority (OIA), holds MBA and Bachelor of Finance. Previously, he worked for Oman Investment Fund (OIF), and Ministry of Defense Pension Fund holding various senior posts in Investment and Finance fields. Said is a certified professional accountant. He is also a Board member Salalah Mills SAOG.

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

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

Dr. Ghazi Nasser Al-Alawi

DIRECTOR

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

Dr. Ghazi Nasser Al-Alawi has a Ph.D. in Entrepreneurship from the University of Plymouth - UK. He has seven years of experience in the financial sector, where he was a member of the Board of directors at Bank Sohar International.

He is also a member of the Board of directors in Oman Casting Aluminum, Dunes Oman, and Muscat Horizons International.

Mr. Nabil Hamad Al Mahrouqi

DIRECTOR

Member of Board Risk and Compliance Committee (BRCC)

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 the Head of the local and GCC Investments in Public Authority for Social Insurance. Before joining PASI in 2012, Al Mahrouqi worked at Sultan Qaboos University and the Omani Encyclopedia project.
Al-Mahrouqi 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.

Senior Management

Abdullah Zahran Al Hinai
CHIEF EXECUTIVE OFFICER

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

Tariq Atiq
GENERAL MANAGER
Chief Retail & Digital Banking Officer

Sulaiman Said Al Lamki
GENERAL MANAGER
Chief Risk Officer

Srinivasaraghava Varadachari Giridhar
GENERAL MANAGER
Chief Financial and Operating Officer

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

Salah Abdullah Al Sharji
DEPUTY GENERAL MANAGER
Chief Internal Auditor

Senior Management

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

Pullattu Radhakrishnan Anil Kumar
DEPUTY GENERAL MANAGER
Head of Corporate Banking

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

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

Ali Mustafa Al Lawati
ASSISTANT GENERAL MANAGER
Head of Private Banking

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

Maha Saud Al Raisi
ASSISTANT GENERAL MANAGER
Head of Retail Products

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

Mohamed Abdullah Al Dhahab
ASSISTANT GENERAL MANAGER
Head of Large Corporates

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

Kantilal Pratapram Bhati
ASSISTANT GENERAL MANAGER
Head of Compliance

Management Discussion and **Analysis 2022**

TOTAL ASSETS (OMR Bn)

2022	4.3	CAGR
2021	4.1	
2020	3.6	
2019	3.6	4.35%

LOANS & ADVANCES (OMR Bn)

2022	3.4	CAGR
2021	3.1	
2020	2.9	
2019	2.8	4.79%

CUSTOMER DEPOSITS (OMR Bn)

2022	3.0	CAGR
2021	2.9	
2020	2.5	
2019	2.5	4.36%

TOTAL NET WORTH (OMR Bn)

2022	0.6	CAGR
2021	0.6	
2020	0.5	
2019	0.6	2.33%

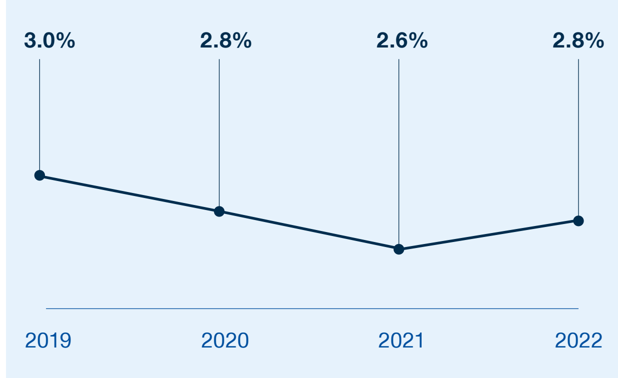
OPERATING INCOME (OMR Mn)

2022	138.2	CAGR
2021	123.4	
2020	117.0	
2019	128.3	0.91%

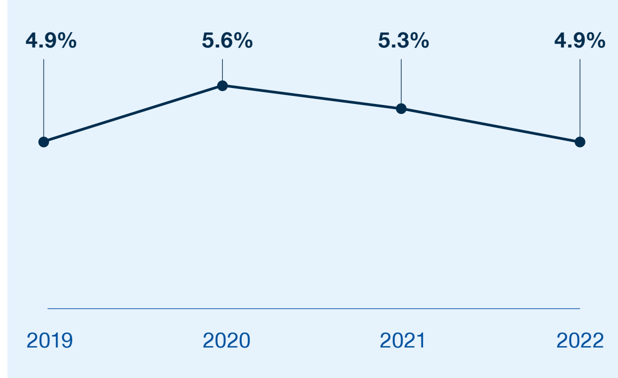
NET PROFIT (OMR Mn)

2022	48.2	CAGR
2021	30.3	
2020	18.1	
2019	51.4	1.83%

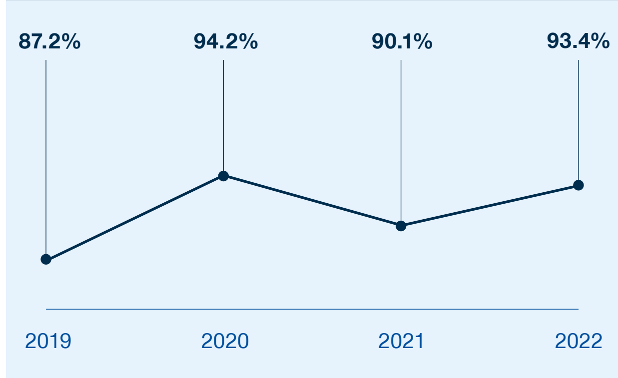
NET INTEREST MARGIN (NIM)



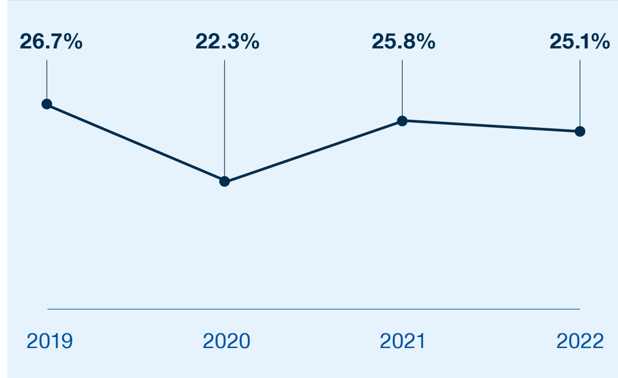
NON-PERFORMING LOANS RATIO



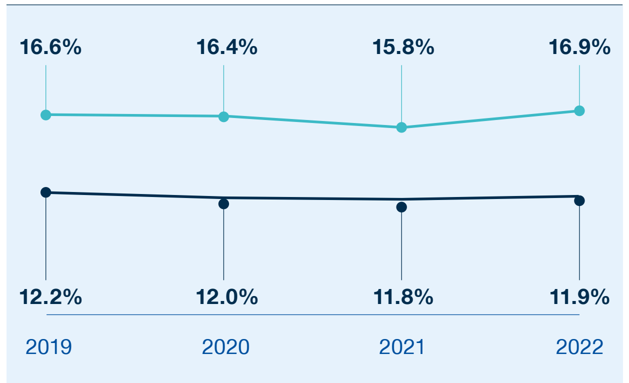
PROVISION COVERAGE RATIO



FEE INCOME TO OPERATING INCOME

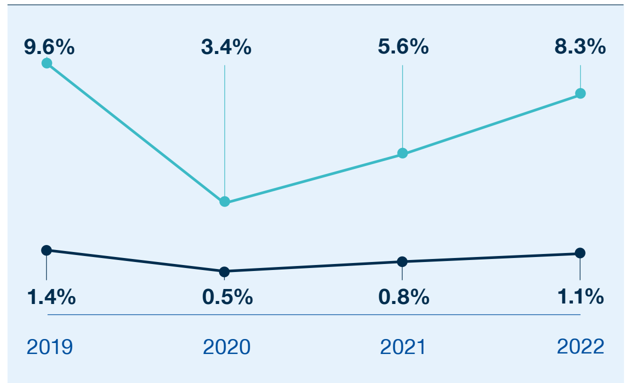


CORE EQUITY TIER 1 & CAPITAL ADEQUACY RATIO



CET 1 CAR

RETURNS



Return on Assets Return on Equity

In 2022, we achieved strong progress against our strategy designed to set the bank on a new upward trajectory for growth and prominence.”

Abdullah Zahran Al Hinai
CHIEF EXECUTIVE OFFICER

Management Discussion & Analysis

Management Discussion and Analysis

Overview

As NBO celebrated a remarkable 50 years as Oman's pre-eminent financial institution early in 2023, we can look back on 2022 as a year of strong progress against our strategy designed to set the bank on a new upward trajectory for the next 50 years.

In tracking progress against expectations in the delivery of the five-year 'Return to Prominence' strategy we embarked upon in 2021, we are ahead of the curve across all of our core pillars which are People, Digital, Brand, Assets Quality, Capital, Liquidity, Revenue, Optimization and Partnerships. We realised our financial targets, reducing cost-to-income ratio, and unified our brand positioning. These advances, coupled with continuing strengthening of the Omani, regional and global economies as the recovery from the Covid-19 global pandemic continues, enabled NBO to record a second year of strong operational and financial results.

Offerings for personal and business banking customers have continued to expand, with both additional and upgraded services provided through various online platforms. New offerings have included Private Banking and children's banking services. Strong partnerships have continued with our partners in various sectors, driving greater value for our customers.

Across the board, we are supporting the drive towards a cashless society in support of Oman's 2040 Vision to promote nationwide digitalization. Our ever-growing portfolio of smart solutions are helping individuals and businesses alike make the switch. From QR Codes to mobile wallets, biometrics and instant remittances, we are tapping into the world's leading technologies to provide customers with the best possible experience, as well as driving greater efficiency in our operations.

In corporate banking, we have continued to build our provision of value-added services, offering customers a comprehensive suite of services covering all their financial needs. We have also maintained a close partnership with the Government of Oman and its institutions to provide both banking services but also insight and expertise to reinforce financial governance, regulation and best practice across the public sector.

Our Muzn Islamic Banking window continued to expand and recorded significant growth and performance improvements during 2022 across both its retail and corporate sectors. In keeping with our broad digitalization strategy, we added further to the range of services available online to Muzn customers.

In 2022, we rolled out our new brand identity, with enhanced look and feel to differentiate us further from other brands and competitors. The new identity revamped our values to reflect our strategic goals and aspiration for the bank, and the way we communicate our products and services. Our four values of authenticity, relentlessly pioneering, creating value through connection, and pursuing simplicity, are the guiding principles and fundamental beliefs that support us in fulfilling our purpose of unlocking opportunities as one, which in turn will help us achieve our strategy.

The commitment to developing employees and their capabilities has continued with a range of development programmes and continued recruitment of talent to NBO leadership positions. NBO CSR efforts continue, building on established partnerships, with direct benefits to communities throughout the year.

We are grateful to the dedication and hard work of our employees, whose contributions have been essential to our success in 2022. Looking ahead, we will remain committed to our strategy and continue our efforts towards growth and excellence.

Operating Environment

The recovery in Oman's economy continued through 2022, maintaining momentum in parallel with global markets as they emerged from the lows of the Covid-19 pandemic. Oman's GDP growth of 4.5 percent, up from 3.0 percent in 2021, continued momentum into 2023 driven by a 2022 budget surplus, and associated increasing foreign direct investment, growth in non-oil exports and firm oil prices. Although government spending remained curtailed with a focus on debt reduction.

The improvement in Oman's economic and fiscal position has resulted in an uptick in the ratings given by the international ratings agencies to Oman's government and key institutions, which include NBO.

Pressures remained, however, the international markets remained challenging with impacts from the ongoing conflict in Ukraine and the lagging emergence of China from the pandemic. The significant disruption to trade and energy supplies, in particular, contributed to the re-emergence of inflation and drove continued volatility and negative returns in international equity and bond markets. These factors undermined investor sentiment and impacted the wealth revenues of financial institutions.

In local financial markets, competition was strong in both retail and corporate sectors with a responsive and innovative approach required to protect margins and market position. Similarly, attracting experienced financial professionals has been challenging with limited talented available in the market and emphasised the importance of a strong employee value proposition.

Operating Performance

NBO's financial performance continued to improve in 2022, driven by both improving economic conditions and the increasing momentum in the implementation of our strategy, and evidenced by significant improvements in the Bank's balance sheet and profitability. NBO recorded a Net Profit for the year 2022 of OMR 48.2 million, compared to OMR 30.3 million in 2021, an increase of 59.2 per cent. The Bank's Core Equity and Total Capital Adequacy Ratio stood at levels healthily above international standards at 11.9 per cent and 16.9 per cent respectively.

We have taken various management actions to improve liquidity, enhance margins, mobilise deposits and optimize lending ratio, which have resulted in improvement of Net Interest Income (NII) over budget and last year. Focused approach on frontline productivity and proactive customer centric approach have resulted in better performance in certain fee lines such as payment acquiring, bancassurance, remittance, asset management and loan related fees, resulting in our total fee income registering a growth of 9.2 per cent over last year.

Our risk management practices continues to be robust and we have been very selective in segments that we lend. With tighter underwriting standards and enhanced recovery, net impairment for the year 2022, was at OMR 20.3 million, compared to OMR 24.0 million for the year 2021, a decrease of 15.6 percent,. At the same time, we were successful in growing our customer base across our business segments and our strong customer focus and healthy client relationship have resulted in increase in customer deposits at OMR 3.0 billion, with the bank continuing to maintain a healthy CASA mix.

"The Bank's Core Equity and Total Adequacy Ratio stood at 11.9% and 16.9% respectively."

At the same time as generating revenues, additional investments were being made to build the platform for our future growth by focusing on people, technology, and infrastructure. Despite this, we managed to reduce our operating expenses by 4.7 percent through a variety optimization measures and tight control over various spends. Operating expenses for the year 2022 were OMR 60.5 million, compared to OMR 63.5 million for the previous year.

During 2022, all our core operating business segments took strong initial steps in executing plans aligned with our strategic priorities and contributed to our growth and improved performance.

Retail & Digital Banking

We continued to develop our online and remote banking services, in response to customer preferences firmly established during the pandemic. We increased both our range of offerings and associated benefits, allowing customers to manage an increasing number of their banking and transactional needs remotely while enjoying a superior customer experience.

Marking a major milestone in our 50-year journey, we launched NBO Private Banking. The new proposition provides comprehensive and holistic solutions and opens up new opportunities for our high-net-worth customers. NBO's Private Banking provides a portfolio of investment and wealth management products and services, including global investment funds and structured products. With advice from our dedicated team, these are tailored to towards individual customer needs and offer customers the opportunity to invest in a wide range of robustly managed products to leverage market opportunities.

We also launched a new Children's Account with an aim to introduce a whole generation to banking, enabling them to develop a healthy and responsible approach to managing their finances. As well as building lasting relationships with the next generation of customers, we are encouraging families to use their accounts to lay strong financial foundations for their children.

We continued to develop partnerships with a range of retail organisations and service providers to offer customers access to preferential benefits and opportunities.

We launched our car financing facility, adding to our portfolio of competitive financing solutions. This convenient, affordable, and benefit-laden addition to our loan portfolio comes in partnership with dealers across the country and provides exclusive deals, flexible payment terms and efficient application processing catering to our customers' needs.

In supporting customers in various market segments to purchase and finance their homes, we established a number of tie-ups with leading developers and real estate marketing agencies, and added new financial instruments.

We signed a strategic partnership with Muscat Bay to provide finance facilities for buyers interested in purchasing a property within this premier integrated development. Buyers are able to avail preferential loan rates, special rates on associated life and property insurance products and a convenient and efficient approval process.

We signed a Memorandum of Understanding with the Ministry of Housing and Urban Planning to facilitate the financing of property on lands made available by the government to Omani citizens through the Sorouh Initiative for Integrated Residential Neighbourhoods.

To support the efficiency and governance of real estate development and transactions, we launched our Escrow and Custodian Services. We accept and hold funds on behalf of customers during the purchase of a property and release the funds as per their Escrow agreement, ensuring transparency and safeguarding the interests of both buyer and developer, and reinforcing confidence of both property investors and developers alike.

Supporting small and medium size enterprises and contributing to the development of cashless commerce in Oman, our Merchant App was launched in late 2021. In 2022, we saw rapid take up of this app by small businesses and entrepreneurs. They were able to take advantage of the efficient and reliable seamless mobile-based payment solution it provides, without set up fees or monthly charges, to realise the potential of their enterprises and reach new markets.

> "Marking a major milestone in our **50-year journey**, we launched NBO Private Banking. The new proposition provides comprehensive and holistic solutions"

The retail banking sector remains highly competitive and continuing to develop and expand our customer services and digital offerings, as well as providing value-adding benefits, is vital to attract and retain our retail customers.

Corporate

In the corporate banking sector, we have also pursued strategies to enhance our digital offering and increase the range of services to our businesses customers. We aimed to provide our corporate clients with a comprehensive suite of services from traditional banking facilities through to flexible financing options and complex transactional advice. NBO, together with seven Initial Mandated Lead Arrangers and Bookrunners, successfully arranged a USD 4.0 billion syndicated term finance facility for The Sultanate of Oman, acting through the Ministry of Finance. This deal represents Oman's first general syndication in 2022, featuring significant oversubscription of 150 per cent and participation by 26 banks and financial institutions.

We also engaged as an original lender in the Government of Oman's innovative Revolving Supplier Financing Facility for Omani companies.

Through our Corporate Internet Banking (CIB) facility, we launched a number of important new services offering greater access and service levels to corporate customers, helping them to run their businesses more efficiently.

We introduced our Automated Clearing House service, which enables customers to immediately process transactions up to OMR 20,000 at any time, 24 hours a day, 365 days a year. We also launched direct debit services for corporate clients, enabling companies to automate both their long-term and short-term receivables, eliminating the need for cheques.

For those conducting international business, we introduced our fully automated Online Trade Portal. Part of our commitment to advancing Oman's business sector, the Online Trade Portal is accessible through our Corporate Internet Banking platform and empowers customers to conduct transactions for a range of trade products along with many other useful features, all available around the clock and in their complete control.

Investment Banking & Asset Management

Asset Management witnessed a significant growth in 2022 with fee income growing by 48 per cent year on year and investment income growing by 21.4 per cent year on year.

Treasury also recorded another milestone executing our first Chinese Yuan (CNY) transaction, the currency of one of Oman's most significant trading partners. This demonstrates that NBO is able to successfully diversify our foreign exchange transactions into a new currency to support the continued diversification and breadth of our business.

UAE Operations

The UAE is a core business hub within the regional economy and Oman's largest trading partner. Our operations support that important relationship and provide us with a strategic advantage within the Omani banking sector. A focus for 2022 was to further stabilize our UAE business through cost optimization initiatives and a prudent business approach. As a result, our UAE operations were self-funding for 2022 and recorded healthy increases in revenue and net income.

Muzn Islamic Banking

In the retail sector, Muzn Islamic Banking continued to unlock opportunities for its customers by migrating all card services to Visa, the world's largest payment network. In addition to providing an enhanced banking experience with a Visa card, customers are now able to enjoy exclusive lifestyle and travel benefits, dining deals, preferential rates and discounts at over 70 million merchant locations in more than 200 countries worldwide, whilst proudly adhering to Shari'a law practices.

Muzn also added several new features to its mobile app, so that users can now pay their electricity and water bills, school fees and other core services providers through Tasdeed, giving them more ways than ever to manage their finances at their fingertips. Muzn's Cash and Cheque Deposit acceptance capabilities was expanded through a network of over 135 Cash and Cheque Deposit Machines (CCDMs) across Oman.

Similarly for corporate customers using our Muzn corporate internet banking platform, new features were added enabling business users to pay their electricity and water bills, make Public Authority for Social Insurance payments and pay fees for various educational institutions across Oman, in addition to a host of other easy-to-use functions that enable them to efficiently manage their finances.

Broadening its corporate banking services further, Muzn entered into a funding arrangement for the development of first ever Penicillin production facilities within the GCC, which will provide local capabilities for producing critical medical supplies in the region.

Muzn and Investment Banking were also successful in extending structuring support to Ministry of Finance for its OMR 150 million Oman Sovereign Sukuk, which was successfully issued in June 2022.

Muzn also participated in a syndication deal for Oman Air with allocation of RO 20 million.

Supporting both the governance and development of our Islamic banking services, we established Muzn's new Shari'a Supervisory Board, comprising members with extensive experience and a deep understanding from diverse Islamic banking markets. The Board's responsibilities include ensuring all products, services, activities, investments, operations and transactions are compliant with the principles of Shari'a, as well as guiding developments as we meet the growing demand from customers for Islamic financial products and services which are aligned with their values.

Government Banking & Partnerships

As one of Oman's leading domestically based financial institutions, our relationship with government institutions remains key. We continue to support them through knowledge-sharing, providing innovative financial solutions and contributing to the efficiency and financial capabilities of Oman's ministries and agencies, as well as supporting Oman's economic and social development policies. Financial services included those already highlighted; the MoU with the Ministry of Housing and Urban Planning; the syndicated term finance facility for The Sultanate of Oman, acting through the Ministry of Finance; and involvement in the Government innovative Revolving Supplier Financing Facility for Omani companies.

We continued to provide learning and development opportunities, such as those conducted in collaboration with the Ministry of Housing and Urban Planning and the Ministry of Labour, sharing insights and best practice with their employees as part of their leadership programmes. The initiatives included the provision of a supplementary course for graduates of the National Leadership Development Programme, Etimad, offering a platform for participants to share their experiences and knowledge and improve their leadership skills.

People

We continued to focus on the development of our people and ensuring our organisation is populated with the right talent, equipped with the appropriate skills to effectively deliver the range of services and digital solutions we need to offer to our customers.

Our high potential development programme, Tamayuz, commenced with 58 carefully identified employees. Held in collaboration with elite business schools and training institutes, it includes workshops and courses alongside external coaching to help participants strengthen their individual areas of development, preparing them for leadership roles in the future. Participants also undertake assignments aligned with NBO's strategic goals and will also be able to earn professional certification to help progress their aspirational and organizational goals.

Upskilling and ensuring our employees maintain their knowledge up to date is key. We ran an extensive programme of training ranging from supporting professional banking qualifications, customer service skills and risk management, to project and efficient management processes, inter-personal skills and digital technology. We reskilled over 180 staff to enable them to operate as universal tellers, capable of delivering the full range of services to our customers.

"We continued to focus on the **development of our people**"

We have achieved over 93 percent Omanisation, of which 40 percent are female. In our branches, all our employees are now Omani and we are committed to developing the next generation of finance professionals and business leaders, having taken over 600 interns into our business during 2022.

Overall, our staff undertook a total of over 10,800 man-days of training across 412 different programs.

To promote employee engagement level, we introduced several initiatives throughout the year. These included GM Connect, a platform for employees to connect with General Managers. Supporting our value of creating value through connection, the initiative serve as a platform of knowledge and experience exchange. Other initiatives included football and bowling tournaments, internal photography competition to mark the World Photography Day among other activities during National Day and throughout the year.

Corporate Responsibility

As elaborated in our Chairperson's introduction, in addition to supporting Government policies and initiatives through our banking services, we also engaged directly with the community and maintained our programme of corporate social responsibility activities.

In 2022, we concluded our unique scholarship program. Announced during NBO's 45th anniversary, the program enabled 11 students from low-income families to complete their undergraduate degrees at the top Universities in the UK. They have now all graduated and are employed by NBO.

We also concluded the 'Strength in our youth' courses in collaboration with Outward Bound Oman (OBO), building core life skills of 900 young Omanis from every region of Oman and enabling them to acquire the skills necessary to join the labour market.

Sharing the spirit of giving and delivering our yearly commitment during Ramadan, we utilized our annual Ramadan community outreach programme "Shahr il Atta" to distribute food hampers to families in need and people with disabilities. Partnering with Al Rahma Association, Association of Early Intervention for Children with Disability and Nida Al Khair Charity Team, it strengthened the bank's bond with the local community while providing much needed assistance. We also collaborated with Association for early intervention to renovate the children's playroom with the support of IKEA.

"We concluded our **Scholarship Program, enabling 11 students** to complete their undergraduate degrees at top Universities."

Local and Global Recognition

External recognition of the progress we have made is important affirmation of our strategy and its effective implementation. The Bank received a variety of awards during 2022 covering various aspects of our work, including technology, customer service and our Islamic banking services.

We were named Best Performing Company in the Large Capital category at the Alam al-Iktisaad Wal A'mal (AIWA) Awards, which recognize the top achievers in Oman's corporate world, and reward the best performing companies across the country.

We are also pleased to have been awarded Best CSR Bank 2022 by World Business Outlook, honoring our efforts towards responding to crisis, youth empowerment, social and economic development and education. The same awards saw NBO winning Best Mobile Banking App Oman 2022.

We received Citibank's Straight Through Processing (STP) Excellence award for a fifth time highlighting the Bank's high efficiency in managing treasury and commercial payments.

NBO's digitalization transformation was recognized by the award as 'Best Innovation in Corporate Banking and Finance' at the MEA Finance Banking Technology Awards 2022, and being named Best Banking Technology Oman 2022 at the World Economic Magazine (WEM) Awards. WEM also awarded us Best Private Bank Oman 2022 in recognition of our efforts to offer a best-in-class private banking and wealth management services.

Muzn received two notable awards reflecting the platform's strong performance and growth over the last year, being named Islamic Bank of the Year 2022 by The Banker Magazine for the second year in a row and the Most Innovative Islamic Window award at the Islamic Banking and Finance Summit 2022.

Outlook 2023 and beyond

The oil price outlook, as forecast by a range of analysts, is relatively stable with Brent oil prices expected to remain in the range of $80-90 per barrel through 2025, which will have a positive impact on Oman's economic and financial conditions. Meanwhile, the Government's efforts to attract foreign investment and support economic diversification remains strong. Oman Investment Authority (OIA), the country's sovereign wealth fund, continues to follow its strategic objectives towards sustaining Oman's long term economic growth. The multi-billion dollar investments signalled by OIA covers various sectors, including energy, logistics, tourism and other key sectors. Coupled with the steadily increasing role of the non-oil sector and significant plans by the Government and private sector initiatives contributing towards the Oman Vision 2040, the signs are positive for the Omani economy. This anticipated improvement is expected to result in upgraded ratings by credit rating agencies.

Nevertheless, there are a range of geo-political and related macro-economic factors that need to be monitored and to which we need to be ready to respond to flexibly.

We have made good progress in executing the strategy over the last 2 years and delivered against the overall targets with improved operational and financial performance, gaining market share in both loans and deposits and improving balance sheet and Profit and Loss metrics.

Sustaining this momentum requires continued focus and to have plans in place to capitalize on the opportunities provided by the improved business environment resulting from the Government policies. In Corporate Banking we aim to grow our business in a disciplined manner and improve asset quality with focus on key emerging sectors aligned to Oman Vision 2040. In transaction banking we will be focused on increasing liquidity and retaining customers, while adding value through offering end-to-end digital transaction banking services.

Similarly in the retail sector, we aim to leverage the existing range of products and services and identify new digital channels to encourage take up of additional value-adding services.

We are seeking to continue to develop our Muzn Islamic Banking offering and renew our customer value proposition, as well as further increasing market share in Islamic financing.

Finally, in capital markets we are seeking to grow our advisory service and asset management business. The progress recorded over the last two years has positioned us strongly to respond flexibly and effectively to market challenges and volatility and continue confidently on our strategic journey to 'Return to Prominence'. Meanwhile, we will continue to deliver on His Majesty Sultan Haitham bin Tarik's vision for a future bursting with ambitions, where each and every one has a role to play.

Corporate Governance **Report 2022**

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

To the Board of Directors of National Bank of Oman SAOG

Purpose of this Agreed-Upon Procedures Report

We were engaged by the Board of Directors of National Bank of Oman SAOG (the "Bank") to perform agreed upon procedures on the Bank's compliance with the Code of Corporate Governance of Capital Market Authority ("CMA"), as prescribed in the CMA Circular No. E/10/2016 dated 1 December 2016 (together the "Governance Code"). Our report is solely for the purpose of assisting the Bank in complying with the CMA requirements and may not be suitable for any other purpose.

Responsibilities of the Bank

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

The Management of the Bank is responsible for accuracy and completeness of the subject matter on which the agreed-upon procedures are performed.

Practitioners' Responsibilities

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

Practitioners' Responsibilities (continued)

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

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

Professional Ethics and Quality Control

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

Our firm applies International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Procedures and Findings

We have performed the procedures described below, which were agreed upon with the Bank in the terms of our engagement letter dated 11 January 2022:

S. No	Procedures	Findings
(a)	We checked that the corporate governance report (the "Report") issued by the Board of Directors includes as a minimum, all items suggested by CMA to be covered by the report as detailed in the Annexure 3 of the Code by comparing the report with such suggested content in the Annexure 3	No exceptions noted

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

Ravikanth Petluri
5 March 2023

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Corporate Governance 2022

The corporate governance framework of the National Bank of Oman (NBO, or the Bank) applies the principles set out in the regulations for Corporate Governance of Banking and Financial Institutions issued by the Central Bank of Oman (CBO), the Capital Market Authority (CMA) Code of Corporate Governance (the Code) as amended for Muscat Stock Exchange Company (MSX) listed companies and the Commercial Companies Law (CCL) of Oman.

The Board of NBO supports the fostering of a healthy and effective governance culture across the Bank and is committed to the highest standards of corporate governance. Accordingly, the Board and its Committees continuously evaluate and improve their governance practices, policies and procedures to sustain stakeholder value and trust and maintain a high level of business ethics.

In accordance with the directives of the Code, this corporate governance report is included separately in the annual report, the statutory auditor has performed the agreed upon procedures on the Corporate Governance Report.

Board of Directors

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

Appointment of Directors

The Board comprises 11 members who were elected by the shareholders in May 2020 for a period of three years. The current term of all the Directors will expire at the end of March 2023.

Process of nomination of the Directors

The nomination of Directors is as per Articles 6 of the Bank's Articles of Association and also in accordance with CBO, CMA, Ministry of Commerce, Industry and Investment Promotion (MOCIIP), CCL and MSX regulations. The Executive, Nomination and Remuneration Committee (ENRC) reviews the appropriate skills and character 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 they can maintain full and effective control over strategic, financial, operational, risk, compliance and governance issues. The information provided to the Board is as per the guidelines provided in the Code.

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

Composition of the Board

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

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

Table (1)

Name of Director	Representing	Category of The Director*
Ms. Amal Suhail Bahwan – Chairperson	Herself	NEX-NIND
Sheikh Abdulla Bin Ali Bin Jabor Al Thani – Deputy Chairman	The Commercial Bank - Equity Investor	NEX-NIND
Mr. Hamad Mohammed Al Wahaibi – Director	Himself	NEX-IND
Ms. Najat Ali Al Lawatia – Director	Civil Service Pension Fund - Equity Investor	NEX-NIND
Mr. Mohammed Ismail Mandani Al Emadi – Director	Himself	NEX-NIND
Mr. Rahul Kar – Director	Himself	NEX-IND
Mr. Fahad Abdul Rahman Badar – Director	Himself	NEX-NIND
Mr. Joseph Abraham	Himself	NEX-NIND
Mr. Said Hilal Al Habsi	Himself	NEX-IND
Dr. Ghazi Nasser Al Alawi	Himself	NEX-IND
Mr. Nabil Hamad Al Mahrouqi	Public Authority for Social Insurance - Equity Investor	NEX-IND

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

As per the CMA guidelines, five Board members are currently considered as independent (which is more than one third of the Board) as per the required minimum number of independent directors as stated in the Code

Table (2)

Name of the Director	Other board committees membership*p	No. Of other S.A.O.G boards memberships	No. of board meetings attended	Attended last agm on 30th march 2022
Ms. Amal Suhail Bahwan - Chairperson	ENRC	3	8	Yes
HE Sheikh Abdulla Bin Ali Bin Jabor Al Thani – Deputy Chairperson	ENRC	NIL	7 (1 by proxy)	Yes
Mr. Hamad Mohammed Al Wahaibi	ENRC / CCB	2	6	No
Ms. Najat Ali Al Lawatia	ENRC / CCB	3	7	Yes
Mr. Mohammed Ismail Mandani Al Emadi	CCB	NIL	7 (1 by proxy)	No
Mr. Rahul Kar	BAC / BRCC	2	7	Yes
Mr. Fahad Badar	BAC / BRCC	NIL	7 (1 by proxy)	Yes
Mr. Joseph Abraham	ENRC / CCB	NIL	7	Yes
Mr. Said Hilal Al Habsi	BAC	1	7	Yes
Dr. Ghazi Nasser Al Alawi	BAC/BRCC	NIL	7	Yes
Mr. Nabil Hamad Al Mahrouqi	BRCC	2	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 2022: January 26, April 27, May 31, July 27, August 31, October 27, November 22, the maximum interval between two meetings was 91 days. This is in compliance with the current regulations, which require meetings to be held within a maximum time 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 2022 is OMR 1,719,234/-

The Bank has appointed experienced and qualified professional managers as heads of departments. All employment is carried out based on specific job profile and description. The goals of Chief Executive Officer (CEO) are set by the Board and based on these goals every General Manager is given well set out goals that are clearly measurable. The CEO in conjunction with the Human Resource department conducts performance reviews half yearly and annually to ensure that targets are met. The remuneration package and incentives are decided based on performance.

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, accordingly 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 remuneration for the Directors in 2022 is OMR 300,000 subject to the Annual General Meeting approval proposed to be held in March, 2023.

The details of the sitting fees paid or accrued for payment during 2022 are as follows:

Table (3)

Name of the Director	Total fees RO
Ms. Amal Suhail Bahwan	8,250
Sheikh Abdulla Bin Ali Bin Jabor Al Thani – Deputy Chairman	6,900
Mr. Hamad Mohammed Al Wahaibi	10,000*
Ms. Najat Ali Al Lawatia	10,000*
Mr. Mohammed Ismail Mandani Al Emadi	10,000*
Mr. Rahul Kar	10,000*
Mr. Fahad Badar	10,000*
Mr. Joseph Abraham	10,000*
Mr. Said Hilal Al Habsi	9,450*
Dr. Ghazi Nasser Al Alawi	10,000*
Mr. Nabil Hamad Al Mahrouqi	8,850
TOTAL	103,450

*The total amount of sitting fees that can be paid to a Director during a financial year is OMR 10,000 according to current regulations.

The total training, hotel and travel expenses related to Board Members during 2022 is OMR 35,855

Board Committees

As at the end of December 2022, 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 four members, three of whom are independent, and one is non-independent. The committee met seven times in 2022.
The composition of the BAC and members' attendance at meetings are given in the table below:

Table (4)

Name	Position	Meetings attended
Mr. Said Hilal Al Habsi	Chairperson	7
Mr. Rahul Kar	Member	7
Mr. Fahad Badar	Member	6
Dr. Ghazi Al Alawi	Member	6

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 Capital Market Authority Oman (CMA) regulations.
- Review and approve the Audit Division's Charter, annual budget, staffing and their compensation (including bonus) and organization structure of audit division.
- Review and approve the appointment, promotion, replacement, reassignment or dismissal of the Chief Internal Auditor of the bank.
- Review 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 (CBO and CMA) should be critically reviewed and discussed with the management and auditors.
- Ensure that management of the Bank has put in place an appropriate system for the adoption of relevant accounting policies and principles regarding the accuracy and fairness of the financial statements. Against this system, the committee should review the financial statements for any content of fictitious or fraudulent nature.
- Review the details of all proposed related party transactions in line with the Bank's policy (complies with the CMA Code of Corporate Governance) and provide appropriate recommendations to the Board.
- Periodically review internal audit findings on the 'restructured' loans upgraded to 'regular' category for information and provide appropriate directions thereon to the management.
- Review details of any fraud reports presented in line with CBO regulations.

Credit Committee of the Board (CCB):

The CCB comprises four members. The committee has met fourteen times in 2022. The names of the members, their positions and their meeting attendance appear in the table below:

Table (5)

Name	Position	Meetings attended
Mr. Hamad Al Wahaibi	Chairperson	11
Ms. Najat Ali Al Lawatia	Member	9
Mr. Mohammed Ismail Mandani Al-Emadi	Member	11
Mr. Joseph Abraham	Member	12

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

a) Approve and renew credit transactions up to the maximum legal limits of the Bank, including underwriting exposures and sell down targets.
b) 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 has met 6 times in 2022. 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.

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 Badar	Chairperson	5
Mr. Rahul Kar	Member	5
Dr. Ghazi Nasser Al Alawi	Member	5
Mr. Nabil Al Mahrouqi	Member	6

The responsibilities of the BRCC, as specified in the Terms of Reference, include but are not limited to: The Committee sets the policy on all risk issues and maintains oversight of all Bank risks and Compliance Programme through the Management Risk Committee (MRC) and Compliance Management Committee (CMC). More specifically, the key responsibilities of the Committee are:

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

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

a) Build and promote compliance culture.
b) Review, assess and monitor the Bank's compliance activities and overall performance with respect to key legislative and regulatory requirements.
c) 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.
d) Review significant compliance risk areas and the steps management has taken to monitor, control, and report such compliance risk exposures.
e) Highlight key concerns related to CBO examination reports and discuss status of issues raised.
f) Review the implementation of Risk-based approach for a robust and effective Anti-Money Laundering and countering financing of terrorism (AML/CFT) Programme.

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 five members and met five times in 2022.

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

Table (7)

Name	Position	Meetings attended
Ms. Amal Suhail Bahwan	Chairperson	5
Sheikh Abdulla Bin Ali Bin Jabor Al Thani - Deputy Chairperson	Member	4
Mr. Hamad Mohammed Al Wahaibi	Member	5
Mr. Joseph Abraham	Member	5
Ms. Najat Ali Al Lawatia	Member	4

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

a) 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.
b) Review the Bank's overall strategy and monitor implementation and execution.
c) Review the performance of the Bank against approved strategy and budgets.
d) 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.
e) Review reports and analysis of the Bank's financial and operating performance and evaluate key performance indicators against their accompanying strategies.
f) Review the performance of the Investment Banking function, including all investments reports.
g) Review and recommend to the Board the Bank's proposals for capital raising plan.
h) Review and approve the Banks dividend policy and recommend to the Board the proposed dividend payout.
i) Review and approve the Bank's brand vision.
j) Review and approve the Bank's human resources manual and policy and the Bank's compensation policy and bonus plan.
k) 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.
l) 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.
m) 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.
n) Handle appointment and movement of key executives in the Bank from the reward level Assistant General Manager and above.
o) Review and approve major changes in the Bank's organizational structure at the level of divisional heads and above.
p) 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.
q) Approve the acquisition and sale of any property required for the business of the Bank.
r) 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.
s) Oversee the performance and implementation of any property-related projects.
t) 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.
u) Identify methods of payment for CSR and sustainability initiatives.
v) Submit a report at the end of the year to the AGM for ratification of amounts paid to CSR and sustainability initiatives.
w) 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.
x) Exert the best efforts to the assist the Bank in formulating clear, credible and accessible policies to inform shareholders about Directors' and executives' remuneration.
y) 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.
z) Look for and nominate qualified persons to act as interim directors on the Board in the event a seat becomes vacant.

Management Team

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

The CEO is supported by the 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 (8)

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

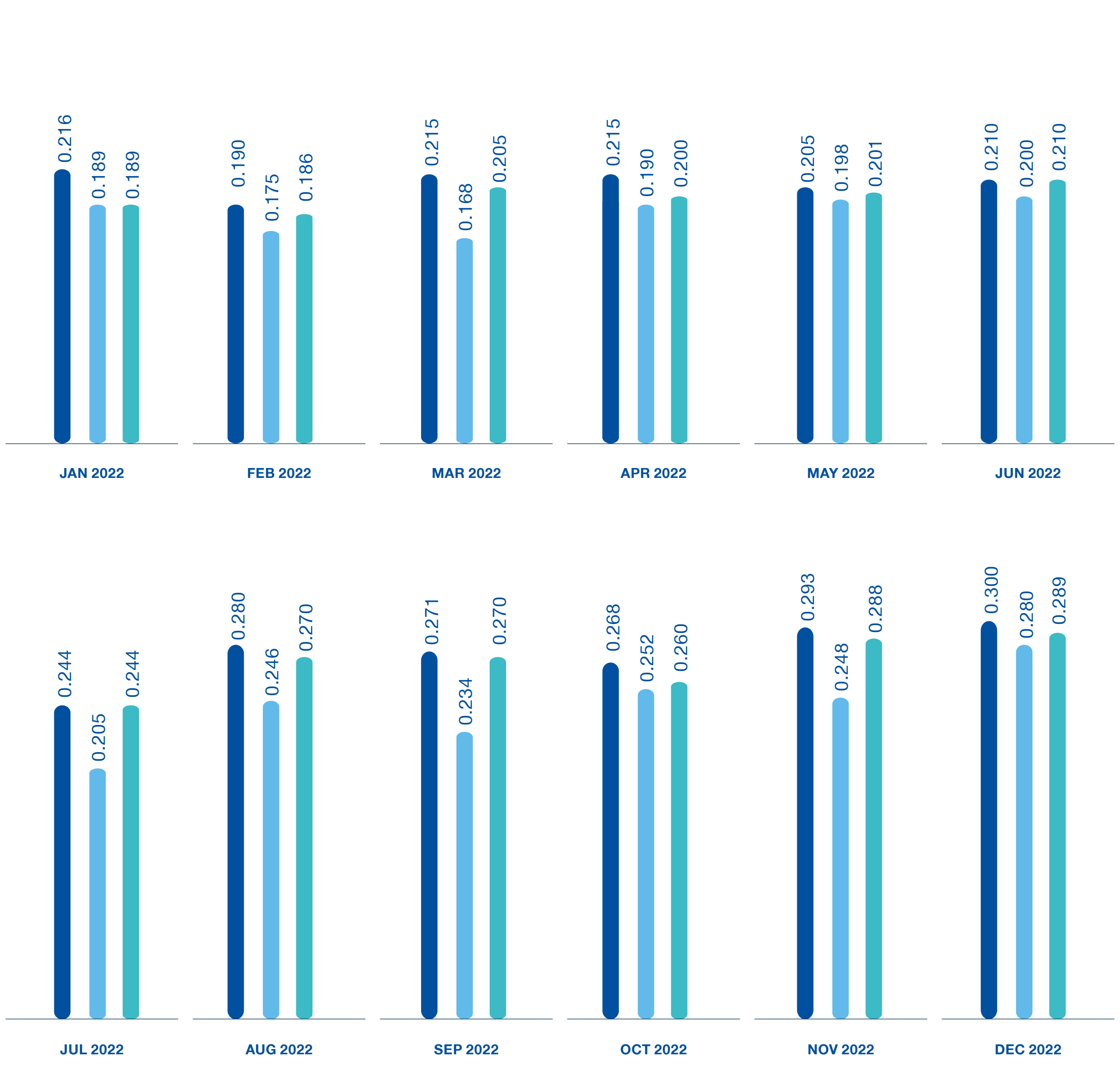
Market Price Data:

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

Table (9)

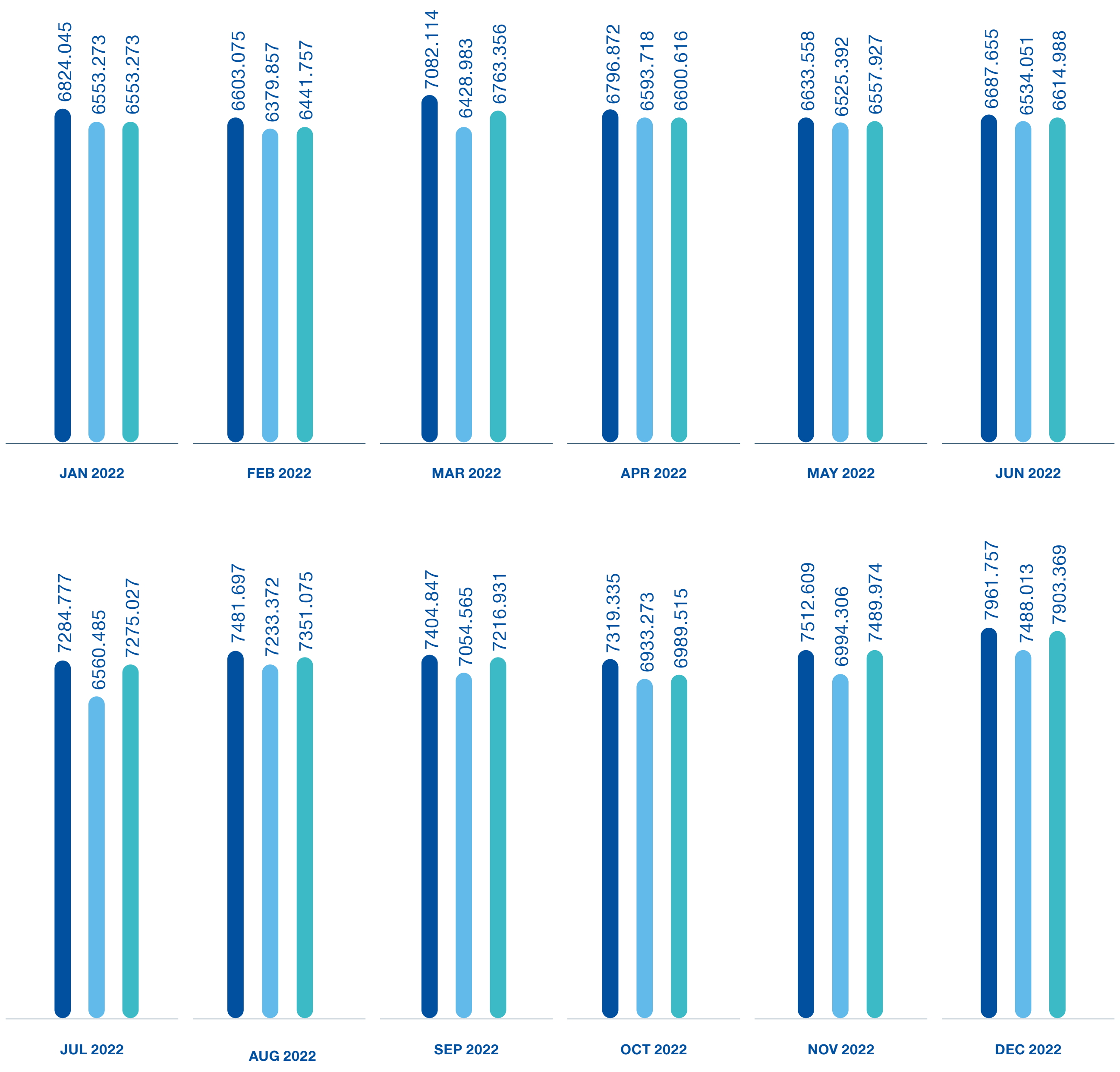
NBO Monthly Share Price FY2022 & Performance of the Financial index FY2022

HIGH
LOW
CLOSE



Corporate Governance

HIGH
LOW
CLOSE



2. 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 by post to all shareholders, along with the notice of the forthcoming Annual General Meeting of the Bank. Shareholders are advised to contact the Bank whenever they require any updated information regarding the Bank or its operations.

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

Distribution of Dividends

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

Table (10)

Year	Cash Dividend	Bonus Shares
2017	15%	5%
2018	16%	0%
2019	16.8%	0%
2020	0%	0%
2021	3.7%	0%
2022	7.4%	0%

Corporate Social Responsibility (CSR)

During 2022, the Bank distributed donations to charitable organizations and other non-profitable organizations and participated in CSR initiatives of OMR 239,000. This was from the CSR budget of OMR 300,000 approved by shareholders at the Annual General Meeting held on 28 March 2022.

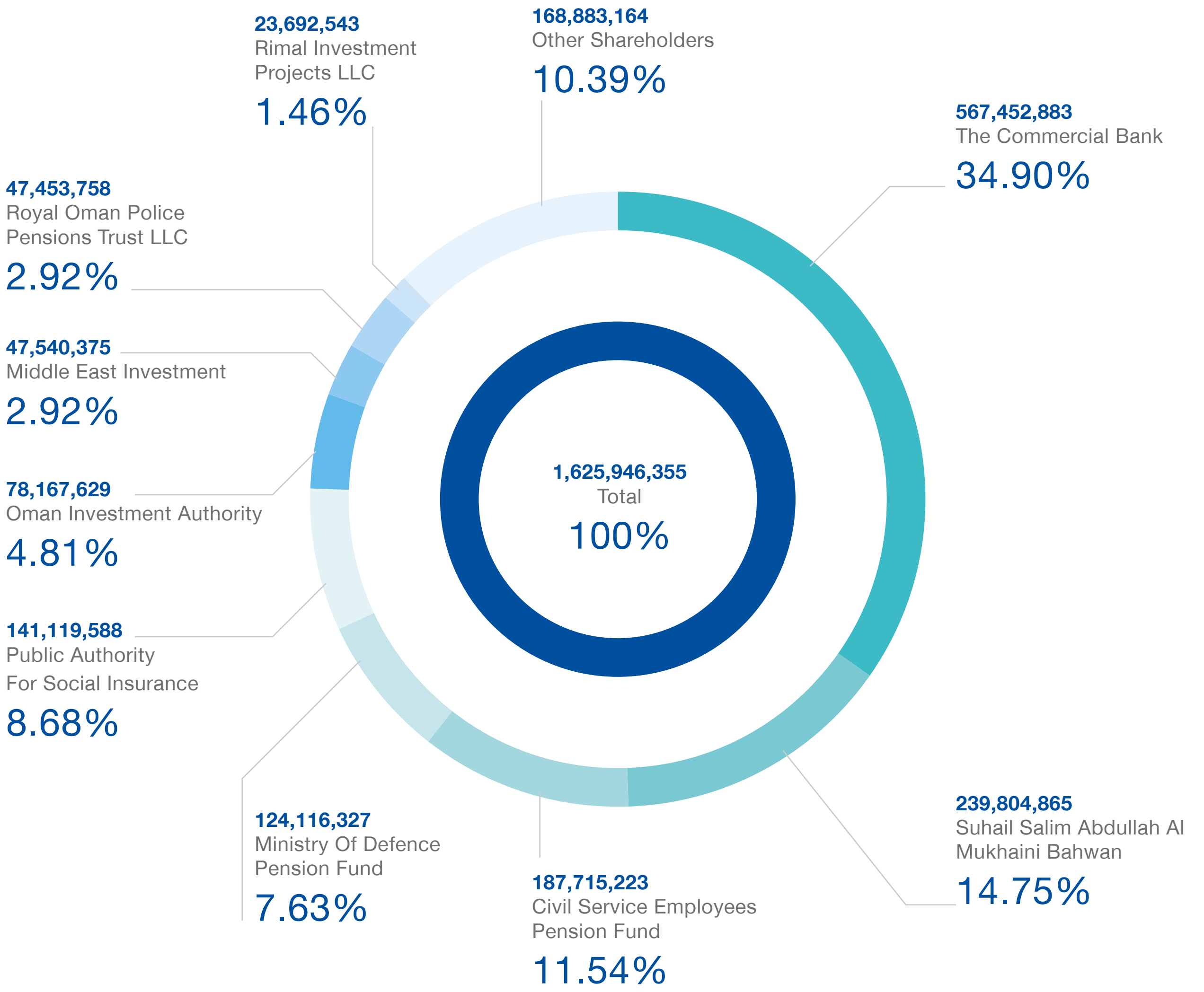
Details of the Bank's main donations and CSR initiatives in 2022:

Table (11)

Initiative	Amount (OMR)	Details
Shahr Al Atta	30,000	1,800 food hampers were distributed to Daar Al Rahma, Nida Al Khair Association for early intervention for low-income families. This is aligned with our CSR focus to support the community and people with disabilities. We also collaborated with Association for early intervention to renovate the children's playroom with the support of IKEA.
Outward Bound	67,000	The 'Strength in our youth' courses would focus on building core life skills of 900 young Omani's, from every region of Oman-giving NBO nationwide exposure.
NBO scholarships	61,000	NBO announced the launch of a unique scholarship program during its 45th anniversary to enable 11 students from low-income families to complete their undergraduate degrees at the top Universities in the UK. They have now all graduated and are employed by NBO.
Oman Charitable Organization – 20%	60,000	The decision (172/2021) issued by CMA requires SAOG companies (i.e. NBO) to allocate 20% of their CSR budgets in favor Oman's Charitable Organization (OCO) starting from 2022. NBO agreed with OCO to distribute the funds to the below charities • Oman Cancer Association • Association for early intervention • Al Noor Association for the blind • Omani Association for people with hearing impairment • Oman Association for Persons with Disability • Daar Al Hanan • Oman Charitable Organization
National Museum Donation	10,000	As part of our 50th anniversary celebrations, the bank will be refurbishing the currency hall at the National Museum highlighting NBO's legacy in the last 50 years.
Ad-hoc donations	11,000	In order to support the community, donations were given to various entities like Ministry of Social Development and the Cultural Village Project. In addition we sent 25 science students and doctors to the Oman Pavilion at Expo 2020 Dubai. The trips were organized to mark the International Day of Education on 24th January and the International Day of Women and Girls in Science on 11th February.
TOTAL	239,000	

Distribution of Shareholding:

Major shareholders (1% and above)
Table (12)



The shareholding pattern as on December 31, 2022:

Table (13)

Number of Shares	Number of Shareholders	Total Shares	% of Capital
and above 7,000,000	13	1,477,984,911	91%
to 6,999,999 3,000,000	17	71,434,877	4.5%
to 2,999,999 1,500,000	11	23,766,862	1.5%
to 1,499,999 500,000	25	20,989,630	1%
to 499,999 100,000	96	21,765,620	1%
Below 100,000	848	10,004,455	1%
TOTAL	**1010**	**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 4 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 MSX / CMA or any statutory authority such as the CBO, on any matter related to capital markets, during the last three years. The Bank has identified the following amounts below paid during the last three years.

As of 2022, the Bank had complied with all relevant regulatory requirements in the last three years with the below exceptions:

During the FY 2022, the Bank was penalized OMR 4,000 due to consolidation of exposure of the affected borrowers who had availed the option of deferment into one loan, including the interest on the deferred portion of instalments under deferment and thereby charged interest on interest on such borrowers.
Total Penalties: OMR 4,000

During the FY 2021, the bank was penalized OMR 20,000, due to banks referral fees for the Bancassurance product sold to retail loans customers was in excess of CBO's prescribed cap. The bank was also penalized OMR 30,000 for not complying with certain sections/ clauses of the AML Law on Counter Money Laundering and Terrorism Financing, for which the remediation program is currently in progress.
Total Penalties: OMR 50,000

During the FY 2020, the bank was penalized OMR 4,000 for inadequate provisions against a corporate account. The bank was also penalized OMR 50,000 for not fully complying with the AML Law on Counter Money Laundering and Terrorism Financing. Finally, the Bank was also penalized OMR 4,000 as it had charged the customers for not maintaining minimum balances though their salary was less than OMR 500. Total penalties: OMR 58,000.

Auditors

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

KPMG Profile

Profile of Statutory Auditors

The shareholders of the Company appointed KPMG as its auditors for 2022. KPMG LLC in Oman was established in 1973 and is part of KPMG Lower Gulf Limited. KPMG in Oman employs more than 150 people, amongst whom are six partners and six directors, including Omani nationals. KPMG is a global network of professional services firms providing Audit, Tax and Advisory services. It operates in 143 countries and territories and have 265,000 people working in member firms around the world. KPMG Lower Gulf is part of KPMG International Cooperative's global network of professional member firms.

Declaration

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

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

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

Amal Suhail Bahwan
Chairperson

BASEL II - PILLAR III **and BASEL III REPORT 2022**

KPMG LLC
Children's Public Library Building
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Sultanate of Oman
Tel +968 24 749600, www.kpmg.com/om

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

To the Board of Directors of National Bank of Oman SAOG

Purpose of this Agreed-Upon Procedures Report and Restriction on Use

We were engaged by the Board of Directors of National Bank of Oman SAOG (the "Bank") to perform agreed upon procedures on the Bank's Basel II – Pillar III and Basel III related disclosures (the "Disclosures") as set out in the Central Bank of Oman's ("the CBO") Circular No. BM 1009 dated 13 September 2006, Circular No. BM 1114 dated 17 November 2013 and Circular No. 1149 dated 13 April 2017 amended with letter BSD/CB/FLC/2018/17 dated 26 November 2018 and letter BSD/CB/2020/05 dated 3 June 2020. Our report is solely for the purpose of assisting the Bank in complying with the CBO requirements and may not be suitable for any other purpose.

Responsibilities of the Bank

The Board of Directors has acknowledged that the agreed upon procedures are appropriate for the purpose of the engagement.

The Management of the Bank is responsible for accuracy and completeness of the subject matter on which the agreed upon procedures are performed.

Practitioners' Responsibilities

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

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

Practitioners' Responsibilities (continued)

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

Professional Ethics and Quality Control

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

Our firm applies International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Procedures and Findings

We have performed the procedures described below, which were agreed upon with the Bank in the terms of engagement dated 11 January 2022, on the Bank's Basel II and III – Pillar III Disclosures:

S. No	Procedures	Findings
1	We have performed the procedures prescribed in the CBO Circular No. BM 1027 dated 4 December 2007 with respect to the Disclosures of the Bank as at and for the year ended 31 December 2022.	No exceptions noted.

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

KPMG
KPMG LLC

Ravikanth Petluri
5 March 2023

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

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

Capital Structure

The authorised share capital of the bank as at 31 December 2022 is 2,000,000,000 shares of RO 0.100 each. The issued and paid up capital of the bank as at 31 December 2022 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 40.92 million and RO 19.25 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 20.0 million of capital towards the Islamic banking window.

The Bank's consolidated capital structure as at close of 31 December 2022 , 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 *	204,021
COMMON EQUITY TIER 1 BEFORE REGULATORY ADJUSTMENTS	**455,279**
Deduction	
Revaluation reserves / Cumulative fair value gains or losses on financial assets measured at fair value through other comprehensive income	(8,183)
COMMON EQUITY TIER 1	**447,096**
Additional Tier 1 Capital	
Tier 1 Perpetual Bond	167,133
TIER I CAPITAL AFTER ALL DEDUCTIONS	**614,229**
TIER II CAPITAL	
Revaluation reserves / Cumulative fair value gains or losses on financial assets measured at fair value through other comprehensive income	2,032
General loan loss provision/General loan loss reserve	20,286
TOTAL TIER II CAPITAL	**22,318**
TOTAL REGULATORY CAPITAL	**636,547**

* 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.

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, 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.

CAPITAL ADEQUACY (CONTINUED)

Details	Amount
POSITION AS AT 31 DECEMBER 2022	**(RO'000)**
Tier I capital (after supervisory deductions)	**614,229**
Tier II capital (after supervisory deductions & upto eligible limits)	**22,318**
Risk Weighted Assets (RWAs) – Banking Book	**3,388,663**
Risk Weighted Assets (RWAs) – Operational Risk	**236,595**
TOTAL RISK WEIGHTED ASSETS (RWAS) – BANKING BOOK + OPERATIONAL RISK	**3,625,258**
Minimum required capital to support RWAs of banking book and operational risk	444,094
Minimum required capital comprises of;	
i) Tier I capital	421,776
ii) Tier II capital	22,318
Balance Tier I capital available for supporting Trading Book	192,453
RISK WEIGHTED ASSETS (RWAS) – TRADING BOOK	**133,025**
Total capital required to support Trading Book	16,296
Minimum Tier I capital required for supporting Trading Book	4,644
TOTAL REGULATORY CAPITAL	**636,547**
TOTAL RISK WEIGHTED ASSETS – WHOLE BANK	**3,758,283**
BIS CAPITAL ADEQUACY RATIO	**16.9**

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)	Right of use assets	Total
Position as at 31 December 2022			**RO'000**
On balance sheet items	4,391,350	4,261,634	3,069,602
Off balance sheet items	307,201	307,201	291,109
Derivatives	27,952	27,952	27,952
Operational Risk	-	-	236,595
Market Risk	-	-	133,025
TOTAL	**4,726,503**	**4,596,787**	**3,758,283**
Common equity Tier I Capital	-	-	447,096
Additional Tier 1 Capital	-	-	167,133
Tier 2 Capital	-	-	22,318
TOTAL REGULATORY CAPITAL	-	-	**636,547**
Total required Capital @ 12.25%	-	-	460,390
Capital requirement for credit risk	-	-	415,111
Capital requirement for market risk	-	-	16,296
Capital requirement for operational risk.	-	-	28,983
COMMON EQUITY TIER 1 RATIO			**11.9**
TIER I RATIO	-	-	**16.3**
TOTAL CAPITAL RATIO	-	-	**16.9**

RISK EXPOSURE AND ASSESSMENT:

Risk Management

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

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

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

The Bank has exposure to the following risks:-

CREDIT RISK

Qualitative Disclosures:

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

The Bank manages and controls credit risk by setting internal limits on the amount of risk it is willing to accept for individual counterparties and groups (single obligors) and industry sectors in line with the guidelines of Central Bank of Oman. The Bank computes expected losses on credit exposure on the basis of risk classification of both corporate and retail loans in the delinquent category based on the guidelines of Central Bank of Oman. The objective of the Bank in management of credit risk is to protect the credit quality of its credit exposures. Credit Risk is managed within the regulatory requirement of Central Bank of Oman, risk framework provided in the Risk Charter and Credit Policies and Procedures. The policies and procedures are periodically reviewed by the Management and the Board Risk Committee to ensure alignment to the current best practices. Credit exposures are approved by delegated authorities based on delegation by the Board and Board Risk Committee. The delegation of authorities is based on the size of the single obligor exposure, the credit quality (internal, external rating) as well as level of credit risk mitigation (collateral, guarantees, etc.) for the proposed exposures. For retail exposures, there is delegation of authority for handling exceptions to approved program lending. Control, monitoring and management of credit exposures are done in coordination with respective Business Units as per established procedures.

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

Corporate credit Risk and SME Credit Risk:

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

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

CREDIT RISK (CONTINUED)

Retail Credit Risk

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

Based on the prevailing market conditions, the Bank sustained its continuous monitoring of the portfolio with a thorough review of the Credit Policy / Product Program. Credit facilities outside the Product Programs / Policy Parameters are individually reviewed and assessed by the Retail Banking division & the Retail Credit Risk Division.

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

Loan Review Mechanism

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

Remedial Management

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

Credit Administration and Control

The Credit Administration and Control section ensures:

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

Risk Reporting and Measurement Systems

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

Risk Reporting

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

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

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

CREDIT RISK (CONTINUED)

Risk Reporting and Measurement Systems (continued)

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

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

Measurement

Impairment losses on loans and advances:

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

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

Definition of default and cure

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

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

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

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

Incorporation of forward-looking information

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

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

CREDIT RISK (CONTINUED)

Economic variable assumptions

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

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

i. 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)
ii. The base scenario was created on the assumption of stabilisation of oil price at the level of 66 USD/ barrel for Brent oil.
iii. 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).

iv. 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.
v. GDP per capita was predicted through regression to corresponding GDP changes as estimated for a given scenario and assumed lowering pace of population growth not dependent on the scenario in question.

Treasury, trading and interbank relationships

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

Corporate and small business lending

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

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

CREDIT RISK (CONTINUED)

Economic variable assumptions (continued)

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

Exposure at default

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

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

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

Loss given default

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

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

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

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

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

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.

CREDIT RISK (CONTINUED)
Loss given default (continued)

g. Modifications of terms resulting in concessions granted to the borrower (after examining the cash flows of the borrower/financial position/ability to repay) including extension of moratorium, deferment of payment, waiver of covenants etc. This requirement shall be in conformity to the restructuring guidelines issued by CBO from time to time.
h. A fall of 25% or more in the turnover or in the EBIT as compared to the previous year except in the case of change in business model/one of material events.
i. A fall in Debt Service coverage ratio to below 1 except in cases which have acceptable external credit support.
j. Rating downgrade by 3 notches for ratings from R1 to R4 and 2 notches downgrade for R5 and R6.
k. Erosion in net worth by more than 20% compared to previous year coupled with increase in leverage by 1.5 times.

Measurement of ECL - Judgemental adjustments:

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

PMAs are adjustments to the ECL balance as part of the year-end reporting process to reflect late updates to market data, known model deficiencies and expert credit judgement. They are usually calculated and allocated at a granular level through modelled analysis, calculated separately for each economic scenario and where appropriate used to adjust stage allocation outcomes.
Overlays are adjustments to the ECL model outputs that have been made outside the detailed ECL calculation and reporting process. These do not meet the Bank's definition of PMAs because they are not calculated at a granular level through modelled analysis.

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

Total judgmental adjustments as at 31 December 2022 increased the overall loss allowance by 0.65% compared to ECL allowance derived through the ECL models.

Model risk management:

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

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

Credit Risk Management Policy:

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

CREDIT RISK (CONTINUED)

Quantitative Disclosure:

(i) Total gross credit exposures, plus daily average of gross exposure over the period broken down by major types of credit exposure as at 31 December 2022 :

Sl No	Type of Credit Exposure	Average Gross Exposure		Total Gross Exposure as at	
		Current Year	Previous Year	31 December 2022	31 December 2021
					(RO'000)
1	Overdrafts	**93,078**	90,034	**67,388**	70,163
2	Personal loans	**1,441,360**	1,381,365	**1,434,191**	1,409,784
3	Loans against trust receipts	**78,032**	77,699	**50,926**	80,547
4	Other loans	**1,807,601**	1,542,999	**1,949,620**	1,662,819
5	Bills purchased / discounted	**13,170**	10,517	**10,269**	16,576
	TOTAL	3,433,241	3,102,614	3,512,394	3,239,889

(ii) Geographic distribution of exposures by major types of credit exposure as at 31 December 2022 :

S. No	Type of Credit Exposure	Oman	United Arab Emirates	Others	Total
					(RO'000)
1	Overdrafts	**51,194**	16,194	**-**	67,388
2	Personal loans	**1,433,908**	283	**-**	1,434,191
3	Loans against trust receipts	**47,581**	3,345	**-**	50,926
4	Other loans	**1,844,396**	95,599	**9,625**	1,949,620
5	Bills purchased / discounted	**9,260**	1,009	**-**	10,269
	TOTAL	3,386,339	116,430	9,625	3,512,394

CREDIT RISK (CONTINUED)
Quantitative Disclosure: (continued)

(iii) Industry or counter party type distribution of exposures, broken down by major types of credit exposure as at 31 December 2022 :

S. No	Economic Sector	Overdraft	Loans	Bills Purchased / Discounted	Others	Gross	Off Balance Sheet Exposure
							(RO'000)
1	Import Trade	-	14,365	-	47,580	61,945	-
3	Wholesale & Retail Trade	13,934	136,653	713	1,775	153,075	46,853
4	Mining & Quarrying	1,260	147,587	2,081	-	150,928	4,953
5	Construction	18,383	117,746	618	517	137,264	87,289
6	Manufacturing	6,121	178,126	733	1,054	186,034	33,457
7	Electricity, gas and water	204	211,928	55	-	212,187	8,823
8	Transport and Communication	1,148	230,724	32	-	231,904	24,383
9	Financial Institutions	4,690	225,478	3,527	-	233,695	57,635
10	Services	14,140	323,938	2,510	-	340,588	52,571
11	Personal Loans	-	1,434,191	-	-	1,434,191	214
12	Agriculture and Allied Activities	986	7,488	-	-	8,474	4,460
13	Government	-	263,257	-	-	263,257	-
14	Non-Resident Lending	-	31,768	-	-	31,768	-
15	All Others	6,522	60,562	-	-	67,084	3,344
	TOTAL	67,388	3,383,811	10,269	50,926	3,512,394	323,982

(iv) Residual contractual maturity as at 31 December 2022 of the whole loan portfolio, broken down by major types of credit exposure:

S. No	Time Band	Overdraft	Loans	Bills Purchased / Discounted	Others	Total	Off Balance Sheet Exposure
							(RO'000)
1	Up to 1 month	3,369	156,782	4,849	7,489	172,491	82,553
2	months 1-3	3,369	156,188	4,579	23,404	187,540	62,495
3	months 3-6	3,369	76,070	841	19,873	100,153	34,668
4	months 6-9	3,369	82,187	-	160	85,716	43,600
5	months 9-12	3,369	143,846	-	-	147,215	43,214
6	years 1-3	16,847	448,572	-	-	465,419	46,954
7	years 3-5	16,848	449,530	-	-	466,377	7,535
8	Over 5 years	16,848	1,870,636	-	-	1,887,483	2,963
	TOTAL	67,388	3,383,811	10,269	50,926	3,512,394	323,982

CREDIT RISK (CONTINUED)
Quantitative Disclosure: (continued)

(v) Total loan broken down by major industry or counter party type as at 31 December 2022 :

S. No	Economic Sector	Gross Loans	Of which, NPL as per IFRS -9	Stage -1 and stage- 2 prov as per IFRS -9	Stage 3 prov held as per IFRS -9	Provisions made during the year	Advances written off during the year
							(RO'000)
1	Import Trade	61,945	-	1,071	-	210	-
3	Wholesale & Retail Trade	153,075	19,933	3,615	16,232	199	272
4	Mining & Quarrying	150,928	12,311	1,009	6,079	44	-
5	Construction	137,264	40,872	13,232	27,557	17,293	18,301
6	Manufacturing	186,034	7,999	5,011	5,975	3,941	1,140
7	Electricity, gas and water	212,187	49	3,357	49	1,590	-
8	Transport and Communication	231,904	2,588	287	2,181	(1,680)	238
9	Financial Institutions	233,695	-	5,227	-	1,805	-
10	Services	340,588	52,633	5,258	36,728	3,187	50
11	Personal Loans	1,434,191	36,682	10,760	14,911	2,696	4,080
12	Agriculture and Allied Activities	8,474	42	107	8	33	-
13	Government	263,257	-	61	-	9	-
14	Non-Resident Lending	31,768	-	3	-	(13)	-
15	All Others	67,084	3	2,905	3	(2,775)	214
	TOTAL	3,512,394	173,112	51,903	109,723	26,539	24,295

(vi) Amount of impaired loans as at 31 December 2022, broken down by significant geographical areas including, with the amounts of specific and general allowances related to each geographical area:

S. No	Economic Sector	Gross Loans	Of which, NPL as per IFRS -9	Stage -1 and stage- 2 prov as per IFRS -9	Stage 3 prov held as per IFRS -9	Provisions made during the year	Advances written off during the year
							(RO'000)
1	Oman	3,386,339	137,393	50,596	75,883	25,389	24,295
2	Other GCC Countries	116,430	35,719	1,306	33,840	1,150	-
3	Others	9,625	-	1	-	-	-
	TOTAL	3,512,394	173,112	51,903	109,723	26,539	24,295

CREDIT RISK (CONTINUED)
Quantitative Disclosure: (continued)

(iii) Movement of gross loans

Details	Stage 1	Stage 2	Stage 3	Total
				(RO'000)
Exposure subject to ECL				
Opening Balance - as at 1 January 2022	2,482,126	586,363	171,400	3,239,889
Transfer to stage 1	15,304	(14,987)	(317)	-
Transfer to stage 2	(12,986)	13,607	(621)	-
Transfer to stage 3	(8,945)	(5,739)	14,684	-
New loans, advances and Islamic financing assets	534,890	25,973	16,565	577,428
Recovery of loans, advances and Islamic financing assets	(209,248)	(67,076)	(4,304)	(280,628)
Write off for the period	-	-	(24,295)	(24,295)
CLOSING BALANCE - AS AT 31 DECEMBER 2022	**2,801,141**	**538,141**	**173,112**	**3,512,394**
TOTAL PROVISIONS	**6,394**	45,509	**109,723**	161,626

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.

Quantitative Disclosures:

Gross exposure amount as at 31 December 2022, subject to the standardized approach is as below:

Sr No	Product / Rating	Carrying 0%	Carrying 20%	Carrying 35%	Carrying 50%	Carrying 100%	Carrying 150%	Total
								(RO'000)
	RATED							
1	Sovereign	547,480	-	-	-	-	-	547,480
2	Banks	-	61,041	-	52,604	8,787	-	122,432
	UNRATED	-		-	-	-	-	-
1	Corporate	310,270	4,980	-	-	1,483,631	-	1,798,881
2	Retail	-	-	-	-	884,848	-	884,848
3	Claims secured by residential property	-	-	330,444	-	182,217	-	512,661
4	Claims secured by commercial property	-	-	-	-	139,741	-	139,741
5	Past due loans	2,082	-	-	-	171,030	-	173,112
6	Other assets	38,357	-	-	-	173,716	125	212,198
7	Venture Capital & Private Equity Investments	-	-	-	-	-	-	-
8	Off-balance Sheet Items	1,007	7,132		18,753	308,258	-	335,150
	TOTAL BANKING BOOK	**899,196**	**73,153**	**330,444**	**71,357**	**3,352,228**	**125**	**4,726,503**

CREDIT RISK MITIGATION

Qualitative Disclosures:

The Bank holds 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.

S.No	Details	Amount
		(RO'000)
1	Corporate Cash Collateral	19,994
2	Specific provisions and reserve interest on loans and advances and due from banks	109,723
	TOTAL	**129,717**

The capital requirement on credit risk as at 31 December 2022 is RO ('000) 415,100

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 providets 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. Positions 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 2022 :

- Foreign Exchange Risk - RO ('000) 16,296

OPERATIONAL RISK

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

The bank follows basic indicator approach for determining operational risk.

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

Capital requirement for operational risk as per Basel II is RO (000s) 28,983

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

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

BANKING BOOK

Equity Price Risk

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

Interest Rate Risk

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

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

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

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

Quantitative Disclosures:

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

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BANKING BOOK (CONTINUED)
Interest Rate Risk (continued)

As at December 2022	200 bps increase	200 bps decrease
Earnings impact - RO'000s	9,261	(9,261)

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

Interest Rate Risk

The Bank's interest sensitivity position, in line with guidelines issued by Central Bank of Oman, based on contractual re-pricing arrangements at 31 December 2022 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	-	-	-	-	261,589	261,589
Due from banks and other money market placements (net)	1.78%	72,682	2,525	12,514	-	31,539	119,260
Loans, advances and financing activities for customers (net)	5.41%	1,397,478	736,891	661,445	546,591	11,294	3,353,699
Financial investments	4.28%	75,000	10,422	17,715	27,232	274,018	404,387
Premises and equipment	N/A	-	-	-	-	57,090	57,090
Other assets	N/A	-	-	-	-	98,055	98,055
TOTAL ASSETS		**1,545,160**	**749,838**	**691,674**	**573,823**	**733,585**	**4,294,080**
Due to banks and other money market deposits	3.30%	252,732	-	-	-	9,011	261,743
Customers' deposits and unrestricted investment accounts	2.16%	175,170	1,825,303	496,391	64	550,494	3,047,422
Euro medium term notes	6.20%	-	188,865	-	-	-	188,865
Other liabilities	N/A	3,614	-	-	-	135,621	139,235
Taxation	N/A	-	-	-	-	15,981	15,981
Tier 1 Perpetual Bond	7.61%	-	-	167,133	-	-	167,133
Shareholders' equity	N/A	-	-	-	-	473,701	473,701
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**431,516**	**2,014,168**	**663,524**	**64**	**1,184,808**	**4,294,080**
TOTAL INTEREST RATE SENSITIVITY GAP		**1,113,644**	**(1,264,330)**	**28,150**	**573,759**	**(451,223)**	**-**
CUMULATIVE INTEREST RATE SENSITIVITY GAP		**1,113,644**	**(150,686)**	**(122,536)**	**451,223**	**-**	

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 2022 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	156,433	55,082	211,515	26,037	24,037	50,074	261,589
Due from Banks and other money market placements (net)	104,221	2,525	106,746	12,514	-	12,514	119,260
Loans, advances and financing activities for customers (net)	360,031	214,063	574,094	931,796	1,847,809	2,779,605	3,353,699
Financial investments	121,018	35,677	156,695	120,542	127,150	247,692	404,387
Property and equipment	-	-	-	-	57,090	57,090	57,090
Other assets	89,309	8,677	97,986	69	-	69	98,055
TOTAL ASSETS	831,012	**316,024**	**1,147,036**	**1,090,958**	**2,056,086**	**3,147,044**	**4,294,080**
Due to Banks and other money market deposits	107,743	11,550	119,293	142,450	-	142,450	261,743
Customers' deposits and unrestricted investment accounts	688,736	1,063,798	1,752,534	773,009	521,879	1,294,888	3,047,422
Euro medium term notes	-	188,865	188,865	-	-	-	188,865
Other liabilities	131,042	7,308	138,350	425	460	885	139,235
Taxation	15,981	-	15,981	-	-	-	15,981
Shareholders' equity	-	-	-	-	473,701	473,701	473,701
Tier 1 perpetual bonds	-	-	-	-	167,133	167,133	167,133
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**943,502**	**1,271,521**	**2,215,023**	**915,884**	**1,163,173**	**2,079,057**	**4,294,080**
TOTAL LIQUIDITY GAP	**(112,490)**	**(955,497)**	**(1,067,987)**	**175,074**	**892,913**	**1,067,987**	**-**
CUMULATIVE LIQUIDITY GAP	**(112,490)**	**(1,067,987)**	**(2,135,974)**	**(1,960,900)**	**(1,067,987)**	**-**	**-**

BASEL III LIQUIDITY FRAMEWORK

The Central Bank of Oman has issued guidelines on the implementation of Basel III liquidity framework which are Liquidity Coverage Ratio (LCR) and Net Stable Funding (NSFR).

Liquidity Coverage Ratio (LCR)

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

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

Liquid Coverage Ratio as per Basel III based on weighted average value is 251 %

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 2022 was as follows:

Item	Unweight value	Weighted value
AVAILABLE STABLE FUNDING		
Regulatory capital	636,547	636,547
Liabilities with effective residual maturities of one year or more	569,336	569,336
Retail and small business customers		
- Stable Deposits	471,234	447,672
- Less Stable Deposits	396,360	356,724
Wholesale Funding		
- Operational and short term funding	2,046,182	1,023,091
- Other wholesale funding	545,008	161,440
TOTAL AVAILABLE STABLE FUNDING	**4,667,057**	**3,194,810**
REQUIRED STABLE FUNDING		
High quality liquid assets		
- Coins, banknotes and reserves with CBO	261,089	-
- Other Level 1 assets	324,338	16,217
Funding to financial institutions with residual maturities of less than six months not included in the above categories	106,745	16,012
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	581,540	181,447
Unencumbered residential mortgages that would qualify for the 35% or lower risk weight under Basel II standardised approach for credit risk	330,444	214,789
All other assets not included in the above categories, including non-performing loans, loans to financial institutions with a residual maturity of one year or more, non-exchange-traded equities, fixed assets, items deducted from regulatory capital, retained interest, insurance assets, subsidiary interests and defaulted securities.	2,688,481	2,688,481

BASEL III LIQUIDITY FRAMEWORK (CONTINUED)
Net Stable Funding Ratio (NSFR) (continued)

Item	Unweight value	Weighted value
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	365,141	18,257
TOTAL REQUIRED STABLE FUNDING	**4,657,778**	**3,135,203**
NSFR (MIN BASEL III REQUIREMENT - 100%)		**101.9%**

Leverage Ratio

The leverage ratio deals with the risk of buildup of excessive on and off balance sheet exposures. Minimum Leverage Ratio standard will be made applicable to all the Banks effective from 31 December 2022.

Basel III leverage ratio framework and disclosure requirements

The Leverage ratio ratio in line with guidelines issued by Central Bank of Oman, at 31 December 2022 was as follows

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

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

	Item	31-Dec-2022
1	Total consolidated assets as per published financial statements	4,294,080
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	27,952
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)	248,180
7	Other adjustments	
8	**Leverage ratio exposure**	**4,570,212**

BASEL III LIQUIDITY FRAMEWORK (CONTINUED)
Basel III leverage ratio framework and disclosure requirements (continued)

Table 2: Leverage ratio common disclosure template

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

	Item	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	4,294,080
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	-
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	**4,294,080**
	DERIVATIVE EXPOSURES	
4	Replacement cost associated with all derivatives transactions (i.e., net of eligible cash variation margin)	27,952
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)**	**27,952**
	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	391,344
18	(Adjustments for conversion to credit equivalent amounts)	(144,817)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**246,527**
	CAPITAL AND TOTAL EXPOSURES	
20	**Tier 1 capital**	**614,229**
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**4,568,559**
	LEVERAGE RATIO	
22	**Basel III leverage ratio (%)**	**13.4**

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 2022.

Prepared under the Guidelines on composition of capital disclosure requirements

Table 2a	RO'000s
	Balance sheet as in published financial statements 31 December 2022
ASSETS	
Cash and balances with Central Banks	261,589
Due from Banks and other money market placements (net)	119,260
Loans, advances and Islamic financing assets (net)	3,353,699
Financial investments	404,387
Property and equipment	57,090
Other assets	98,055
TOTAL ASSETS	**4,294,080**
LIABILITIES	
Due to banks and other money market deposits	261,743
Customers' deposits	3,047,422
Euro medium term notes	188,865
Other liabilities	139,235
Taxation	15,981
TOTAL LIABILITIES	**3,653,246**
SHAREHOLDERS' EQUITY	
Share capital	162,595
Share premium	34,465
Legal reserve	54,198
Other non distributable reserves	6,390
Proposed Cash Dividend	-
Retained earnings	216,053
Tier 1 perpetual bond	167,133
TOTAL SHAREHOLDERS' EQUITY	**640,834**
TOTAL LIABILITY AND SHAREHOLDERS' FUNDS	**4,294,080**

BASEL III – TRANSITION DISCLOSURE: (CONTINUED)

Prepared under the Guidelines on composition of capital disclosure requirements

Table 2b		RO'000s
Balance sheet as in published financial statements 31 December 2022		Reference
ASSETS		
Cash and balances with Central Bank of Oman	261,589	
Certificates of deposit	-	
Balance with banks and money at call and short notice	114,830	
Investments in securities	404,387	
LOANS AND ADVANCES OF WHICH :		
Loans to Banks - Gross	4,450	
General Provisions considered for Tier 2	(20)	A1
Net Loans to banks	4,430	
Loans to Customers - Gross	3,491,068	
Specific Provisions	(117,103)	A1
General Provisions considered for Tier 2	(20,266)	
Net Loans to customers	3,353,699	
Fixed assets	57,090	
Other assets of which:	81,295	
Deferred tax assets	16,760	A2
Amount considered for CET1	(16,760)	
Current year allocation - not eligible	-	
TOTAL ASSETS	**4,294,080**	
CAPITAL & LIABILITIES		
Paid-up Capital	197,060	
Of which:		C1
Amount eligible for CET1	197,060	
Amount eligible for AT1	-	
Reverses and Surplus	216,053	
Of which: Amount eligible for CET1		C2
Retained earnings carried forward	204,021	
Profit for current year not eligible	12,032	
Legal reserve	54,198	
General reserve	-	
Subordinated debt reserve	-	
Proposed Stock Dividend	-	
TOTAL AMOUNT ELIGIBLE FOR CET1	**54,198**	**C3**
(continued))	167,133	C7
Proposed Cash Dividend	9,593	
Cumulative changes in fair value of investments	(8,183)	A2
Amount eligible for Tier 1	8,183	

BASEL III – TRANSITION DISCLOSURE: (CONTINUED)

Prepared under the Guidelines on composition of capital disclosure requirements (continued)

Table 2b		RO'000s
Revaluation reserve	6,390	
TOTAL CAPITAL	**640,834**	
Deposits Of which:		
Deposits from banks	261,743	
Customer deposits	2,873,737	
Deposits of Islamic Banking window	173,685	
Euro medium term notes	188,865	
Other deposits (Sub-debt)	-	C6
Other liabilities & provisions Of which:	155,216	
TOTAL	**4,294,080**	

Prepared under the Guidelines on composition of capital disclosure requirements

Table 4		RO'000s
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	C1
Retained earnings	204,021	C2
Accumulated other comprehensive income (and other reserves)	54,198	C3
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	**455,279**	
COMMON EQUITY TIER 1 CAPITAL: REGULATORY ADJUSTMENTS		
Deferred tax assets arising from temporary differences (net of related tax liability)	-	A2
Cumulative fair value gains or losses on financial assets measured at fair value through other comprehensive income	(8,183)	
TOTAL REGULATORY ADJUSTMENTS TO COMMON EQUITY TIER 1	**(8,183)**	
COMMON EQUITY TIER 1 CAPITAL (CET1)	**447,096**	
ADDITIONAL TIER 1 CAPITAL: INSTRUMENTS (TIER1 PERPETUAL BOND)	**167,133**	C7
ADDITIONAL TIER 1 CAPITAL: REGULATORY ADJUSTMENTS - NIL		
TIER 1 CAPITAL (T1 = CET1 + AT1)	**614,229**	
TIER 2 CAPITAL: INSTRUMENTS AND PROVISIONS		
Directly issued qualifying Tier 2 instruments plus related stock surplus	-	

BASEL III – TRANSITION DISCLOSURE: (CONTINUED)

Prepared under the Guidelines on composition of capital disclosure requirements (continued)

Table 4		RO'000s
Basel III common disclosure template to be used during the transition of regulatory adjustments		
Directly issued capital instruments subject to phase out from Tier 2	-	C6-C4
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	20,286	A1
Cumulative fair value gains or losses on financial assets measured at fair value through other comprehensive income	2,032	C5
TIER 2 CAPITAL BEFORE REGULATORY ADJUSTMENTS	**22,318**	
TIER 2 CAPITAL: REGULATORY ADJUSTMENTS		
National specific regulatory adjustments	-	
REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT.	-	
OF WHICH: Cumulative fair value gains or losses on financial assets measured at fair value through other comprehensive income	-	
TOTAL REGULATORY ADJUSTMENTS TO TIER 2 CAPITAL	-	
TIER 2 CAPITAL (T2)	22,318	
Total capital (TC = T1 + T2)	**636,547**	

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	216,063
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	**467,321**
COMMON EQUITY TIER 1 CAPITAL: REGULATORY ADJUSTMENTS	
Deferred tax assets arising from temporary differences (net of related tax liability)	-
Gains and losses due to changes in own credit risk on fair valued liabilities.	(8,183)
Total regulatory adjustments to Common equity Tier 1	**(8,183)**
Common Equity Tier 1 capital	**459,138**
ADDITIONAL TIER 1 CAPITAL: INSTRUMENTS	**167,133**
ADDITIONAL TIER 1 CAPITAL: REGULATORY ADJUSTMENTS NIL	
Tier 1 capital	**626,271**
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	-

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BASEL III – TRANSITION DISCLOSURE: (CONTINUED)

Basel III common disclosure (continued)

	AMOUNTS (RO '000)
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	20,286
TIER 2 CAPITAL BEFORE REGULATORY ADJUSTMENTS	**20,286**
TIER 2 CAPITAL: REGULATORY ADJUSTMENTS	
National specific regulatory adjustments	-
REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT.	-
OF WHICH: Cumulative fair value gains or losses on financial assets measured at fair value through other comprehensive income	2,032
Total regulatory adjustments to Tier 2 capital	**-**
Tier 2 capital	**22,318**
Total capital	**648,589**
Total risk weighted assets	**3,649,693**
Of which: Credit risk weighted assets	3,280,072
Of which: Market risk weighted assets	133,025
Of which: Operational risk weighted assets	236,595
CAPITAL RATIOS	
Common Equity Tier 1 (as a percentage of risk weighted assets)	12.6
Tier 1 (as a percentage of risk weighted assets)	17.2
Total capital (as a percentage of risk weighted assets)	17.8
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	4.3
NATIONAL MINIMA (IF DIFFERENT FROM BASEL III)	
National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	8.25
National Tier 1 minimum ratio (if different from Basel 3 minimum)	10.25
National total capital minimum ratio (if different from Basel 3 minimum)	12.25

DISCLOSURE TEMPLATE FOR MAIN FEATURES OF ALL REGULATORY CAPITAL INSTRUMENTS

1. Common Equity.

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

2. All other regulatory capital instruments

1	Issuer	-	National Bank of Oman	National Bank of Oman
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	-	XS2320458172	XS2485968569
3	Governing law(s) of the instrument	-	English	English
4	Transitional Basel III rules	-	Additional Tier 1	Additional Tier 1
5	Post-transitional Basel III rules	-	Eligible	Eligible
6	Eligible at solo/group/group & solo	-	Solo	Solo
7	Instrument type	-	Additional Tier 1	Additional Tier 1
8	Amount recognised in regulatory capital	-	RO 115.5 million	RO 52.13 million
9	Par value of instrument	-	RO 115.5 million	RO 52.13 million
10	Accounting classification	-	Equity	Equity
11	Original date of issuance	-	01-Apr-21	29-Nov-2022
12	Perpetual or dated	-	Perpetual	Perpetual
13	Original maturity date	-	Not applicable	Not applicable
14	Issuer call subject to prior supervisory approval	-	Yes	Yes
15	Optional call date, contingent call dates and re-demption amount	-	01-Apr-2026	29-Nov-2027
16	Subsequent call dates, if applicable	-	Every five years	Every five years
	COUPONS / DIVIDENDS			
17	Fixed or floating dividend/coupon	-	Fixed	Fixed
18	Coupon rate and any related index	-	8.000%	6.750%
19	Existence of a dividend stopper	-	Yes	Yes
20	Fully discretionary, partially discretionary or mandatory	-	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	-	No	No
22	Noncumulative or cumulative	-	Non cumulative	Non cumulative
23	Convertible or non-convertible	-	Non convertible	Non convertible
24	If convertible, conversion trigger (s)	-	Not applicable	Not applicable
25	If convertible, fully or partially	-	Not applicable	Not applicable
26	If convertible, conversion rate	-	Not applicable	Not applicable
27	If convertible, mandatory or optional conversion	-	Not applicable	Not applicable
28	If convertible, specify instrument type converti-ble into	-	Not applicable	Not applicable
29	If convertible, specify issuer of instrument it converts into	-	Not applicable	Not applicable
30	Write-down feature	-	Yes	Yes
31	If write-down, write-down trigger(s)	-	Non viability event	Non viability event
32	If write-down, full or partial	-	Full (See note)	Full (See note)

DISCLOSURE TEMPLATE FOR MAIN FEATURES OF ALL REGULATORY CAPITAL INSTRUMENTS (CONTINUED)

33	If write-down, permanent or temporary	-	Permanent	Permanent
34	If temporary write-down, description of write-up mechanism	-	Not applicable	Not applicable
35	Position in subordination hierarchy in liquida-tion (specify instrument type immediately sen-ior to instrument)	-	Subordinated to Senior Liabili-ties and Tier 2 - Subordinted debts	Subordinated to Senior Liabil-ities and Tier 2 - Subordinted debts
36	Non-compliant transitioned features	-	No	No
37	If yes, specify non-compliant features	-	Not applicable	Not applicable

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

This report on Basel II & III disclosures was authorized for issue by the Board of Directors on 30 January 2023.

Amal Suhail Bahwan
Chairperson

Statement of **Financial Positions at 31 December 2022 Report**

KPMG

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Independent auditors' report

To the Shareholders of National Bank of Oman SAOG

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of National Bank of Oman SAOG ("the Bank"), which comprise the statement of financial position as at 31 December 2022, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards).

Basis for Opinion

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

Key Audit Matter

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

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Impairment allowance on loans, advances and financing subject to credit risk

See Note 2.4.1, 3.2.7, 3.6, 6, 13, 28, 32.1 and 32.6 to the financial statements.

The key audit matter

We focused on this area because:

- of the significance of loans, advances and financing representing 78% of total assets;
- impairment allowance on loans, advances and financing subject to credit risk involves:
- ➢ complex estimates and judgement over both timing and recognition of impairment including susceptibility to management bias
- ➢ use of statistical models and methodologies for determination of expected credit losses. The Bank exercises significant judgments and makes a number of assumptions in developing its expected credit loss ("ECL") model which is determined as a function of the assessment of the probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD") associated with the underlying financial assets subject to ECL; and
- ➢ complex disclosure requirements regarding credit quality of the portfolio including explanation of key judgments and material inputs used in determination of expected credit losses
    - The need to measure ECLs on an unbiased forward-looking basis incorporating a range of economic conditions. Significant management judgment is applied in determining the economic scenarios used and the probability weights applied to them; and
    - Adjustments to the ECL model results are made by management to address known impairment model limitations or emerging trends or risks. The assumptions regarding the economic outlook are more uncertain due to COVID-19 which, combined with government response (e.g. deferral programs, and restructuring of certain loans, advances and financing of the Bank), increases the level of judgement required by the Bank in calculating the ECL.

How the matter was addressed in our audit

Our procedures, amongst others, included:

- Evaluating the appropriateness of the accounting policies adopted based on the requirements of IFRS 9, regulatory guidance, our business understanding and industry practice.
- Confirming our understanding of management's processes, systems and controls over the ECL process.

Control testing

We performed process walkthroughs to identify the key systems, applications and controls associated with the ECL calculation process.

Key aspects of our control testing involved the following:

- Testing controls over the transfer of data between underlying source systems and the ECL model that the Bank operates.
- Performing a detailed credit risk assessment for a sample of performing corporate loans, advances and financing to test controls over the credit rating and monitoring process.
- Testing controls over the review and approval of post model adjustments and management overlays and the governance process over such overlays.
- Testing controls over the modelling process, including governance over model monitoring, validation and approval.

Tests of details

Key aspects of our testing involved:

- Reviewing a sample of credit files for performing accounts and evaluating the financial performance of the borrower, source of repayment and eligible collateral and on this basis assess the appropriateness of credit rating and staging.
- Sample testing over key data inputs used in estimating the ECL and assessing the completeness, accuracy and relevance of data used.
- Re performing key elements of the Bank's model calculations and assessing

KPMG

Impairment allowance on loans, advances and financing subject to credit risk	
See Note 2.4.1, 3.2.7, 3.6.6, 13, 28, 32.1 and 32.6 to the financial statements.	
The key audit matter	**How the matter was addressed in our audit**
	performance results for accuracy. • Sample testing over factors used to determine whether significant increase in credit risk has been appropriately identified. • Selecting a sample of post model adjustments and management overlays in order to assess the reasonableness of the adjustments by challenging key assumptions, testing the underlying calculation and tracing a sample back to source data. • Assessing the adequacy of provisions against individually impaired loans, advances and financing (stage 3) in accordance IFRS 9. **Use of specialists** For the relevant portfolios examined, we have involved KPMG specialist to assist us in challenging key management assumptions used in estimating expected credit losses. Key aspects of their involvement included the following: • We involved our Information Technology Risk Management (IRM) specialists to test the relevant General IT and Application Controls over key systems used for data extraction as part of the ECL calculation process. • We involved our Financial Risk Management (FRM) specialists in: ➢ Evaluating the appropriateness of the Bank's ECL methodologies (including the staging criteria used); ➢ On a test check basis, re performing the calculation of certain components of the ECL model (including the staging criteria); ➢ Evaluating the appropriateness of the Bank's methodology for determining the economic scenarios used and the probability weights applied to them; and ➢ Evaluating the overall reasonableness of the management forward-looking estimates by comparing it to external market data and our understanding of the underlying sector and

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Impairment allowance on loans, advances and financing subject to credit risk	
See Note 2.4.1, 3.2.7, 3.6.6, 13, 28, 32.1 and 32.6 to the financial statements.	
The key audit matter	**How the matter was addressed in our audit**
	macroeconomic trends. **Disclosures** We assessed the adequacy of the Bank's disclosure in relation to use of significant estimates and judgement and credit quality of loans, advances and financing by reference to the requirements of IFRS 9.

Other Information

Management is responsible for the other information. The other information comprises the Chairperson's report, Management Discussion and Analysis Report, Corporate Governance report, financial statements of Islamic Banking Window, Basel II and III – Pillar III report and Basel II and III – Pillar III report of the Islamic Banking Window, which we obtained prior to the date of this auditors' report, and the published 2022 Annual Report, which is expected to be made available to us after that date.

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

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

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

When we read the published 2022 Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

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Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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Report on Other Legal and Regulatory Requirements

Further, we report that financial statements of the Bank as at and for the year ended 31 December 2022, comply, in all material respects, with the:

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

Ravikanth Petluri
5 March 2023

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Statement of Financial Position

As at 31 December 2022

2021	2022			2022	2021
USD'000	USD'000		Note	RO'000	RO'000
		ASSETS			
799,662	**679,452**	Cash and balances with Central Banks	4	**261,589**	307,870
297,883	**309,766**	Due from banks and other money market placements (net)	5	**119,260**	114,685
8,022,457	**8,710,907**	Loans, advances and Islamic financing assets (net)	6	**3,353,699**	3,088,646
1,161,501	**1,050,356**	Financial investments (net)	7	**404,387**	447,178
155,564	**148,286**	Property and equipment	8	**57,090**	59,892
163,107	**254,688**	Other assets	9	**98,055**	62,796
10,600,174	**11,153,455**	**TOTAL ASSETS**		**4,294,080**	4,081,067
		LIABILITIES AND EQUITY			
		LIABILITIES			
773,322	**679,852**	Due to banks and other money market deposits	10	**261,743**	297,729
7,578,525	**7,915,382**	Customers' deposits and unrestricted investment accounts	11	**3,047,422**	2,917,732
500,000	**490,558**	Euro medium term notes	12	**188,865**	192,500
271,365	**361,649**	Other liabilities	13	**139,235**	104,476
34,221	**41,509**	Taxation	14	**15,981**	13,175
9,157,433	**9,488,950**	**TOTAL LIABILITIES**		**3,653,246**	3,525,612
		EQUITY			
422,325	**422,325**	Share capital	15	**162,595**	162,595
89,519	**89,519**	Share premium	16	**34,465**	34,465
140,774	**140,774**	Legal reserve	17	**54,198**	54,198
13,855	**16,597**	Other reserves	18	**6,390**	5,334
476,268	**561,178**	Retained earnings		**216,053**	183,363
1,142,741	**1,230,393**	**TOTAL EQUITY ATTRIBUTABLE TO THE SHARE HOLDERS OF THE BANK**		**473,701**	439,955
300,000	**434,112**	Tier 1 Perpetual Bonds	19	**167,133**	115,500
1,442,741	**1,664,505**	**TOTAL EQUITY**		**640,834**	555,455
10,600,174	**11,153,455**	**TOTAL LIABILITIES AND EQUITY**		**4,294,080**	4,081,067

The financial statements were approved and authorised for issue on 30 January 2023 by the Board of Directors.

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

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

Statement Of Profit Or Loss And Other Comprehensive Income

For the year ended 31 December 2022

2021	2022			2022	2021
USD'000	USD'000		Note	RO'000	RO'000
430,099	**475,725**	Interest income	22	**183,154**	165,588
(204,052)	**(221,138)**	Interest expense	23	**(85,138)**	(78,560)
226,047	**254,587**	**Net interest income**		**98,016**	87,028
25,268	**28,200**	Income from Islamic financing and investments		**10,857**	9,728
(13,439)	**(13,855)**	Unrestricted investment account holders' share of profit		**(5,334)**	(5,174)
11,829	**14,345**	**Net income from Islamic financing and investment assets**		**5,523**	4,554
237,876	**268,932**	**Net interest income and net income from Islamic financing and Investment assets**		**103,539**	91,582
48,990	**53,626**	Fee and commission income (net)	24	**20,646**	18,861
33,527	**36,499**	Other operating income	25	**14,052**	12,908
320,393	**359,057**	**Operating income**		**138,237**	123,351
(101,000)	**(95,358)**	Staff cost	26	**(36,713)**	(38,885)
(47,971)	**(46,595)**	Other operating expenses	27	**(17,939)**	(18,469)
(15,958)	**(15,231)**	Depreciation	8	**(5,864)**	(6,144)
(164,929)	**(157,184)**	**Total operating expenses**		**(60,516)**	(63,498)
155,464	**201,873**	**Profit from operations before impairment losses and tax**		**77,721**	59,853
(62,299)	**(52,595)**	**Total impairment losses on financial instruments (net)**	28.5	**(20,249)**	(23,985)
93,165	**149,278**	**Profit before tax**		**57,472**	35,868
(14,522)	**(24,055)**	Taxation	14	**(9,261)**	(5,591)
78,643	**125,223**	**PROFIT FOR THE YEAR**		**48,211**	30,277
		OTHER COMPREHENSIVE INCOME			
		Items that will not be reclassified to profit or loss			
10,644	**3,086**	Equity investments at FVOCI – net change in fair value		**1,188**	4,098
(1,190)	**10**	Tax effect of equity investments at FVOCI – net change in fair value	14	**4**	(458)
		Items that are or maybe reclassified subsequently to profit or loss			
338	**(353)**	Debt instruments at FVOCI - net change in fair value		**(136)**	130
9,792	**2,743**	**OTHER COMPREHENSIVE INCOME / (EXPENSE) FOR THE YEAR**		**1,056**	3,770
88,435	**127,966**	**TOTAL COMPREHENSIVE INCOME FOR THE YEAR**		**49,267**	34,047
		Earnings per share:			
0.03	**0.06**	(USD) – Basic and diluted – (RO)	30	**0.024**	0.013

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

Statement Of Changes In Equity

For the year ended 31 December 2022

Statement Of Changes In Equity (continued)

For the year ended 31 December 2022

	Share capital (note15)	Share premium (note 16)	Legal reserve (note17)	Other reserves (note 18)	Retained earnings	Sub- Total	Tier 1 perpetual bond (note19)	Total equity
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Balance at 1 January 2022	162,595	34,465	54,198	5,334	183,363	439,955	115,500	555,455
Net profit for the year	-	-	-	-	48,211	48,211	-	48,211
Other comprehensive income for the year	-	-	-	1,118	-	1,118	-	1,118
Net gain on derecognition of financial instruments (measured at FVOCI (net of tax	-	-	-	(62)	62	-	-	-
Payment of interest on tier 1 perpetual bond	-	-	-	-	(9,240)	(9,240)	-	(9,240)
Issuance of tier 1 perpetual bond	-	-	-	-	-	-	51,633	51,633
Issuance cost on tier 1 perpetual bond	-	-	-	-	(327)	(327)	-	(327)
Payment of dividend	-	-	-	-	(6,016)	(6,016)	-	(6,016)
BALANCE AT 31 DECEMBER 2022	162,595	34,465	54,198	6,390	216,053	473,701	167,133	640,834
BALANCE AT 31 DECEMBER 2022 – IN USD'000	422,325	89,519	140,774	16,597	561,178	1,230,393	434,112	1,664,505
Balance at 1 January 2021	162,595	34,465	54,198	1,564	161,911	414,733	115,500	530,233
Net profit for the year	-	-	-	-	30,277	30,277	-	30,277
Other comprehensive income for the year	-	-	-	3,657	-	3,657	-	3,657
Net losses on derecognition of financial (instruments measured at FVOCI (net of tax	-	-	-	113	(113)	-	-	-
Issuance of tier 1 perpetual bond	-	-	-	-	-	-	115,500	115,500
Redemption of tier 1 perpetual bond	-	-	-	-	-	-	(115,500)	(115,500)
Payment of interest on tier 1 perpetual bond	-	-	-	-	(8,462)	(8,462)	-	(8,462)
Issuance cost on tier 1 perpetual bond	-	-	-	-	(250)	(250)	-	(250)
BALANCE AT 31 DECEMBER 2021	162,595	34,465	54,198	5,334	183,363	439,955	115,500	555,455
BALANCE AT 31 DECEMBER 2021 – IN USD'000	422,325	89,519	140,774	13,855	476,268	1,142,741	300,000	1,442,741

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

Statement Of Cash Flows

For the year ended 31 December 2022

2021	2022			2022	2021
USD'000	USD'000		Note	RO'000	RO'000
		OPERATING ACTIVITIES			
93,165	**149,278**	Profit before taxation		**57,472**	35,868
		Adjustments for:			
15,958	**15,231**	Depreciation	8	**5,864**	6,144
62,299	**52,595**	Allowance for credit losses - financial instruments	28.5	**20,249**	23,985
(1,684)	**(1,691)**	Amortisation of premium		**(651)**	(648)
(2,044)	**(101)**	Profit on sale of property and equipment		**(39)**	(787)
(2,314)	**(6,291)**	Profit on investments at FVTPL	25	**(2,422)**	(891)
-	**(226)**	Translation differences		**(87)**	-
(7,574)	**(3,925)**	Payment of lease liability		**(1,511)**	(2,916)
(53,561)	**(52,701)**	Income from investment		**(20,290)**	(20,621)
104,245	**152,169**	**OPERATING CASH FLOWS BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES**		**58,585**	40,134
(17,029)	**803**	Due from banks and other money market placements		**309**	(6,556)
114,455	**(30,008)**	Due to banks and other money market deposits		**(11,553)**	44,065
(583,415)	**(741,678)**	Loans, advances and Islamic financing assets		**(285,546)**	(224,615)
(25,846)	**(91,582)**	Other assets		**(35,259)**	(9,951)
1,014,423	**336,857**	Customers' deposits		**129,690**	390,553
56,110	**82,622**	Other liabilities		**31,809**	21,603
662,943	**(290,817)**	**CASH (USED IN) / FROM OPERATING ACTIVITIES**		**(111,965)**	255,233
(5,052)	**(16,499)**	Taxes paid	14	**(6,352)**	(1,945)
657,891	**(307,316)**	**CASH (USED IN) / FROM OPERATING ACTIVITIES**		**(118,317)**	253,288
		INVESTING ACTIVITIES			
(329,481)	**(133,291)**	Purchase of investments		**(51,317)**	(126,850)
69,590	**255,452**	Proceeds from sale of investments		**98,349**	26,792
(5,904)	**(5,629)**	Purchase of property and equipment		**(2,167)**	(2,273)
2,423	**212**	Proceeds from disposal of property and equipment		**82**	933
53,561	**52,701**	Income from investment		**20,290**	20,621
(209,811)	**169,445**	**NET CASH FROM /(USED IN) INVESTING ACTIVITIES**		**65,237**	(80,777)
		FINANCING ACTIVITIES			
-	**(15,626)**	Payment of dividend	20	**(6,016)**	-
300,000	**134,112**	Proceeds from Tier 1 perpetual bond		**51,633**	115,500
(300,000)	**-**	Redemption of Tier 1 perpetual bond		**-**	(115,500)
(21,980)	**(24,000)**	Interest on Tier 1 perpetual bond		**(9,240)**	(8,462)
(649)	**(849)**	Issuance cost on Tier 1 perpetual bond		**(327)**	(250)
(22,629)	**93,637**	**NET CASH FROM / (USED IN) FINANCING ACTIVITIES**		**36,050**	(8,712)

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

Statement Of Cash Flows (continued)

For the year ended 31 December 2022

2021	2022			2022	2021
USD'000	USD'000		Note	RO'000	RO'000
425,451	**(44,234)**	**(DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS**		**(17,030**	163,799
263,229	**688,680**	Cash and cash equivalents at the beginning of the year		**265,142**	101,343
688,680	**644,446**	**CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR**		**248,112**	265,142
		REPRESENTING:			
798,363	**678,153**	Cash and balances with Central Banks	4	**261,089**	307,370
233,631	**246,145**	Due from Banks maturing within three months		**94,766**	89,948
(343,314)	**(279,852)**	Due to Banks maturing within three months		**(107,743)**	(132,176)
688,680	**644,446**			**248,112**	265,142

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

Notes to the Financial Statements

As at 31 December 2022

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 and through overseas branches in the United Arab Emirates and Egypt. In Oman the bank operates under banking license issued by the Central Bank of Oman and is covered by its deposit insurance scheme, whereas in the United Arab Emirates and in Egypt the branches operate under a commercial bank licences given by the respective Central Banks. The bank is in the process of closing down its operations in Egypt and it is expected that the closure process will be completed during the year 2023. 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 and bonds issued under EMTN programme are listed in the Euronext Dublin.

2 BASIS OF PREPARATION

2.1 Basis of measurement

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

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

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

2.2 Functional and presentation currency

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

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

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

2.3 Statement of compliance

The financial statements of the Bank have been prepared in accordance with IFRS, applicable regulations of the Central Bank of Oman, applicable requirements of the Commercial Companies Law of

2 BASIS OF PREPARATION (CONTINUED)
2.3 Statement of compliance (continued)

Oman 2019 and the Capital Market Authority of the Sultanate of Oman.

The Bank also prepares a separate set of financial statements for its Islamic Banking Window (IBW) in accordance with the requirements of Section 1.2 of Title 3 of the Islamic Banking Regulatory Framework ("IBRF") issued by CBO. The separate set of financial statements of its IBW are prepared in accordance with Financial Accounting Standards ("FAS") issued by Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") as modified by CBO, the Sharia Rules and Principles as determined by the Sharia Supervisory Board of the Islamic Window (the "SSB") and other applicable requirements of CBO. The IBWs financial statements are then converted into IFRS compliant financial statements and included in these financial statements. All inter branch balances and transactions have been eliminated.

2.4 Significant accounting judgments and estimates

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

2.4.1 Financial Instruments

Judgements made in applying accounting policies that have most significant effects on the amounts recognized in the financial statements of the year ended 31 December 2022 and 31 December 2021 pertain to IFRS 9, Financial instruments which impact:

Measurement of expected credit losses:

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

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

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.

2.5 Standards, amendments and interpretations effective in 2022 and relevant for the Bank's operations

For the year ended 31 December 2022, 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 2022. The following amendments to existing standards and framework have been applied by the Bank in preparation of these financial statements.

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

2 BASIS OF PREPARATION (CONTINUED)
2.5 Standards, amendments and interpretations effective in 2022 and relevant for the Bank's operations (continued)

Other amendments and interpretations apply for the first time in 2022, but do not have an impact on the Bank's financial statements.

2.6 Standards issued but not yet effective
A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; however, the Bank has not early adopted the new and amended standards in preparing these financial statements.

A. Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)
The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases. The amendments apply for annual reporting periods beginning on or after 1 January 2023. For leases, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

The Bank accounts for deferred tax on leases applying the 'integrally linked' approach, resulting in a similar outcome to the amendments, except that the deferred tax impacts are presented net in the statement of financial position. Under the amendments, the Bank will recognise a separate deferred tax asset and a deferred tax liability. As at 31 December 2022, the taxable temporary difference in relation to the right-of-use asset and the deductible temporary difference in relation to the lease liability, resulting in a net deferred tax liability. Under the amendments, the Bank will present a separate deferred tax liability and a deferred tax asset. The impact reflecting on retained earnings on adoption of the amendments is not expected to be material.

B. Other standards
The following new and amended standards are not expected to have a significant impact on the Bank's financial statements.

- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).
- Definition of Accounting Estimates (Amendments to IAS 8).
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12.
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16).
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).

3 SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Financial instruments – initial recognition

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

A financial asset or financial liability is measured initially at fair value plus or minus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

B. Day 1 profit or loss
When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and fair value in net trading income. In those cases, where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
3.1 Financial instruments – initial recognition (continued)

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

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

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

3.2 Financial assets and liabilities

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

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

The details of these conditions are outlined below.

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
3.2 Financial assets and liabilities (continued)

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements as at 31 December 2022

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
3.2 Financial assets and liabilities (continued)

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

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

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

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

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

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

Financial guarantees are initially recognised in the financial statements (within Provisions) at fair value, being the premium 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 premium received is recognised in the profit or loss in net fees and commission income on a straight line basis over the life of the guarantee.

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

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

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

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

Notes to the Financial Statements as at 31 December 2022

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

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

3.2.9 Derivative financial instruments and hedging activities

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

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

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

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

Fair value hedges

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

Cash flow hedges

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

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

3.3 Reclassifications

The Bank does not reclassify its financial assets subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2022 and 2021.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Derecognition of the financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

3.5 Modifications of financial assets and financial liabilities

Financial assets

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

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

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

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

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

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses.

Notes to the Financial Statements as at 31 December 2022

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Modifications of financial assets and financial liabilities (continued)

In other cases, it is presented as interest income calculated using the effective interest method.

Financial liabilities

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

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

3.6 Impairment of financial assets

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

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

No impairment loss is recognised on equity investments. The Bank measures loss allowances at an amount equal to lifetime ECL, except for other financial instruments on which credit risk has not increased significantly since their initial recognition which are measured as 12-month ECL.
12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

3.6.1 Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

3.6.2 Overview of the ECL principles

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Impairment of financial assets (continued)

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

Stage 1

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

Stage 2

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

Stage 3

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

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

3.6.3 The calculation of ECLs

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

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

- PD – The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD – The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest/profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest/ profit from missed payments.
- LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Bank would expect to receive, including from the realisation of any collateral, if any. It is usually expressed as a percentage of the EAD.

3.6.4 Presentation of allowance for ECL in the statement of financial position

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

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

3.6.5 Debt instruments measured at fair value through OCI

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
3.6 Impairment of financial assets (continued)

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

3.7 Credit-impaired financial assets
At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

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

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

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
3.9 Hedge documentation, effectiveness assessment, and discontinuation (continued)

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

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

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

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

A hedging relationship is discontinued in its entirety when as a whole it ceases to meet the qualifying criteria of the hedging relationship. Voluntary discontinuation when the qualifying criteria are met is prohibited. In the event of discontinuation any subsequent changes in fair value of the hedging instrument are recognised in profit or loss. For effective fair value hedges of financial instruments with fixed maturities any adjustment arising from hedge accounting is amortised over the remaining term to maturity. For effective cash flow hedges any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss.

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

3.11 Determination of fair values
A number of the Bank's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on a number of accounting policies and methods. Where applicable, information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. Details are set out in note 35.

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Determination of fair values (continued)

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

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

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

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

The Bank also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.
For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

3.12 Property and equipment

Property and equipment are recorded at cost or deemed cost.

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

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

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

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

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

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

Buildings on freehold land	25 to 40 years
Leasehold improvements	Over the lease terms 3 to 10 years (shorter of lease term or useful life)
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 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Collateral pending sale

The Bank occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of the net realisable value of the related loans and advances and the current fair value of such assets. Gains or losses on disposal, and unrealised losses on revaluation, are recognised in the profit or loss for the year.

3.14 Deposits

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

3.15 Other borrowed funds

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

3.16 Taxation – current and deferred

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

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

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

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

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

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

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

Interest and similar income and expense

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

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

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

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

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

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

For information on when financial assets are credit-impaired,

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
3.21 Revenue recognition (continued)

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

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

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

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

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

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

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

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

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

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

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.

For the accounting policy for fees and commissions in the scope of IFRS 9 and for the accounting policy for onerous contracts.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
3.21 Revenue recognition (continued)

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
3.21 Revenue recognition (continued)

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

Dividend income
Dividend income is recognised when the Bank's right to receive the payment is established.

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

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

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

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

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
3.23 Leases (continued)

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.
When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

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

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

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

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

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

3.26 Dividend on ordinary shares
Dividends on ordinary shares are recognised as a liability and they are deducted from the equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are paid.

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

3.27 Directors' remuneration
The board of directors' remuneration is accrued within the limits specified by the Capital Market Authority and the requirements of the Commercial Companies Law of the Sultanate of Oman.

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

4 CASH AND BALANCES WITH CENTRAL BANKS

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
106,169	**99,629**	Cash	**38,357**	40,875
692,194	**578,524**	Other balances with Central Banks	**222,732**	266,495
798,363	**678,153**	**CASH AND CASH EQUIVALENTS**	**261,089**	307,370
1,299	**1,299**	Capital deposit with Central Bank of Oman	**500**	500
799,662	**679,452**	**CASH AND BALANCES WITH CENTRAL BANKS**	**261,589**	307,870

i. At 31 December 2022, cash and balances with Central Bank of Oman included balances amounting to RO 500,000 (31 December 2021: 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 2022 is 3% (2021: 3%) of total customer's deposits and for Central Bank of UAE, is 1% (2021: 1%) of time deposits and 7% (2021: 7%) of all other deposits.

iii. ECL on the cash and balances with Central Banks is not material and accordingly no adjustment has been accounted by the Bank.

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

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
28,751	**11,558**	Loans and advances to Banks	**4,450**	11,069
35,499	**195,101**	Placement with Banks	**75,114**	13,667
233,856	**103,159**	Demand balances	**39,716**	90,035
298,106	**309,818**	**DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENT**	**119,280**	114,771
(223)	**(52)**	Less: allowance for credit losses	**(20)**	(86)
297,883	**309,766**	**NET DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENT**	**119,260**	114,685

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

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
226	**223**	Balance at beginning of year	**86**	87
(3)	**(171)**	Released during the year	**(66)**	(1)
223	**52**	**BALANCE AT END OF YEAR**	**20**	86

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

6 LOANS, ADVANCES AND ISLAMIC FINANCING ASSETS (NET)

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
182,242	**175,034**	Overdrafts	**67,388**	70,163
3,661,777	**3,725,171**	Personal loans	**1,434,191**	1,409,784
209,213	**132,275**	Loans against trust receipts	**50,926**	80,547
43,055	**26,673**	Bills discounted	**10,269**	16,576
4,319,009	**5,063,949**	Term loans, Islamic financing and others	**1,949,620**	1,662,819
8,415,296	**9,123,102**	**GROSS LOANS, ADVANCES AND ISLAMIC FINANCING ASSETS FOR CUSTOMERS**	**3,512,394**	3,239,889
(392,839)	**(412,195)**	Allowance for credit losses	**(158,695)**	(151,243)
8,022,457	**8,710,907**	**NET LOANS, ADVANCES AND ISLAMIC FINANCING ASSETS FOR CUSTOMERS**	**3,353,699**	3,088,646

Gross Loans, advances and Islamic financing assets for customers include RO 142 million (USD 368 million) due from related parties at 31 December 2022 (31 December 2021 – RO 147 million – USD 383 million) (refer note 29).

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

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
404,914	392,839	Balance at beginning of year	151,243	155,892
94,366	92,743	Provided during the year	35,706	36,331
(7,252)	(10,283)	Recovered/ released during the year	(3,959)	(2,792)
(99,189)	(63,104)	Written off during the year	(24,295)	(38,188)
392,839	412,195	**BALANCE AT END OF YEAR**	158,695	151,243

Provided during the period includes contractual interest reserved for RO 8.92 million (31 December 2021 – RO 7.14 million).

Recovered/released during the period includes recovery of reserved interest for RO 1.76 million (31 December 2021 – RO 1.24 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 2022, loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 173 million (31 December 2021 – RO 171 million).

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

The table below analyses the concentration of gross loans and advances by various sectors.

6 LOANS, ADVANCES AND ISLAMIC FINANCING ASSETS (NET) (CONTINUED)

Total 2021	Total 2022		Total 2022	Total 2021
USD'000	USD'000		RO'000	RO'000
3,661,777	**3,725,171**	Personal	1,434,191	1,409,784
820,458	**884,645**	Service	340,588	315,876
204,870	**683,785**	Government	263,257	78,875
601,235	**607,000**	Financial institutions	233,695	231,475
462,535	**602,348**	Transport and communication	231,904	178,076
481,423	**551,135**	Electricity, gas and water	212,187	185,348
521,506	**483,205**	Manufacturing	186,034	200,780
459,745	**397,597**	Wholesale and retail trade	153,075	177,002
321,255	**392,021**	Mining and quarrying	150,928	123,683
399,888	**356,530**	Construction	137,264	153,957
225,890	**256,759**	Others	98,852	86,968
237,766	**160,896**	Import trade	61,945	91,540
16,948	**22,010**	Agriculture	8,474	6,525
8,415,296	**9,123,102**	**TOTAL GROSS LOANS**	**3,512,394**	3,239,889

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

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
8,129,067	**8,795,686**	Sultanate of Oman	**3,386,339**	3,129,691
280,039	**302,416**	United Arab Emirates	**116,430**	107,815
6,190	**25,000**	Others	**9,625**	2,383
8,415,296	**9,123,102**	**TOTAL**	**3,512,394**	3,239,889

Notes to the Financial Statements as at 31 December 2022

7 FINANCIAL INVESTMENTS

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
		INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS (FVTPL)		
1,553	**3,969**	Quoted investments - Oman	**1,528**	598
974	**894**	Quoted investments - foreign	**344**	375
6,725	**6,283**	Unquoted Investments in funds	**2,419**	2,589
9,252	**11,146**	**TOTAL FVTPL INVESTMENTS**	**4,291**	3,562
		INVESTMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)		
		FVOCI – Equity investments		
38,205	**49,506**	Quoted investments - Oman	**19,060**	14,709
55,089	**74,530**	Quoted investments - foreign	**28,694**	21,209
57	**-**	Unquoted investments	**-**	22
93,351	**124,036**	**TOTAL FVOCI – EQUITY INSTRUMENTS**	**47,754**	35,940
		FVOCI - DEBT INSTRUMENTS		
10,488	**-**	Government development bonds - Oman	**-**	4,038
10,488	**-**	**Total FVOCI – debt instruments**	**-**	4,038
103,839	**124,036**	**TOTAL FVOCI**	**47,754**	39,978
		INVESTMENTS MEASURED AT AMORTISED COST		
671,945	**602,506**	Government development bonds - Oman	**231,965**	258,699
42,696	**44,886**	Government sukuk - Oman	**17,281**	16,438
57,076	**74,104**	Quoted investments - Oman	**28,530**	21,974
277,922	**194,805**	Treasury Bills	**75,000**	107,000
1,049,639	**916,301**	**TOTAL – AMORTISED COST**	**352,776**	404,111
1,162,730	**1,051,483**	**TOTAL FINANCIAL INVESTMENTS**	**404,821**	447,651
(1,229)	**(1,127)**	**Less: Impairment**	**(434)**	(473)
1,161,501	**1,050,356**	**TOTAL FINANCIAL INVESTMENTS**	**404,387**	447,178

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

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
826	**1,229**	Balance at beginning of year	**473**	318
403	**(102)**	Released) / provided during the year)	**(39)**	155
1,229	**1,127**	**BALANCE AT END OF YEAR**	**434**	473

7 FINANCIAL INVESTMENTS (CONTINUED)

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

Bank's portfolio	Carrying value		Bank's portfolio	Carrying value
%	USD'000	2022	%	RO'000
62%	**647,392**	**Government Development Bonds-Oman**	**62%**	**249,246**
19%	**194,805**	**Treasury Bills**	**19%**	**75,000**
		2021		
62%	725,129	Government Development Bonds-Oman	62%	279,175
24%	277,922	Treasury Bills	24%	107,000

In 2022, the Bank received dividends of RO 1.60 million from its FVOCI equities (2021: RO 1.25 million for FVOCI equities), recorded as other operating income.

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

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

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
40,647	**59,104**	Rated	**22,755**	15,649
16,429	**15,000**	Unrated	**5,775**	6,325
1,003,051	**842,197**	Sovereign	**324,246**	386,175
1,060,127	**916,301**		**352,776**	408,149

The movement in financial investment are summarised below:

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
888,839	**1,161,501**	Balance at beginning of year	**447,178**	342,203
329,481	**133,291**	Additions	**51,317**	126,850
(69,590)	**(255,452)**	Disposals and redemption	**(98,349)**	(26,792)
9,470	**2,745**	Gain from changes in Fair Value	**1,057**	3,646
(403)	**102**	Provision/(Reversal) of impairment Losses	**39**	(155)
(294)	**187**	Gain/(loss) on sale – FVOCI	**72**	(113)
1,684	**1,691**	(Amortization of discount/(premium	**651**	648
2,314	**6,291**	Profit on investments at FVTPL and Amortised cost	**2,422**	891
1,161,501	**1,050,356**	**BALANCE AT END OF YEAR**	**404,387**	447,178

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

8 PROPERTY AND EQUIPMENT

	Freehold land and 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 2022, net of accumulated Depreciation	44,553	11,572	1,109	2,658	59,892
Additions	4	903	1,260	938	3,105
Disposals	-	(3)	(40)	-	(43)
Transfers	544	1,064	(1,608)	-	-
Depreciation	(1,268)	(2,879)	-	(1,717)	(5,864)
Balance at 31 December 2022, net of accumulated depreciation	**43,833**	**10,657**	**721**	**1,879**	**57,090**
At cost	61,243	48,693	721	4,355	115,012
Accumulated depreciation	(17,410)	(38,036)	-	(2,476)	(57,922)
NET CARRYING VALUE AT 31 DECEMBER 2022	**43,833**	**10,657**	**721**	**1,879**	**57,090**
NET CARRYING VALUE AT 31 DECEMBER 2022 – USD'000	**113,851**	**27,681**	**1,873**	**4,881**	**148,286**
Carrying amount:					
Balance as at 1 January 2021, net of accumulated Depreciation	45,852	12,330	1,240	3,146	62,568
Additions	22	915	1,336	1,341	3,614
Disposals	(122)	(7)	(17)	-	(146)
Transfers	96	1,064	(1,608)	-	-
Depreciation	(1,295)	(3,020)	-	(1,829)	(6,144)
Balance at 31 December 2021, net of accumulated depreciation	**44,553**	**11,572**	**1,109**	**2,658**	**59,892**
At cost	61,243	48,693	721	4,355	115,012
Accumulated depreciation	(17,410)	(38,036)	-	(2,476)	(57,922)
NET CARRYING VALUE AT 31 DECEMBER 2021	**43,833**	**10,657**	**721**	**1,879**	**57,090**
NET CARRYING VALUE AT 31 DECEMBER 2021 – USD'000	**115,723**	**30,057**	**2,881**	**6,903**	**155,564**

Freehold land and buildings and leasehold improvements include land at a cost of RO 8.56 million – USD 22.22 million (2021 – RO 8.56 million – USD 22.22 million) which is not depreciated.

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

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

9 OTHER ASSETS

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
63,917	**93,634**	Interest receivable and others	**36,049**	24,608
8,029	**54,148**	(Positive fair value of derivatives (note 36	**20,847**	3,091
91,161	**106,906**	Customers' indebtedness for acceptances	**41,159**	35,097
163,107	**254,688**		**98,055**	62,796

10 DUE TO BANKS AND OTHER MONEY MARKET DEPOSITS

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
761,203	**634,626**	Borrowings	**244,331**	293,063
12,119	**45,226**	Demand balances	**17,412**	4,666
773,322	**679,852**		**261,743**	297,729

11 CUSTOMERS' DEPOSITS AND UNRESTRICTED INVESTMENT ACCOUNTS

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
3,379,746	**3,028,098**	Current accounts	**1,165,818**	1,301,202
1,663,683	**1,570,934**	Savings accounts	**604,810**	640,518
2,535,096	**3,316,350**	Term deposits	**1,276,794**	976,012
7,578,525	**7,915,382**		**3,047,422**	2,917,732

12 EURO MEDIUM TERM NOTES

The Bank has established Euro medium term notes programme for USD 1,500 million. These Bonds are listed in the Irish Stock Exchange and governed by English law. As at reporting period end, the Bank has an issuance for RO 192.5 million (USD 500 million). (31 December 2021 – RO 192.5 million – USD 500 million), maturing in September 2023. The carrying amount of EMTN is stated at fair value for the hedged interest rate risk. (Refer note 36).

13 OTHER LIABILITIES

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
157,146	**175,180**	Interest payable and others	**67,445**	60,502
91,161	**106,906**	Liabilities under acceptances	**41,159**	35,097
5,390	**63,208**	Negative fair value of derivatives (note 36)	**24,335**	2,075
6,795	**6,434**	Allowances for credit losses for loan commitments and financial guarantees	**2,477**	2,616
4,997	**5,039**	Staff entitlements	**1,940**	1,924
4,548	**3,455**	Lease liabilities	**1,330**	1,751
1,328	**1,427**	Deferred tax liability (note 14)	**549**	511
271,365	**361,649**		**139,235**	104,476

13 OTHER LIABILITIES (CONTINUED)

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
		:Staff entitlements are as follows		
4,171	**4,161**	End of service benefits	**1,602**	1,606
826	**878**	Other liabilities	**338**	318
4,997	**5,039**		**1,940**	1,924

Movement in the lease liabilities:

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
5,557	**4,548**	Balance at beginning of year	**1,751**	2,139
6,352	**2,676**	Additions during the year	**1,030**	2,446
213	**156**	Finance charges on lease	**60**	82
(7,574)	**(3,925)**	Lease payments	**(1,511)**	(2,916)
4,548	**3,455**	**BALANCE AT YEAR END**	**1,330**	1,751

Maturity analysis of lease liabilities:

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
3,364	**2,743**	to 5 years 1	**1,056**	1,295
1,184	**712**	Over 5 years	**274**	456
4,548	**3,455**	**BALANCE AT YEAR END**	**1,330**	1,751

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

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
7,403	**6,795**	Balance at beginning of year	**2,616**	2,850
(608)	**(361)**	Released during the year	**(139)**	(234)
6,795	**6,434**	**BALANCE AT YEAR END**	**2,477**	2,616

14 TAXATION

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
		Tax expense		
14,425	**23,946**	Current year	**9,219**	5,554
97	**109**	Deferred tax adjustment	**42**	37
14,522	**24,055**		**9,261**	5,591

14 TAXATION (CONTINUED)

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

Sultanate of Oman:	15% of consolidated taxable income (2021: 15% of consolidated taxable income)
United Arab Emirates:	20% of taxable income (2021: 20% of taxable income)
Egypt:	22.5% of taxable income (2021: 22.5% of taxable income)

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

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
93,165	**149,278**	**Accounting profit**	**57,472**	35,868
13,975	**22,392**	Tax at applicable rate	**8,621**	5,380
65	**275**	Non-deductible expenses	**106**	25
(979)	**(1,023)**	Tax exempt revenues	**(394)**	(377)
1,364	**2,302**	Others	**886**	526
14,425	**23,946**		**9,219**	5,554

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

Management believes that additional taxes, if any, in respect of open tax assessments would not be significant to the Bank's financial position as at 31 December 2022.

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 2021.

Tax liability

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
14,425	**23,946**	Through comprehensive income	**9,219**	5,554
19,804	**17,495**	Through prior years	**6,736**	7,624
(8)	**68**	Through retained earnings	**26**	(3)
34,221	**41,509**		**15,981**	13,175

Tax liability

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
31	**(79)**	Deductible temporary differences relating to provisions	**(30)**	11
(1,359)	**(1,348)**	FVOCI investments	**(519)**	(522)
(1,328)	**(1,427)**		**(549)**	(511)

14 TAXATION (CONTINUED)

Movement of deferred tax liability

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
(41)	**(1,328)**	Balance at the beginning of the year	**(511)**	(16)
(97)	**(109)**	Provided during the year	**(42)**	(37)
(1,190)	**10**	Tax effect of equity investments at FVOCI – net change in fair value	**4**	(458)
(1,328)	**(1,427)**		**(549)**	(511)

15 SHARE CAPITAL

The Authorised share capital of the Bank is 2,000,000,000 shares of RO 0.100 each (2021 – 2,000,000,000 of RO 0.100 each). At 31 December 2022, 1,625,946,355 shares of RO 0.100 each (2021 – 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:

	2022		2021	
	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%**	-	-
Suhail Bahwan Group (Holdings) L.L.C	**-**	**-**	239,734	14.74%
Civil Service Employee Pension Fund	**187,715**	**11.54%**	184,652	11.36%

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

16 SHARE PREMIUM

The share premium of RO 34.46 million (USD 89.52 million) represents the premium collected on issue of shares by the bank through a private placement in prior years.

17 LEGAL RESERVE

The legal reserve, which is not available for distribution, is accumulated in accordance with the requirements of the Commercial Companies Law of Oman and the Union Law No. 10 of UAE. The annual appropriations must not be less than 10% of the profit for the year until such time that the respective reserve account balance amounts to at least one third of the share capital in Oman and half of the branch capital in UAE. At 31 December 2022, the legal reserve of Oman has reached one third of the issued capital.

18 OTHER RESERVES

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

	FVOCI	Impairment reserve	Total
	RO '000	RO '000	RO '000
At 1 January 2021	(9,016)	10,580	1,564
Net movement on FVOCI	4,228	-	4,228
Tax effect of net results on FVOCI	(458)	-	(458)
AT 31 DECEMBER 2021	**(5,246)**	**10,580**	**5,334**
AT 31 DECEMBER 2021 (USD'000S)	**(13,626)**	**27,481**	**13,855**

i. The impairment reserve represents excess of impairment allowance (net of tax) calculated as per CBO norms and IFRS 9. Based on current regulation, there are no changes to the reserve in the years 2022 and 2021. The reserve is not available for distribution to the shareholders.

19 TIER 1 PERPETUAL BOND

The Bank has issued Perpetual Tier 1 Capital Securities (the "Tier 1 Securities") with details mentioned in the table below. The Tier 1 Securities constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 Securities do not have a fixed or final maturity date. They are redeemable by the Bank at its sole discretion on any interest payment date on or after the first call date subject to the prior consent of the Central Bank of Oman.

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

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

20 DIVIDENDS PAID AND PROPOSED

The Board of Directors have proposed a cash dividend of RO 0.0074 per share totalling RO 12 million (USD 0.019 per share totalling USD 31.3 million) for the year ended 31 December 2022 [2021: RO 0.0037 per share totalling RO 6.0 million (USD 0.01 per share totalling USD 15.6 million)], which is subject to the approval of the shareholders at the Annual General Meeting to be held in March 2022.

21 CONTINGENT LIABILITIES AND COMMITMENTS

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

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

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

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

21.1 Contingent liabilities

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

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
734,732	**728,052**	Guarantees	**280,300**	282,872
190,587	**113,460**	Documentary letters of credit	**43,682**	73,376
925,319	**841,512**		**323,982**	356,248

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

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
307,455	**226,725**	Construction	**87,289**	118,370
138,977	**149,701**	Financial Institutions	**57,635**	53,506
81,135	**136,548**	Service	**52,571**	31,237
162,982	**121,696**	Wholesale and Retail Trade	**46,853**	62,748
114,865	**86,902**	Manufacturing	**33,457**	44,223
53,109	**63,332**	Transport and Communication	**24,383**	20,447
24,695	**22,917**	Electricity, Gas & Water	**8,823**	9,508
5,174	**12,865**	Mining & Quarrying	**4,953**	1,992
1,099	**11,584**	Agriculture	**4,460**	423
35,199	**8,686**	Others	**3,344**	13,552
629	**556**	Personal	**214**	242
925,319	**841,512**		**323,982**	356,248

21 CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

21.2 Commitments

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
309,779	**520,543**	Undrawn commitment	**200,409**	119,265
3,035	**2,470**	**CAPITAL EXPENDITURE**	**951**	1,169

21.3 Branches

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

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
106,282	**106,282**	UAE branch	**40,918**	40,918
50,000	**50,000**	Egypt branches	**19,250**	19,250
156,282	**156,282**		**60,168**	60,168

21.4 Legal claims

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

21.5 Fiduciary assets

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

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

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
273,777	**280,369**	**FUND UNDER MANAGEMENT**	**107,942**	105,404

Involvement with unconsolidated structured entities

The Bank's fiduciary activities consist of investment management activities conducted as trustee and manager for a number of investment funds and individuals.

The following table describes the types of structured entities that the Bank does not consolidate but in which it holds an interest.

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
30,878	**27,093**	**FUND UNDER MANAGEMENT**	**10,431**	11,888

21 CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

21.5 Fiduciary assets (continued)

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.

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
1,564	**1,514**	**CARRYING AMOUNT OF FUNDS INVESTED**	**583**	602

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.

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
30,878	**27,093**	**FUND UNDER MANAGEMENT**	**10,431**	11,888
306	**780**	**COMMISSION AND FEES**	**300**	118

22 INTEREST INCOME

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
380,876	**423,925**	Interest from customers	**163,211**	146,637
1,478	**5,829**	Interest from banks	**2,244**	569
47,745	**45,971**	Interest from investments	**17,699**	18,382
430,099	**475,725**		**183,154**	165,588

Interest bearing assets have an average effective annual rate of 5.15% per annum for the year ended 31 December 2022 (31 December 2021 – 4.98% per annum).

23 INTEREST EXPENSE

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
152,678	**161,527**	Interest to customers	**62,188**	58,781
21,914	**28,356**	Interest to banks	**10,917**	8,437
29,460	**31,255**	Interest on EMTN	**12,033**	11,342
204,052	**221,138**		**85,138**	78,560

For the year ended 31 December 2022, the average effective annual cost of funds was 2.57% per annum (31 December 2021 – 2.43% per annum).

24 FEE AND COMMISSION INCOME (NET)

The commission and fee income shown in the profit or loss is net of commission and fee paid of RO 20.65 million (USD 53.63 million) for the year ended 31 December 2022 (31 December 2021 – RO 18.86 million (USD 48.99 million)). Refer note 34.

25 OTHER OPERATING INCOME

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
2,314	**6,291**	Profit on investments at FVTPL	**2,422**	891
16,104	**14,816**	Net gains from foreign exchange dealings	**5,704**	6,200
3,244	**4,169**	Dividend income	**1,605**	1,249
11,865	**11,223**	Miscellaneous income	**4,321**	4,568
33,527	**36,499**		**14,052**	12,908

26 STAFF COSTS

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
72,410	**70,901**	Employees' salaries	**27,297**	27,878
6,584	**7,104**	Contribution to social insurance schemes	**2,735**	2,535
22,006	**17,353**	Other staff costs	**6,681**	8,472
101,000	**95,358**		**36,713**	38,885

The Bank employed 1,432 employees as of 31 December 2022 (31 December 2021 - 1,470).

27 OTHER OPERATING EXPENSES

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
10,696	**12,504**	Establishment costs	**4,814**	4,118
35,953	**32,855**	Operating and administration costs	**12,649**	13,842
1,322	**1,236**	Directors' remuneration and sitting fees	**476**	509
47,971	**46,595**		**17,939**	18,469

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS

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

Impairment charge and provision held as of 31 December 2022

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

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

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

Mapping of IFRS 9 and CBO norms

Amounts in RO'000

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

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

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

Mapping of IFRS 9 and CBO norms

Amounts in USD'000

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

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

28.1 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 31 December 2021: (continued)

Impairment charge and provision held as of 31 December 2021

As per CBO Norms	As per IFRS 9	Difference	Particular	As per CBO Norms	As per IFRS 9	Difference
USD'000	USD'000	USD'000		RO'000	RO'000	RO'000
-	62,299	NA	Impairment Loss charged to profit and loss	-	23,985	NA
452,911	401,086	(51,825)	Provisions required	174,371	154,418	(19,953)
-	5.29	5.29	Gross non-performing loan ratio (percentage)	-	5.29	5.29
-	4.82	4.82	Net non-performing loan ratio (percentage)	-	4.82	4.82

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

28.1 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 31 December 2021: (continued)

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	2,482,125	34,076	9,043	25,033	2,473,082	-
	Stage 2	477,469	5,189	10,652	(5,463)	466,817	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		2,959,594	39,265	19,695	19,570	2,939,899	-
Special Mention	Stage 1				-	-	
	Stage 2	108,894	1,105	22,111	(21,006)	86,783	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		108,894	1,105	22,111	(21,006)	86,783	-
Substandard	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	19,495	4,741	6,955	(2,145)	12,540	69
SUBTOTAL		19,495	4,741	6,955	(2,145)	12,540	69
Doubtful	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	17,720	12,549	13,169	(182)	4,551	438
SUBTOTAL		17,720	12,549	13,169	(182)	4,551	438
Loss	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	134,185	100,857	89,313	26,891	44,872	15,347
SUBTOTAL		134,185	100,857	89,313	26,891	44,872	15,347
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	876,571	-	1,294	(1,294)	875,277	-
	Stage 2	213,949	-	1,881	(1,881)	212,068	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		1,090,520	-	3,175	(3,175)	1,087,345	-
Total	Stage 1	3,358,696	34,076	10,337	23,739	3,348,359	-
	Stage 2	800,312	6,294	34,644	(28,350)	765,668	-
	Stage 3	171,400	118,147	109,437	24,564	61,963	15,854
	TOTAL	**4,330,408**	**158,517**	**154,418**	**19,953**	**4,175,990**	**15,854**

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

28.1 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 31 December 2021: (continued)

Mapping of IFRS 9 and CBO norms

Amounts in USD'000

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held under IFRS 9	Net Amount as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)+(8)	(7) = (3)-(5)	(8)
Standard	Stage 1	6,447,078	88,509	23,487	65,022	6,423,591	-
	Stage 2	1,240,179	13,478	27,668	(14,190)	1,212,511	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		7,687,257	101,987	51,155	50,832	7,636,102	-
Special Mention	Stage 1	-	-	-	-	-	-
	Stage 2	282,842	2,870	57,431	(54,561)	225,411	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		282,842	2,870	57,431	(54,561)	225,411	-
Substandard	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	50,636	12,314	18,065	(5,572)	32,571	179
SUBTOTAL		50,636	12,314	18,065	(5,572)	32,571	179
Doubtful	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	46,026	32,595	34,205	(472)	11,821	1,138
SUBTOTAL		46,026	32,595	34,205	(472)	11,821	1,138
Loss	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	348,532	261,966	231,983	69,845	116,549	39,862
SUBTOTAL		348,532	261,966	231,983	69,845	116,549	39,862
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	2,276,808	-	3,361	(3,361)	2,273,447	-
	Stage 2	555,712	-	4,886	(4,886)	550,826	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		2,832,520	-	8,247	(8,247)	2,824,273	-
Total	Stage 1	8,723,886	88,509	26,848	61,661	8,697,038	-
	Stage 2	2,078,733	16,348	89,985	(73,637)	1,988,748	-
	Stage 3	445,194	306,875	284,253	63,801	160,941	41,179
	TOTAL	**11,247,813**	**411,732**	**401,086**	**51,825**	**10,846,727**	**41,179**

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

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

Restructured loans

Amounts in RO'000

Asset 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	191,792	1,978	27,428	(25,450)	164,364	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		191,792	1,978	27,428	(25,450)	164,364	-
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	31,532	22,508	18,919	7,110	12,613	3,521
SUBTOTAL		31,532	22,508	18,919	7,110	12,613	3,521
Total	Stage 1	-	-	-	-	-	-
	Stage 2	191,792	1,978	27,428	(25,450)	164,364	-
	Stage 3	31,532	22,508	18,919	7,110	12,613	3,521
	TOTAL	223,324	24,486	46,347	(18,340)	176,977	3,521

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

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

Restructured loans

Amounts in USD'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	498,161	5,138	71,242	(66,104)	426,919	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		498,161	5,138	71,242	(66,104)	426,919	-
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	81,901	58,462	49,140	18,467	32,761	9,145
SUBTOTAL		81,901	58,462	49,140	18,467	32,761	9,145
Total	Stage 1	-	-	-	-	-	-
	Stage 2	498,161	5,138	71,242	(66,104)	426,919	-
	Stage 3	81,901	58,462	49,140	18,467	32,761	9,145
	TOTAL	580,062	63,600	120,382	(47,637)	459,680	9,145

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

28.2 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 31 December 2021:

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)	(8)+(5)-(4) = (6)	(5)-(3) = (7)	(8)
Classified as performing	Stage 1	-	-	-	-	-	-
	Stage 2	131,939	15,059	7,828	7,231	124,111	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		131,939	15,059	7,828	7,231	124,111	-
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	34,815	35,683	31,571	9,648	3,244	5,536
SUBTOTAL		34,815	35,683	31,571	9,648	3,244	5,536
Total	Stage 1	-	-	-	-	-	-
	Stage 2	131,939	15,059	7,828	7,231	124,111	-
	Stage 3	34,815	35,683	31,571	9,648	3,244	5,536
	TOTAL	**166,754**	**50,742**	**39,399**	**16,879**	**127,355**	**5,536**

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

28.2 Comparison of impairment provisions in accordance with IFRS 9 and regulatory provision under Central Bank of Oman's (CBO) requirement as at 31 December 2021: (continued)

Restructured loans

Amounts in USD'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)	(8)+(5)-(4) = (6)	(5)-(3) = (7)	(8)
Classified as performing	Stage 1	-	-	-	-	-	-
	Stage 2	342,699	39,114	20,332	18,782	322,367	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		342,699	39,114	20,332	18,782	322,367	-
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	90,429	92,683	82,003	25,059	8,426	14,379
SUBTOTAL		90,429	92,683	82,003	25,059	8,426	14,379
Total	Stage 1	-	-	-	-	-	-
	Stage 2	342,699	39,114	20,332	18,782	322,367	-
	Stage 3	90,429	92,683	82,003	25,059	8,426	14,379
	TOTAL	**433,128**	**131,797**	**102,335**	**43,841**	**330,793**	**14,379**

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

28.3 Movement in expected credit losses (ECL) as at 31 December 2022

	Stage 1	Stage 2	Stage 3	Total
	RO' 000	RO'000	RO'000	RO'000
EXPOSURE SUBJECT TO ECL				
- Loans, advances and Islamic financing assets	2,801,141	538,141	173,112	3,512,394
- Financial investment	399,046	5,775	-	404,821
- Contingent liabilities and commitments	415,860	108,531	-	524,391
- Due from banks and other money market placements	119,280	-	-	119,280
	3,735,327	652,447	173,112	4,560,886
OPENING BALANCE – AS AT 1 JANUARY 2022				
- Loans, advances and Islamic financing assets	9,043	32,763	109,437	151,243
- Financial investment (Debt)	300	173	-	473
- Contingent liabilities and commitments	908	1,708	-	2,616
- Due from banks and other money market placements	86	-	-	86
	10,337	34,644	109,437	154,418
NET TRANSFER BETWEEN STAGES				
- Loans, advances and Islamic financing assets	(108)	(2,716)	2,824	-
- Financial investment (Debt)	-	-	-	-
- Contingent liabilities and commitments	-	-	-	-
- Due from banks and other money market placements	-	-	-	-
	(108)	(2,716)	2,824	-
(RELEASE) / CHARGE FOR THE PERIOD (NET)				
- Loans, advances and Islamic financing assets	(3,450)	13,440	21,757	31,747
- Financial investment (Debt)	12	(51)	-	(39)
- Contingent liabilities and commitments	(331)	192	-	(139)
- Due from banks and other money market placements	(66)	-	-	(66)
	(3,835)	13,581	21,757	31,503
WRITE OFF FOR THE PERIOD				
- Loans, advances and Islamic financing assets	-	-	(24,295)	(24,295)
	-	-	(24,295)	(24,295)
CLOSING BALANCE – AS AT 31 DECEMBER 2022				
- Loans, advances and Islamic financing assets	5,485	43,487	109,723	158,695
- Financial investment (Debt)	312	122	-	434
- Contingent liabilities and commitments	577	1,900	-	2,477
- Due from banks and other money market placements	20	-	-	20
	6,394	45,509	109,723	161,626

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

28.3 Movement in expected credit losses (ECL) as at 31 December 2022 (continued)

	Stage 1	Stage 2	Stage 3	Total
	USD' 000	USD' 000	USD' 000	USD' 000
EXPOSURE SUBJECT TO ECL				
- Loans, advances and Islamic financing assets	7,275,691	1,397,769	449,642	9,123,102
- Financial investment	1,036,483	15,000	-	1,051,483
- Contingent liabilities and commitments	1,080,156	281,899	-	1,362,055
- Due from banks and other money market placements	309,818	-	-	309,818
	9,702,148	1,694,668	449,642	11,846,458
OPENING BALANCE - AS AT 1 JANUARY 2022				
- Loans, advances and Islamic financing assets	23,488	85,098	284,253	392,839
- Financial investment (Debt)	779	450	-	1,229
- Contingent liabilities and commitments	2,359	4,436	-	6,795
- Due from banks and other money market placements	223	-	-	223
	26,849	89,984	284,253	401,086
NET TRANSFER BETWEEN STAGES				
- Loans, advances and Islamic financing assets	(279)	(7,056)	7,335	-
- Financial investment (Debt)	-	-	-	-
- Contingent liabilities and commitments	-	-	-	-
- Due from banks and other money market placements	-	-	-	-
	(279)	(7,056)	7,335	-
(RELEASE) / CHARGE FOR THE PERIOD (NET)				
- Loans, advances and Islamic financing assets	(8,961)	34,909	56,512	82,460
- Financial investment (Debt)	31	(133)	-	(102)
- Contingent liabilities and commitments	(862)	501	-	(361)
- Due from banks and other money market placements	(171)	-	-	(171)
	(9,963)	35,277	56,512	81,826
WRITE OFF FOR THE PERIOD				
- Loans, advances and Islamic financing assets	-	-	(63,104)	(63,104)
	-	-	(63,104)	(63,104)
CLOSING BALANCE - AS AT 31 DECEMBER 2022				
- Loans, advances and Islamic financing assets	14,248	112,951	284,996	412,195
- Financial investment (Debt)	810	317	-	1,127
- Contingent liabilities and commitments	1,497	4,937	-	6,434
- Due from banks and other money market placements	52	-	-	52
	16,607	118,205	284,996	419,808

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

28.3 Movement in expected credit losses (ECL) as at 31 December 2021

	Stage 1	Stage 2	Stage 3	Total
	RO' 000	RO'000	RO'000	RO'000
EXPOSURE SUBJECT TO ECL				
- Loans, advances and Islamic financing assets	2,482,126	586,363	171,400	3,239,889
- Financial investment	441,876	5,775	-	447,651
- Contingent liabilities and commitments	261,563	213,949	-	475,512
- Due from banks and other money market placements	114,771	-	-	114,771
	3,300,336	806,087	171,400	4,277,823
OPENING BALANCE – AS AT 1 JANUARY 2021				
- Loans, advances and Islamic financing assets	11,840	31,626	112,426	155,892
- Financial investment (Debt)	318	-	-	318
- Contingent liabilities and commitments	910	1,940	-	2,850
- Due from banks and other money market placements	87	-	-	87
	13,155	33,566	112,426	159,147
NET TRANSFER BETWEEN STAGES				
- Loans, advances and Islamic financing assets	(365)	(18,609)	18,974	-
- Financial investment (Debt)	(120)	120	-	-
- Contingent liabilities and commitments	-	-	-	-
- Due from banks and other money market placements	-	-	-	-
	(485)	(18,489)	18,974	-
(RELEASE) / CHARGE FOR THE PERIOD (NET)				
- Loans, advances and Islamic financing assets	(2,432)	19,746	16,225	33,539
- Financial investment (Debt)	102	53	-	155
- Contingent liabilities and commitments	(2)	(232)	-	(234)
- Due from banks and other money market placements	(1)	-	-	(1)
	(2,333)	19,567	16,225	33,459
WRITE OFF FOR THE PERIOD				
- Loans, advances and Islamic financing assets	-	-	(38,188)	(38,188)
	-	-	(38,188)	(38,188)
CLOSING BALANCE – AS AT 31 DECEMBER 2021				
- Loans, advances and Islamic financing assets	9,043	32,763	109,437	151,243
- Financial investment (Debt)	300	173	-	473
- Contingent liabilities and commitments	908	1,708	-	2,616
- Due from banks and other money market placements	86	-	-	86
	10,337	34,644	109,437	154,418

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

28.3 Movement in expected credit losses (ECL) as at 31 December 2021 (continued)

	Stage 1	Stage 2	Stage 3	Total
	USD' 000	USD' 000	USD' 000	USD' 000
EXPOSURE SUBJECT TO ECL				
- Loans, advances and Islamic financing assets	6,447,082	1,523,021	445,194	8,415,297
- Financial investment	1,147,730	15,000	-	1,162,730
- Contingent liabilities and commitments	679,385	555,712	-	1,235,097
- Due from banks and other money market placements	298,108	-	-	298,108
	8,572,305	2,093,733	445,194	11,111,232
OPENING BALANCE - AS AT 1 JANUARY 2021				
- Loans, advances and Islamic financing assets	30,753	82,145	292,016	404,914
- Financial investment (Debt)	826	-	-	826
- Contingent liabilities and commitments	2,364	5,039	-	7,403
- Due from banks and other money market placements	226	-	-	226
	34,169	87,184	292,016	413,369
NET TRANSFER BETWEEN STAGES				
- Loans, advances and Islamic financing assets	(948)	(48,335)	49,283	-
- Financial investment (Debt)	(312)	312	-	-
- Contingent liabilities and commitments	-	-	-	-
- Due from banks and other money market placements	-	-	-	-
	(1,260)	(48,023)	49,283	-
(RELEASE) / CHARGE FOR THE PERIOD (NET)				
- Loans, advances and Islamic financing assets	(6,317)	51,288	42,143	87,114
- Financial investment (Debt)	265	138	-	403
- Contingent liabilities and commitments	(5)	(603)	-	(608)
- Due from banks and other money market placements	(3)	-	-	(3)
	(6,060)	50,823	42,143	86,906
WRITE OFF FOR THE PERIOD				
- Loans, advances and Islamic financing assets	-	-	(99,189)	(99,189)
	-	-	(99,189)	(99,189)
CLOSING BALANCE - AS AT 31 DECEMBER 2021				
- Loans, advances and Islamic financing assets	23,488	85,098	284,253	392,839
- Financial investment (Debt)	779	450	-	1,229
- Contingent liabilities and commitments	2,359	4,436	-	6,795
- Due from banks and other money market placements	223	-	-	223
	26,849	89,984	284,253	401,086

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

28.4 Movement in loans, advances and Islamic financing assets as at 31 December 2022

	Stage 1	Stage 2	Stage 3	Total
	RO' 000	RO'000	RO'000	RO'000
EXPOSURE SUBJECT TO ECL				
Opening Balance - as at 1 January 2022	2,482,126	586,363	171,400	3,239,889
Transfer to stage 1	15,304	(14,987)	(317)	-
Transfer to stage 2	(12,986)	13,607	(621)	-
Transfer to stage 3	(8,945)	(5,739)	14,684	-
New loans, advances and Islamic financing assets	534,890	25,973	16,565	577,428
Recovery of loans, advances and Islamic financing assets	(209,248)	(67,076)	(4,304)	(280,628)
Write off for the period	-	-	(24,295)	(24,295)
CLOSING BALANCE - AS AT 31 DECEMBER 2022	2,801,141	538,141	173,112	3,512,394

	Stage 1	Stage 2	Stage 3	Total
	USD' 000	USD' 000	USD' 000	USD' 000
EXPOSURE SUBJECT TO ECL				
Opening Balance - as at 1 January 2022	6,447,082	1,523,021	445,194	8,415,297
Transfer to stage 1	39,750	(38,927)	(823)	-
Transfer to stage 2	(33,730)	35,343	(1,613)	-
Transfer to stage 3	(23,233)	(14,907)	38,140	-
New loans, advances and Islamic financing assets	1,389,323	67,462	43,027	1,499,812
Recovery of loans, advances and Islamic financing assets	(543,501)	(174,223)	(11,179)	(728,903)
Write off for the period	-	-	(63,104)	(63,104)
CLOSING BALANCE - AS AT 31 DECEMBER 2022	7,275,691	1,397,769	449,642	9,123,102

Movement in loans as at 31 December 2021

	Stage 1	Stage 2	Stage 3	Total
	RO' 000	RO'000	RO'000	RO'000
EXPOSURE SUBJECT TO ECL				
Opening Balance - as at 1 January 2021	2,253,382	621,396	168,976	3,043,754
Transfer to stage 1	20,437	(20,437)	-	-
Transfer to stage 2	(17,562)	17,562	-	-
Transfer to stage 3	(12,686)	(22,146)	34,832	-
New loans, advances and Islamic financing assets	388,854	124,199	36,752	549,805
Recovery of loans, advances and Islamic financing assets	(150,299)	(134,211)	(30,972)	(315,482)
Write off for the period	-	-	(38,188)	(38,188)
CLOSING BALANCE - AS AT 31 DECEMBER 2021	2,482,126	586,363	171,400	3,239,889

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

28.4 Movement in loans, advances and Islamic financing assets as at 31 December 2021 (continued)

	Stage 1	Stage 2	Stage 3	Total
	USD' 000	USD' 000	USD' 000	USD' 000
EXPOSURE SUBJECT TO ECL				
Opening Balance - as at 1 January 2021	5,852,939	1,614,016	438,899	7,905,854
Transfer to stage 1	53,084	(53,084)	-	-
Transfer to stage 2	(45,616)	45,616	-	-
Transfer to stage 3	(32,950)	(57,522)	90,472	-
New loans, advances and Islamic financing assets	1,010,012	322,595	95,460	1,428,067
Recovery of loans, advances and Islamic financing assets	(390,387)	(348,600)	(80,447)	(819,434)
Write off for the period	-	-	(99,190)	(99,190)
CLOSING BALANCE - AS AT 31 DECEMBER 2021	6,447,082	1,523,021	445,194	8,415,297

28.5 Movement in impairment credit losses for the period ended 31 December 2022

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
		(Impairment)/reversal of allowances for credit losses:		
3	171	Due from Banks and other money market placements	66	1
(75,826)	(69,566)	Loans, advances and Islamic financing assets	(26,783)	(29,193)
(403)	102	Financial investments	39	(155)
608	361	Contingent liabilities and commitments	139	234
(75,618)	(68,932)	**TOTAL**	(26,539)	(29,113)
4,026	5,714	Recoveries and releases from provision for credit losses	2,200	1,550
9,293	10,623	Recoveries and releases from loans, advances and Islamic financing assets written off	4,090	3,578
13,319	16,337	**TOTAL**	6,290	5,128
(62,299)	(52,595)	**NET IMPAIRMENT LOSSES**	(20,249)	(23,985)

29 RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank conducts transactions with certain of its directors, shareholders, senior management and companies over which they have significant interest. Principal shareholders comprise of all shareholders with holding more than 10% of the paid-up share capital and others include directors, senior management and associate companies of principal shareholders and directors. 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.

29 RELATED PARTY TRANSACTIONS (CONTINUED)

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

	2022			2021		
	Principal shareholders RO'000	Others RO'000	Total RO'000	Principal shareholders RO'000	Others RO'000	Total RO'000
Loans, advances and Islamic financing assets	-	**141,789**	**141,789**	-	147,445	147,445
Customers' deposits	**150,110**	**56,059**	**206,169**	106,081	61,386	167,467
Due from Banks	**4,376**	**-**	**4,376**	603	-	603
Due to Banks	**94**	**-**	**94**	260	-	260
Letter of credit, guarantees and acceptance	**985**	**12,723**	**13,708**	618	16,930	17,548
Investment	**2,702**	**541**	**3,243**	2,453	598	3,051
The statement of profit or loss and other comprehensive income includes the following amounts in relation to transactions with related parties:						
Interest income	**23**	**7,993**	**8,016**	2	6,807	6,809
Commission income	**9**	**428**	**437**	6	380	386
Interest expense	**4,912**	**2,141**	**7,053**	1,576	1,341	2,917
Other expenses	**-**	**1,406**	**1,406**	-	850	850

	2022			2021		
	Principal shareholders USD'000	Others USD'000	Total USD'000	Principal shareholders USD'000	Others USD'000	Total USD'000
Loans, advances and Islamic financing assets	-	**368,283**	**368,283**	-	382,974	382,974
Customers' deposits	**389,896**	**145,608**	**535,504**	275,535	159,444	434,979
Due from Banks	**11,366**	**-**	**11,366**	1,566	-	1,566
Due to Banks	**244**	**-**	**244**	675	-	675
Letter of credit, guarantees and acceptance	**2,558**	**33,047**	**35,605**	1,605	43,974	45,579
Investment	**7,018**	**1,405**	**8,423**	6,371	1,553	7,924
The statement of profit or loss and other comprehensive income includes following amounts as relation to the transaction with related parties.						
Interest income	**60**	**20,761**	**20,821**	5	17,681	17,686
Commission income	**23**	**1,112**	**1,135**	16	987	1,003
Interest expense	**12,758**	**5,561**	**18,319**	4,094	3,483	7,577
Other expenses	**-**	**3,652**	**3,652**	-	2,208	2,208

29 RELATED PARTY TRANSACTIONS (CONTINUED)

Details regarding senior management compensation are set out below:

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
		SALARIES AND OTHER BENEFITS		
5,987	**5,278**	Fixed	**2,032**	2,305
4,865	**2,784**	Discretionary	**1,072**	1,873
10,852	**8,062**	**NET IMPAIRMENT LOSSES**	**3,104**	4,178

30 BASIC AND DILUTED EARNINGS PER SHARE

	2022	2021
	RO'000	RO'000
Net Profit after tax (RO'000s)	**48,211**	30,277
Less: Interest on tier 1 perpetual bond	**(9,240)**	(8,462)
Profit attributable to shareholders	**38,971**	21,815
Weighted average number of shares outstanding during the year (in '000s)	**1,625,946**	1,625,946
BASIC AND DILUTED EARNINGS PER SHARE (RO)	**0.024**	0.013

	2022	2021
	USD'000	USD'000
Net Profit after tax (USD'000s)	**125,223**	78,643
Less: Interest on tier 1 perpetual bond	**(24,000)**	(21,980)
Profit attributable to shareholders	**101,223**	56,663
Weighted average number of shares outstanding during the year (in '000s)	**1,625,946**	1,625,946
BASIC AND DILUTED EARNINGS PER SHARE (USD)	**0.06**	0.03

31 CAPITAL ADEQUACY

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Central Bank of Oman in supervising the Bank.

During the past year, the Bank had complied in full with all its externally imposed capital requirements.

Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. The Capital Management Policy was revised during the year to incorporate the regulatory changes.

The international standard for measuring capital adequacy is the risk asset ratio, which relates capital to balance sheet assets and off balance sheet exposures weighted according to broad categories of risk.

31 CAPITAL ADEQUACY (CONTINUED)

The risk asset ratio calculated in accordance with the capital adequacy guidelines of the Bank for International Settlement is as follows:

2021	2022		2022	2021
USD'000	USD'000		RO'000	RO'000
		CAPITAL BASE		
1,090,896	**1,161,288**	Common equity Tier 1 - shareholders' funds	**447,096**	419,995
300,000	**434,112**	Additional Tier 1 - capital	**167,133**	115,500
68,538	**57,969**	Tier 2 - subordinated debt and eligible impairment provisions	**22,318**	26,387
1,459,434	**1,653,369**	**TOTAL CAPITAL BASE**	**636,547**	561,882
		RISK WEIGHTED ASSETS		
8,395,616	**8,801,722**	Credit risk	**3,388,663**	3,232,312
598,478	**614,532**	Operational risk	**236,595**	230,414
248,356	**345,519**	Market risk	**133,025**	95,617
9,242,450	**9,761,773**	**TOTAL RISK WEIGHTED ASSETS**	**3,758,283**	3,558,343
11.8%	**11.9%**	**COMMON EQUITY TIER 1 RATIO**	**11.9%**	11.8%
15.0%	**16.3%**	**TIER 1 RATIO**	**16.3%**	15.0%
15.8%	16.9%	RISK ASSET RATIO (BASEL II NORMS)	16.9%	15.8%

32 RISK MANAGEMENT

Effective risk management is of primary importance for the Bank. The Bank's risk management process evaluates, monitors and manages the risks associated with the businesses the Bank conducts in line with the defined risk appetite. The Bank's key risks are credit risk, market risk, operational risk and strategic risk. The Bank operates on the guiding principles of three lines of defence i.e. Business, Independent control functions and internal audit. The risk management function is headed by the CRO with a team of risk professionals to manage specific risk functions.

32.1 Credit risk

Credit risk is the risk of potential loss in the event that the Bank's customers, clients or counterparties fail to honour their financial and contractual obligations to the Bank. Credit risk is one of the most significant risks for the Bank. The Bank has a robust credit risk framework and policies for each of the businesses it operates. The policies are aligned with the risk appetite and credit limits are set up based on the counter party risk rating, industry sector, and as per the guidelines of Central Bank of Oman.

Credit risk management

Credit Risk is managed within the regulatory requirements of Central Bank of Oman; the risk framework is provided in the Board approved Risk Charter and Credit Policies and Procedures. The policies and procedures are periodically reviewed to ensure alignment to the current best practices. Credit exposures are approved by delegated authorities based on the delegation by the Board and Board Risk Committee. The delegation of authorities is based on the size of the single obligor exposure, the credit quality (internal, external rating) as well as level of credit risk mitigation (collateral, guarantees, etc.) for the proposed exposures. For retail exposures, there is delegation of authority for handling exceptions to approved program lending. Control, monitoring and management of credit exposures and remedial management are done in coordination with respective Business Units as per established procedures. The risk management framework also includes policies with respect to problem recognition, early warning lists, watch lists, classification parameters and risk rating adjustments. The Bank also undertakes stress testing of its portfolio and potential credit costs in the event of a downgrade or default by its customers.

32 RISK MANAGEMENT (CONTINUED)

32.1 Credit risk (continued)

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 approved by Risk Committee of the Board. The lending criteria for these programs are regularly reviewed and, if required revised, based on an on-going analysis of product performance and portfolio credit quality and perceived risk. Credit facilities outside the Product Programs are individually assessed by the Retail Credit Risk Division and recommended to the delegated authorities.

A review of the Retail Credit Portfolio is conducted on a quarterly basis and provided to the Management Risk Committee, and to the Board Risk Committee. Monthly management reports are also prepared and submitted to the CRO and to the Business Heads. Salient areas covered in the review include:

- Portfolio quality
- Management Summary of Delinquency and NPA trends (which includes product-wise delinquency analysis, vintage analysis, and delinquencies across various credit criteria, etc.)
- Projects undertaken / fulfilled during the quarter.

System enhancements and continuous improvements have been made on all processes that are critical to improve quality of overall retail portfolio. The Bank has a lending strategy through the adoption of pre-defined lending criteria and continuous monitoring of the portfolio, and has implemented a Credit Application Scoring Module for its salary related loan portfolio to enhance the Retail Credit Risk framework.

32 RISK MANAGEMENT (CONTINUED)
32.1 Credit risk (continued)

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 2021	Gross maximum exposure 2022		Gross maximum exposure 2022	Gross maximum exposure 2021
USD'000	USD'000		RO'000	RO'000
693,493	**579,823**	Balances with Central Banks	**223,232**	266,995
298,106	**309,818**	Due from Banks and other money market placements	**119,280**	114,771
8,415,296	**9,123,102**	Loans, advances and financing activities for customers	**3,512,394**	3,239,889
1,058,891	**927,447**	Financial investments	**357,067**	407,673
155,078	**200,540**	Other assets	**77,208**	59,705
8,029	**54,148**	Derivatives	**20,847**	3,091
10,628,893	**11,194,878**	**TOTAL ON BALANCE SHEET EXPOSURE**	**4,310,028**	4,092,124
734,732	**728,052**	Guarantees	**280,300**	282,872
190,587	**113,460**	Documentary letters of credit	**43,682**	73,376
309,779	**520,543**	Undrawn commitment	**200,409**	119,265
1,235,098	**1,362,055**	**TOTAL OFF-BALANCE SHEET EXPOSURE**	**524,391**	475,513

The above table represents the maximum credit risk exposure to the Bank at 31 December 2022 and 2021 without taking into account the collateral held or other credit enhancements. Management is confident that the Bank has suitable policies to measure and control the credit risk. In addition credit risk is mitigated through collaterals in the form of mortgages and guarantees wherever required.

32 RISK MANAGEMENT (CONTINUED)
32.1 Credit risk (continued)

An ageing analysis of the Bank's loans which are past due but not impaired is set out below:

	Loans in arrears 1-30 days	Loans in arrears 31-60 days	Loans in arrears 61-89 days	Total
	RO'000	RO'000	RO'000	RO'000
Loans and advances to customers at				
31 December 2022	**80,930**	**24,356**	**16,185**	**121,471**
31 December 2022 – USD'000s	**210,208**	**63,262**	**42,039**	**315,509**
31 December 2021	67,145	6,142	8,160	81,447
31 December 2021 – USD'000s	174,403	15,953	21,195	211,551

Collateral and other credit enhancements

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is the common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Charges over business assets such as property, inventory and accounts receivable
- Lien on fixed deposits
- Cash margins
- Mortgages over residential and commercial properties
- Pledge of marketable shares and securities

The housing loans are secured by mortgage over the residential property.
The Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

An analysis of the collateral held and other credit enhancement held against loan and advances granted is as follows:

	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Collateral available	1,654,069	668,654	105,706	2,428,429
Government guarantee loans	147,000	-	2,082	149,082
Balance As at 31 December 2022	**1,801,069**	**668,654**	**107,788**	**2,577,511**
Balance As at 31 December 2022 – USD'000s	**4,678,101**	**1,736,764**	**279,969**	**6,694,834**

32 RISK MANAGEMENT (CONTINUED)
32.1 Credit risk (continued)

	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Collateral available	1,808,222	78,868	58,879	1,945,969
Government guarantee loans	38,500	-	2,676	41,176
Balance As at 31 December 2021	1,846,722	78,868	61,555	1,987,145
Balance As at 31 December 2021 – USD'000s	4,796,681	204,852	159,883	5,161,416

The amount of total secured loans and advances is less than the total value of collateral as stated above.

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts as of 31 December 2022:

	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Gross loans, advances and Islamic financing assets to customers - corporate Banking				
Performing loans (Grades 1-5)	1,441,285	139,837	-	1,581,122
Performing loans (Grades 6)	16,378	158,037	-	174,415
Performing loans (Grades 7)	-	186,236	-	186,236
Non-performing loans (Grades 8-10)	-	-	136,430	136,430
Gross loans, advances and Islamic financing assets to customers - corporate Banking	**1,457,663**	**484,110**	**136,430**	**2,078,203**
Gross loans, advances and Islamic financing assets to customers – retail Banking				
Performing loans (Grades 1-7)	1,343,478	54,031	-	1,397,509
Non-performing loans (Grades 8-10)	-	-	36,682	36,682
Gross loans, advances and Islamic financing assets to customers - retail Banking	**1,343,478**	**54,031**	**36,682**	**1,434,191**
Total gross loans, advances and Islamic financing assets to customers	**2,801,141**	**538,141**	**173,112**	**3,512,394**
Loss allowance - loans, advances and Islamic financing assets to customers	**5,485**	**43,487**	**107,566**	**156,538**

32 RISK MANAGEMENT (CONTINUED)
32.1 Credit risk (continued)

	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Credit related contingent items and commitment				
Performing loans (Grades 1-5)	215,040	50,304	-	265,344
Performing loans (Grades 6)	12,017	9,664	-	21,681
Performing loans (Grades 7)	-	30,731	-	30,731
Non-performing loans (Grades 8-10)	-	-	6,226	6,226
Total gross credit related contingent items and commitment	**227,057**	**90,699**	**6,226**	**323,982**
Loss allowance - contingent liabilities and commitment	**577**	**1,900**	**2,157**	**4,634**
Due from Banks and money market placements				
Performing Banks (Aa1 to Baa3)	69,777	-	-	69,777
Performing Banks (B1 to Ba2)	18,122	-	-	18,122
Performing Banks (Unrated)	31,381	-	-	31,381
Due from Banks and money market placements	**119,280**	**-**	**-**	**119,280**
Loss allowance - due from Banks and money market placements	**20**	**-**	**-**	**20**
Financial investment	**399,046**	**5,775**	**-**	**404,821**
Loss allowance – financial investment	**312**	**122**	**-**	**434**

	Stage 1	Stage 2	Stage 3	Total
	USD'000	USD'000	USD'000	USD'000
Gross loans, advances and Islamic financing assets to customers - corporate Banking				
Performing loans (Grades 1-5)	3,743,597	363,213	-	4,106,810
Performing loans (Grades 6)	42,540	410,486	-	453,026
Performing loans (Grades 7)	-	483,730	-	483,730
Non-performing loans (Grades 8-10)	-	-	354,364	354,364
Gross loans, advances and Islamic financing assets to customers - corporate Banking	**3,786,137**	**1,257,429**	**354,364**	**5,397,930**
Gross loans, advances and Islamic financing assets to customers – retail Banking				
Performing loans (Grades 1-7)	3,489,553	140,340	-	3,629,893
Non-performing loans (Grades 8-10)	-	-	95,278	95,278
Gross loans, advances and Islamic financing assets to customers - retail Banking	**3,489,553**	**140,340**	**95,278**	**3,725,171**
Total gross loans, advances and Islamic financing assets to customers	**7,275,690**	**1,397,769**	**449,642**	**9,123,101**
Loss allowance - loans, advances and Islamic financing assets to customers	**14,248**	**112,951**	**279,393**	**406,592**

32 RISK MANAGEMENT (CONTINUED)
32.1 Credit risk (continued)

	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Credit related contingent items and commitment				
Performing loans (Grades 1-5)	558,545	130,660	-	689,205
Performing loans (Grades 6)	31,213	25,101	-	56,314
Performing loans (Grades 7)	-	79,821	-	79,821
Non-performing loans (Grades 8-10)	-	-	16,171	16,171
Total gross credit related contingent items and commitment	**589,758**	**235,582**	**16,171**	**841,511**
Loss allowance - contingent liabilities and commitment	**1,497**	**4,937**	**5,603**	**12,037**
Due from Banks and money market placements				
Performing Banks (Aa1 to Baa3)	181,239	-	-	181,239
Performing Banks (B1 to Ba2)	47,070	-	-	47,070
Performing Banks (Unrated)	81,509	-	-	81,509
Due from Banks and money market placements	**309,818**	**-**	**-**	**309,818**
Loss allowance - due from Banks and money market placements	**52**	**-**	**-**	**52**
Financial investment	**1,036,483**	**15,000**	**-**	**1,051,483**
Loss allowance – financial investment	**810**	**317**	**-**	**1,127**

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 2021:

RISK MANAGEMENT (CONTINUED)
32.1 Credit risk (continued)

	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)	989,405	289,477	-	1,278,882
Performing loans (Grades 6)	166,838	138,507	-	305,345
Performing loans (Grades 7)	-	106,466	-	106,466
Non-performing loans (Grades 8-10)	-	-	139,412	139,412
Gross loans, advances and Islamic financing assets to customers - corporate Banking	**1,156,243**	**534,450**	**139,412**	**1,830,105**
Gross loans, advances and Islamic financing assets to customers – retail Banking				
Performing loans (Grades 1-7)	1,325,882	51,913	-	1,377,795
Non-performing loans (Grades 8-10)	-	-	31,989	31,989
Gross loans, advances and Islamic financing assets to customers - retail Banking	**1,325,882**	**51,913**	**31,989**	**1,409,784**
Total gross loans, advances and Islamic financing assets to customers	**2,482,125**	**586,363**	**171,401**	**3,239,889**
Loss allowance - loans, advances and Islamic financing assets	**9,043**	**32,763**	**105,908**	**147,714**

	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)	214,061	52,259	-	266,320
Performing loans (Grades 6)	21,955	18,555	-	40,510
Performing loans (Grades 7)	-	35,323	-	35,323
Non-performing loans (Grades 8-10)	-	-	14,094	14,094
Total gross credit related contingent items and commitment	**236,016**	**106,137**	**14,094**	**356,247**
Loss allowance – contingent items and commitment	**908**	**1,708**	**3,529**	**6,145**
Due from Banks and money market placements				
Performing Banks (Aa1 to Baa3)	97,587	-	-	97,587
Performing Banks (B1 to Ba2)	14,687	-	-	14,687
Performing Banks (Unrated)	2,497	-	-	2,497
Due from Banks and money market placements	**114,771**	**-**	**-**	**114,771**
Loss allowance – Banks and money market placements	**86**	**-**	**-**	**86**
Financial investment	**441,876**	**5,775**	**-**	**447,651**
Loss allowance – financial investment	**300**	**173**	**-**	**473**

Notes to the Financial Statements as at 31 December 2022

32 RISK MANAGEMENT (CONTINUED)
32.1 Credit risk (continued)

	Stage 1	Stage 2	Stage 3	Total
	USD'000	USD'000	USD'000	USD'000
Gross loans, advances and Islamic financing assets to customers - corporate Banking				
Performing loans (Grades 1-5)	2,569,883	751,888	-	3,321,771
Performing loans (Grades 6)	433,345	359,758	-	793,103
Performing loans (Grades 7)	-	276,535	-	276,535
Non-performing loans (Grades 8-10)	-	-	362,109	362,109
Gross loans, advances and Islamic financing assets to customers - corporate Banking	**3,003,228**	**1,388,181**	**362,109**	**4,753,518**
Gross loans, advances and Islamic financing assets to customers – retail Banking				
Performing loans (Grades 1-7)	3,443,849	134,839	-	3,578,688
Non-performing loans (Grades 8-10)	-	-	83,088	83,088
Gross loans, advances and Islamic financing assets to customers - retail Banking	**3,443,849**	**134,839**	**83,088**	**3,661,776**
Total gross loans, advances and Islamic financing assets to customers	**6,447,077**	**1,523,020**	**445,197**	**8,415,294**
Loss allowance - loans, advances and Islamic financing assets	**23,488**	**85,099**	**275,086**	**383,673**

	Stage 1	Stage 2	Stage 3	Total
	USD'000	USD'000	USD'000	USD'000
Credit related contingent items and commitment				
Performing loans (Grades 1-5)	556,003	135,738	-	691,741
Performing loans (Grades 6)	57,026	48,195	-	105,221
Performing loans (Grades 7)	-	91,748	-	91,748
Non-performing loans (Grades 8-10)	-	-	36,608	36,608
Total gross credit related contingent items and commitment	**613,029**	**275,681**	**36,608**	**925,318**
Loss allowance – contingent items and commitment	**2,358**	**4,436**	**9,166**	**15,960**
Due from Banks and money market placements				
Performing Banks (Aa1 to Baa3)	253,472	-	-	253,472
Performing Banks (B1 to Ba2)	38,148	-	-	38,148
Performing Banks (Unrated)	6,486	-	-	6,486
Due from Banks and money market placements	**298,106**	**-**	**-**	**298,106**
Loss allowance – Banks and money market placements	**223**	**-**	**-**	**223**
Financial investment	**1,147,730**	**15,000**	**-**	**1,162,730**
Loss allowance – financial investment	**779**	**450**	**-**	**1,229**

RISK MANAGEMENT (CONTINUED)
32.1 Credit risk (continued)

Impairment assessment

Definition of default and cure

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

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

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

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

Incorporation of forward-looking information

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

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

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:

i. 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)
ii. The base scenario was created on the assumption of stabilisation of oil price at the level of 66 USD/ barrel for Brent oil (2021: 42 USD/barrel for Brent oil).
iii. The alternative scenarios were constructed based on deviations from the base trajectory of oil price taking into account:

RISK MANAGEMENT (CONTINUED)
32.1 Credit risk (continued)

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).

iv. 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.

v. GDP per capita was predicted through regression to corresponding GDP changes as estimated for a given scenario and assumed lowering pace of population growth not dependent on the scenario in question.

Key drivers	ECL scenario and assigned weightage	31 December 2022			31 December 2021		
		2022	2023	2024	2022	2023	2024
Real Interest Rate	Base scenario	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%
	Upside scenario	4.5%	5.4%	5.9%	3.2%	4.7%	5.4%
	Downside scenario	10.4%	9.5%	8.9%	13.0%	11.5%	10.6%
GDP	Base scenario	2.9%	4.2%	2.9%	11.0%	3.5%	3.5%
	Upside scenario	2.9%	8.7%	4.2%	11.0%	4.5%	3.9%
	Downside scenario	2.9%	4.2%	2.9%	11.0%	2.3%	3.1%
GDP per capita	Base scenario	-0.9%	0.2%	-1.0%	6.9%	-0.4%	-0.4%
	Upside scenario	-0.9%	4.6%	0.3%	6.9%	0.5%	-0.1%
	Downside scenario	-0.9%	0.2%	-1.0%	6.9%	-1.3%	-0.9%

Credit risk Grade

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk grade deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Treasury, trading and interbank relationships

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

RISK MANAGEMENT (CONTINUED)
32.1 Credit risk (continued)

Corporate and commercial lending

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

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

Consumer lending and retail mortgages

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

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

Sensitivity analysis

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

- Interest rate, given its impact on companies' likelihood of default; and
- GDP, given the significant impact on companies' performance and collateral valuations;
- Unemployment rate, given its impact on secured and unsecured borrowers' ability to meet their contractual repayments.

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing 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.

RISK MANAGEMENT (CONTINUED)
32.1 Credit risk (continued)

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

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

Significant Increase in Credit Risk

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

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower

Credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. The Bank applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Bank may also consider that events set out below are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

a. Inadequate or unreliable financial or other information such as unavailability of audited financial statements within 120 days from end of accounting period.
b. Delay in documentation execution over 35 days from limit set up due to disputes with customers.
c. Borrower is subject to litigation by third parties that may have a significant impact on his financial position.
d. Frequent changes in key senior management personnel without acceptable successors or professional management.
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.

RISK MANAGEMENT (CONTINUED)
32.1 Credit risk (continued)

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 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.

RISK MANAGEMENT (CONTINUED)
32.1 Credit risk (continued)

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 2022 increased the overall loss allowance by 0.65% compared to ECL allowance derived through the ECL models.

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

To manage the model risks, the Bank 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 BRCC.

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

32.2 Liquidity Risk
Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. To limit this risk, the management continuously looks for opportunities to diversify its funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains liquidity by continually assessing, identifying and monitoring changes in funding needs required to meet strategic goals set in terms of the overall strategy. In addition, the Bank holds certain liquid assets as part of its liquidity risk management strategy.

The Bank manages the liquidity risk based on the Central Bank of Oman guidelines and the Liquidity and Liquidity Contingency Policies, which are approved and periodically reviewed by the Board Risk Committee. Liquidity Risk position is monitored regularly through analysis of various reports, such as, Maturity of Assets and Liabilities, Liquidity Lines, Early Warning Indicators and Stock Ratios. Further, the Bank also periodically conducts stress tests on liquidity based on market and Bank specific events in line with Basel Committee recommendations. The liquidity position of the Bank and stress test scenarios are regularly reviewed by the management and also discussed at the Board Risk Committee.

The Central Bank of Oman has issued guidelines on the implementation of Basel III liquidity framework which are Liquidity Coverage Ratio (LCR) and Net Stable Funding (NSFR).

The Net Stable Funding Ratio (NSFR) is a longer term structural ratio designed to address liquidity mismatches and reduce funding risk over a one-year horizon. It is effective January 2020, with a minimum ratio of 100% as per the regulatory guidance.

32 RISK MANAGEMENT (CONTINUED)
32.2 Liquidity Risk (continued)

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under
The residual maturity behavioural of the assets, liabilities and equity at 31 December 2022 is as follows:

	On demand within 3 months	3 to 12 months	Subtotal less than 12 months	1 to 5 years	Over 5 years	Subtotal over 12 months	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	156,433	55,082	211,515	26,037	24,037	50,074	261,589
Due from Banks and other money market placements (net)	104,221	2,525	106,746	12,514	-	12,514	119,260
Loans, advances and financing activities for customers (net)	360,031	214,063	574,094	931,796	1,847,809	2,779,605	3,353,699
Financial investments	121,018	35,677	156,695	120,542	127,150	247,692	404,387
Property and equipment	-	-	-	-	57,090	57,090	57,090
Other assets	89,309	8,677	97,986	69	-	69	98,055
TOTAL ASSETS	831,012	316,024	1,147,036	1,090,958	2,056,086	3,147,044	4,294,080
Due to Banks and other money market deposits	107,743	11,550	119,293	142,450	-	142,450	261,743
Customers' deposits and unrestricted investment accounts	688,736	1,063,798	1,752,534	773,009	521,879	1,294,888	3,047,422
Euro medium term notes	-	188,865	188,865	-	-	-	188,865
Other liabilities	131,042	7,308	138,350	425	460	885	139,235
Taxation	15,981	-	15,981	-	-	-	15,981
Shareholders' equity	-	-	-	-	473,701	473,701	473,701
Tier 1 perpetual bonds	-	-	-	-	167,133	167,133	167,133
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	943,502	1,271,521	2,215,023	915,884	1,163,173	2,079,057	4,294,080
TOTAL LIQUIDITY GAP	(112,490)	(955,497)	(1,067,987)	175,074	892,913	1,067,987	-
CUMULATIVE LIQUIDITY GAP	(112,490)	(1,067,987)	(2,135,974)	(1,960,900)	(1,067,987)	-	-

32 RISK MANAGEMENT (CONTINUED)
32.2 Liquidity Risk (continued)

	On demand within 3 months	3 to 12 months	Subtotal less than 12 months	1 to 5 years	Over 5 years	Subtotal over 12 months	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	406,319	143,070	549,389	67,629	62,434	130,063	679,452
Due from Banks and other money market placements (net)	270,704	6,558	277,262	32,504	-	32,504	309,766
Loans, advances and financing activities for customers (net)	935,146	556,008	1,491,154	2,420,249	4,799,504	7,219,753	8,710,907
Financial investments	314,332	92,668	407,000	313,096	330,260	643,356	1,050,356
Property and equipment	-	-	-	-	148,286	148,286	148,286
Other assets	231,971	22,538	254,509	179	-	179	254,688
TOTAL ASSETS	2,158,472	820,842	2,979,314	2,833,657	5,340,484	8,174,141	11,153,455
Due to Banks and other money market deposits	279,852	30,000	309,852	370,000	-	370,000	679,852
Customers' deposits and unrestricted investment accounts	1,788,924	2,763,112	4,552,036	2,007,816	1,355,530	3,363,346	7,915,382
Euro medium term notes	-	490,558	490,558	-	-	-	490,558
Other liabilities	340,368	18,982	359,350	1,104	1,195	2,299	361,649
Taxation	41,509	-	41,509	-	-	-	41,509
Shareholders' equity	-	-	-	-	1,230,393	1,230,393	1,230,393
Tier 1 perpetual bonds	-	-	-	-	434,112	434,112	434,112
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,450,653	3,302,652	5,753,305	2,378,920	3,021,230	5,400,150	11,153,455
TOTAL LIQUIDITY GAP	(292,181)	(2,481,810)	(2,773,991)	454,737	2,319,254	2,773,991	-
CUMULATIVE LIQUIDITY GAP	(292,181)	(2,773,991)	(5,547,982)	(5,093,245)	(2,773,991)	-	-

32 RISK MANAGEMENT (CONTINUED)
32.2 Liquidity Risk (continued)

The maturity profile of the assets, liabilities and equity at 31 December 2021 is as follows::

	On demand within 3 months	3 to 12 months	Subtotal less than 12 months	1 to 5 years	Over 5 years	Subtotal over 12 months	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	206,334	50,095	256,429	22,484	28,957	51,441	307,870
Due from Banks and other money market placements (net)	89,948	8,181	98,129	16,556	-	16,556	114,685
Loans, advances and financing activities for customers (net)	499,629	221,926	721,555	805,820	1,561,271	2,367,091	3,088,646
Financial investments	153,790	12,553	166,343	110,947	169,888	280,835	447,178
Property and equipment	-	-	-	-	59,892	59,892	59,892
Other assets	53,683	8,990	62,673	123	-	123	62,796
TOTAL ASSETS	1,003,384	301,745	1,305,129	955,930	1,820,008	2,775,938	4,081,067
Due to Banks and other money market deposits	132,176	11,553	143,729	154,000	-	154,000	297,729
Customers' deposits and unrestricted investment accounts	730,578	974,150	1,704,728	655,374	557,630	1,213,004	2,917,732
Euro medium term notes	-	-	-	192,500	-	192,500	192,500
Other liabilities	100,495	2,220	102,715	1,289	472	1,761	104,476
Taxation	13,175	-	13,175	-	-	-	13,175
Shareholders' equity	-	-	-	-	439,955	439,955	439,955
Tier 1 perpetual bonds	-	-	-	-	115,500	115,500	115,500
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	976,424	987,923	1,964,347	1,003,163	1,113,557	2,116,720	4,081,067
TOTAL LIQUIDITY GAP	26,960	(686,178)	(659,218)	(47,233)	706,451	659,218	-
CUMULATIVE LIQUIDITY GAP	26,960	(659,218)	(1,318,436)	(1,365,669)	(659,218)	-	-

32 RISK MANAGEMENT (CONTINUED)
32.2 Liquidity Risk (continued)

	On demand within 3 months	3 to 12 months	Subtotal less than 12 months	1 to 5 years	Over 5 years	Subtotal over 12 months	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	535,932	130,117	666,049	58,400	75,213	133,613	799,662
Due from Banks and other money market placements (net)	233,631	21,249	254,880	43,003	-	43,003	297,883
Loans, advances and financing activities for customers (net)	1,297,739	576,431	1,874,170	2,093,039	4,055,249	6,148,288	8,022,458
Financial investments	399,454	32,605	432,059	288,174	441,268	729,442	1,161,501
Property and equipment	-	-	-	-	155,564	155,564	155,564
Other assets	139,437	23,351	162,788	319	-	319	163,107
TOTAL ASSETS	2,606,193	783,753	3,389,946	2,482,935	4,727,294	7,210,229	10,600,175
Due to Banks and other money market deposits	343,314	30,008	373,322	400,000	-	400,000	773,322
Customers' deposits and unrestricted investment accounts	1,897,605	2,530,260	4,427,865	1,702,270	1,448,390	3,150,660	7,578,525
Euro medium term notes	-	-	-	500,000	-	500,000	500,000
Other liabilities	261,025	5,766	266,791	3,348	1,227	4,575	271,366
Taxation	34,221	-	34,221	-	-	-	34,221
Shareholders' equity	-	-	-	-	1,142,741	1,142,741	1,142,741
Tier 1 perpetual bonds	-	-	-	-	300,000	300,000	300,000
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,536,165	2,566,034	5,102,199	2,605,618	2,892,358	5,497,976	10,600,175
TOTAL LIQUIDITY GAP	70,028	(1,782,281)	(1,712,253)	(122,683)	1,834,936	1,712,253	-
CUMULATIVE LIQUIDITY GAP	70,028	(1,712,253)	(3,424,506)	(3,547,189)	(1,712,253)	-	-

Notes to the Financial Statements as at 31 December 2022

32 RISK MANAGEMENT (CONTINUED)
32.2 Liquidity Risk (continued)

Liquidity coverage ratio

The Liquidity coverage ratio (LCR) is a short time ratio designed to increase resilience against a liquidity shortage of up to 30 days. The LCR is computed as per CBO requirement under the circular BM1127 (BASEL III: Framework on Liquidity coverage ratio and LCR disclosure standards). It is applicable from January 1, 2015 with a minimum ratio of 60% and increasing by 10% every year thereafter till it reaches a minimum required level of 100% on 1 January, 2020.

Total unweighted Value (average) 2022	**Total weighted Value (average) 2022**		**Total unweighted Value (average) 2022**	Total weighted Value (average) 2022
USD'000	USD'000		RO'000	RO'000
		HIGH QUALITY LIQUID ASSETS		
-	1,468,927	HIGH QUALITY LIQUID ASSETS	-	565,537
		Cash outflows		
1,887,694	**114,366**	Retail deposits and deposits from small business customers of which:	**726,762**	**44,031**
1,062,888	**31,886**	Stable deposits	**409,212**	**12,276**
824,806	**82,480**	Less stable deposits	**317,550**	**31,755**
3,246,771	**1,152,545**	Unsecured wholesale funding, of which: Operational deposits (all counterparties) and deposits in networks of cooperative Banks	**1,250,007**	**443,730**
74,101	**7,410**	Additional requirements, of which Credit and liquidity facilities	**28,529**	**2,853**
79,512	**3,977**	Other contractual funding obligations	**30,612**	**1,531**
1,184,249	**265,571**	Other contingent funding obligations	**455,936**	**102,245**
6,472,327	1,543,869	TOTAL CASH OUTFLOWS	2,491,846	594,390
		Cash Inflows		
910,813	**601,706**	Inflows from fully performing exposures	**350,663**	**231,657**
309,610	**309,610**	Other cash inflows	**119,200**	**119,200**
1,220,423	911,317	TOTAL CASH INFLOWS	469,863	350,857
-	1,468,927	TOTAL HIGH QUALITY LIQUID ASSETS	-	565,537
-	632,552	TOTAL NET CASH OUTFLOWS	-	243,533
-	232.22	LIQUIDITY COVERAGE RATIO (%)	-	232.22

32 RISK MANAGEMENT (CONTINUED)
32.2 Liquidity Risk (continued)

Total unweighted Value (average) 2022	Total weighted Value (average) 2022		Total unweighted Value (average) 2022	Total weighted Value (average) 2022
USD'000	USD'000		RO'000	RO'000
		HIGH QUALITY LIQUID ASSETS		
-	1,783,460	HIGH QUALITY LIQUID ASSETS		686,632
		Cash outflows		
2,002,571	114,787	Retail deposits and deposits from small business customers of which:	770,990	44,193
1,538,683	68,395	Stable deposits	592,393	26,332
463,888	46,392	Less stable deposits	178,597	17,861
3,626,491	1,443,260	Unsecured wholesale funding, of which: Operational deposits (all counterparties) and deposits in networks of cooperative Banks	1,396,199	555,655
71,797	7,179	Additional requirements, of which Credit and liquidity facilities	27,642	2,764
66,281	3,314	Other contractual funding obligations	25,518	1,276
1,060,039	141,145	Other contingent funding obligations	408,115	54,341
6,827,179	1,709,685	TOTAL CASH OUTFLOWS	2,628,464	658,229
		Cash Inflows		
712,270	411,499	Inflows from fully performing exposures	274,224	158,427
47,262	120,275	Other cash inflows	18,196	46,306
759,532	531,774	TOTAL CASH INFLOWS	292,420	204,733
-	1,783,460	TOTAL HIGH QUALITY LIQUID ASSETS	-	686,632
-	1,177,911	TOTAL NET CASH OUTFLOWS	-	453,496
-	151.41	LIQUIDITY COVERAGE RATIO (%)	-	151.41

32.3 Market Risk

The Bank is exposed to market risk, which is the risk that the fair value of the financial assets held by the Bank will fluctuate due to changes in market prices. Market risk arises from changes in the fair value of open positions held in foreign exchange, interest rate, currency, equity, credit spreads, etc. Market risk is managed based on the Central Bank of Oman guidelines and the Market Risk Policy, which is approved and periodically reviewed by the Board Risk Committee. Stress tests are also conducted periodically incorporating adverse movements in equity value, foreign exchange, etc. and reviewed by the Management and Board Risk Committee.

The Bank offers hedging products to its customers to hedge their genuine exposures, related to interest rate risk, foreign exchange risk and commodity risk. The counterparty credit risk exposures for such transactions (interest rate swaps, commodities contracts, currency forwards and options, etc.) are assessed based on the positive marked-to-market values of the contracts and the potential future exposures. The Bank has adopted risk weightings in line with best practices to capture the credit risk related to these off-balance sheet exposures.

• Equity risk

The proprietary equity positions are held in the 'FVOCI' category. The market risk is monitored though daily mark-to-market reports which are circulated to the management and, if any, required actions are promptly taken. The portfolio is also monitored and managed as per the Investment Policy approved by the Board Risk Committee.

32 RISK MANAGEMENT (CONTINUED)
32.3 Market Risk (continued)

• 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 2022	**200 bps increase**	200 bps decrease
Earnings impact - RO'000s	**9,261**	(9,261)
Earnings impact - USD'000s	**24,055**	(24,055)

In addition, stress scenarios based on specific events or market disruptions are also analysed and presented at monthly ALCO meetings to estimate the impact on liquidity and earnings.

The Bank has been consistently using the above methods/assumptions to conduct interest rate sensitivity analysis. The above sensitivity analyses are carried out at monthly rests and results thereof monitored against the in-house limits and the results are also actively deliberated at the ALCO meetings and presented to the Board Risk Committee.

• IBOR Reform

A fundamental reform of major interest rate benchmarks is being undertaken globally, replacing some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform').

The main risks to which the Bank has been exposed as a result of IBOR reform are operational. For example, the renegotiation of loan contracts through bilateral negotiation with customers, updating of contractual terms, updating of systems that use IBOR curves and revision of operational controls related to the reform and regulatory risks. Financial risk is predominantly limited to interest rate risk.

Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates, the Bank has established a IBOR Committee to manage the transition for any of its contracts that could be affected. The IBOR Committee is being led by senior representatives from functions across the Bank including the client facing teams, Legal, Finance, Operations, Risk Management and Technology.

The objectives of the IBOR Committee include evaluating the extent to which loans advanced, loan commitments, liabilities and derivatives reference IBOR cash flows, whether such contracts need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties. The IBOR Committee reports to the Executive Committee quarterly and collaborates with other business functions as needed. It provides periodic reports to ALCO and Central Treasury to support the management of interest rate risk and works closely with the Bank Operational Risk Committee to identify operational and regulatory risks arising from IBOR reform.

For contracts indexed to an IBOR that mature after the expected cessation of the IBOR rate, the IBOR Committee has established policies to amend the contractual terms. These amendments include the addition of fall back clauses or replacement of the IBOR rate with an alternative benchmark rate. The Bank has signed up to fall back mechanisms for centrally cleared derivatives and aimed to transfer exposures to the new benchmark rate ahead of the activation date of the fall back provisions.

The Bank has been applying a policy to require that retail products, such as its residential mortgage portfolio, are amended in a uniform way, and bespoke products,

32 RISK MANAGEMENT (CONTINUED)
32.3 Market Risk (continued)

• Interest rate risk (Continued)

such as loans and advances to corporates, are amended in bilateral negotiations with the counterparties. Based on regulatory guidelines all newly originated floating-rate loans and advances to customers on or after 01 January 2022, incorporate fall back provisions for when an IBOR ceases to exist. The fall back provisions provide for a transition to the applicable alternative benchmark rate, which vary depending on the jurisdiction.

The Bank monitors the progress of transition from IBORs to new benchmark rates by reviewing the total amounts of contracts that have yet to transition to an alternative benchmark rate and the amounts of such contracts that include an appropriate fall back clause. The Bank considers that a contract is not yet transitioned to an alternative benchmark rate (and referred to as an 'unreformed contract') when interest under the contract is indexed to a benchmark rate that is still subject to IBOR reform, even if it includes a fall back clause that deals with the cessation of the existing IBOR.

IBOR reform exposes the Bank to various risks, which the project is managing and monitoring closely. These risks include but are not limited to the following:

- Conduct risk arising from discussions with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform
- Financial risk to the Bank and its clients that markets are disrupted due to IBOR reform giving rise to financial losses
- Pricing risk from the potential lack of market information if liquidity in IBORs reduces and RFRs are illiquid and unobservable
- Operational risk arising from changes to the Bank's IT systems and processes, also the risk of payments being disrupted if an IBOR ceases to be available
- Accounting risk if the Bank's hedging relationships fail and from unrepresentative income statement volatility as financial instruments transition to RFRs.

As at 31 December 2022, the Bank's remaining IBOR exposure is indexed to US dollar LIBOR with overnight, one-month, three-month, six-month and 12-month settings. These settings will either cease to be provided or no longer be representative after 30 June 2023 as announced by the Financial Conduct Authority (FCA) and the alternative reference rate for US dollar LIBOR is the SOFR.

The table below sets out the IBOR rates that the Bank had exposure to, the new benchmark rates to which these exposures have or are being transitioned, and the status of the transition.

Currency	Benchmark before reform	Benchmark after reform	Status as on 31 December 2022
USD	USD LIBOR	SOFR	Completed

There have not been any significant changes in Interest Rate Risk management process in the Bank during the year.

32 RISK MANAGEMENT (CONTINUED)
32.3 Market Risk (continued)

• Interest rate risk (Continued)

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2022 is as follows:

	Average effective interest rate	On 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
Cash and balances with Central Banks	N/A	-	-	-	-	261,589	261,589
Due from Banks and other money market placements (net)	1.78%	72,682	2,525	12,514	-	31,539	119,260
Loans, advances and Islamic financing assets (net)	5.41%	1,397,478	736,891	661,445	546,591	11,294	3,353,699
Financial investments	4.28%	75,000	10,422	17,715	27,232	274,018	404,387
Property and equipment	N/A	-	-	-	-	57,090	57,090
Other assets	N/A	-	-	-	-	98,055	98,055
TOTAL ASSETS		1,545,160	749,838	691,674	573,823	733,585	4,294,080
Due to Banks and other money market deposits	3.30%	252,732	-	-	-	9,011	261,743
Customers' deposits and unrestricted investment accounts	2.16%	175,170	1,825,303	496,391	64	550,494	3,047,422
Euro medium term notes	6.20%	-	188,865	-	-	-	188,865
Other liabilities	N/A	3,614	-	-	-	135,621	139,235
Taxation	N/A	-	-	-	-	15,981	15,981
Tier 1 Perpetual Bond	7.61%	-	-	167,133	-	-	167,133
Shareholders' equity	N/A	-	-	-	-	473,701	473,701
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		431,516	2,014,168	663,524	64	1,184,808	4,294,080
TOTAL INTEREST RATE SENSITIVITY GAP		1,113,644	(1,264,330)	28,150	573,759	(451,223)	-
CUMULATIVE INTEREST RATE SENSITIVITY GAP		1,113,644	(150,686)	(122,536)	451,223	-	

32 RISK MANAGEMENT (CONTINUED)
32.3 Market Risk (continued)

• Interest rate risk (Continued)

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2022 is as follows:

	Average effective interest rate	On demand within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest sensitive	Total
		USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	N/A	-	-	-	-	679,452	679,452
Due from Banks and other money market placements (net)	1.78%	188,784	6,558	32,504	-	81,920	309,766
Loans, advances and Islamic financing assets (net)	5.41%	3,629,813	1,914,003	1,718,039	1,419,717	29,335	8,710,907
Financial investments	4.28%	194,805	27,070	46,013	70,732	711,736	1,050,356
Property and equipment	N/A	-	-	-	-	148,286	148,286
Other assets	N/A	-	-	-	-	254,688	254,688
TOTAL ASSETS		4,013,402	1,947,631	1,796,556	1,490,449	1,905,417	11,153,455
Due to Banks and other money market deposits	3.30%	656,447	-	-	-	23,405	679,852
Customers' deposits and unrestricted investment accounts	2.16%	454,987	4,741,047	1,289,327	166	1,429,855	7,915,382
Euro medium term notes	6.20%	-	490,558	-	-	-	490,558
Other liabilities	N/A	9,387	-	-	-	352,262	361,649
Taxation	N/A	-	-	-	-	41,509	41,509
Tier 1 Perpetual Bond	7.61%	-	-	434,112	-	-	434,112
Shareholders' equity	N/A	-	-	-	-	1,230,393	1,230,393
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,120,821	5,231,605	1,723,439	166	3,077,424	11,153,455
TOTAL INTEREST RATE SENSITIVITY GAP		2,892,581	(3,283,974)	73,117	1,490,283	(1,172,007)	-
CUMULATIVE INTEREST RATE SENSITIVITY GAP		2,892,581	(391,393)	(318,276)	1,172,007	-	

32 RISK MANAGEMENT (CONTINUED)
32.3 Market Risk (continued)

• Interest rate risk (Continued)

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2021 is 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
Cash and balances with Central Banks	N/A	-	-	-	-	307,870	307,870
Due from Banks and other money market placements (net)	0.49%	5,482	6,256	9,626	-	93,321	114,685
Loans, advances and Islamic financing assets (net)	5.24%	1,202,123	723,847	668,511	494,165	-	3,088,646
Financial investments	4.45%	15,000	2,553	111,898	183,334	134,393	447,178
Property and equipment	N/A	-	-	-	-	59,892	59,892
Other assets	N/A	-	-	-	-	62,796	62,796
TOTAL ASSETS		1,222,605	732,656	790,035	677,499	658,272	4,081,067
Due to Banks and other money market deposits	1.84%	281,510	11,553	-	-	4,666	297,729
Customers' deposits and unrestricted investment accounts	2.29%	156,652	1,826,752	342,556	63	591,709	2,917,732
Euro medium term notes	5.89%	-	-	192,500	-	-	192,500
Other liabilities	N/A	852	2,862	1,925	-	98,837	104,476
Taxation	N/A	-	-	-	-	13,175	13,175
Tier 1 Perpetual Bond	7.33%	-	-	115,500	-	-	115,500
Shareholders' equity	N/A	-	-	-	-	439,955	439,955
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		439,014	1,841,167	652,481	63	1,148,342	4,081,067
TOTAL INTEREST RATE SENSITIVITY GAP		783,591	(1,108,511)	137,554	677,436	(490,070)	-
CUMULATIVE INTEREST RATE SENSITIVITY GAP		783,591	(324,920)	(187,366)	490,070	-	

32 RISK MANAGEMENT (CONTINUED)
32.3 Market Risk (continued)

• Interest rate risk (Continued)

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2022 is as follows:

	Average effective interest rate	On demand within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest sensitive	Total
		USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	N/A	-	-	-	-	799,662	799,662
Due from Banks and other money market placements (net)	0.49%	14,239	16,249	25,003	-	242,392	297,883
Loans, advances and Islamic financing assets (net)	5.24%	3,122,398	1,880,122	1,736,392	1,283,545	-	8,022,457
Financial investments	4.45%	38,961	6,631	290,644	476,192	349,073	1,161,501
Property and equipment	N/A	-	-	-	-	155,564	155,564
Other assets	N/A	-	-	-	-	163,107	163,107
TOTAL ASSETS		3,175,598	1,903,002	2,052,039	1,759,737	1,709,798	10,600,174
Due to Banks and other money market deposits	1.84%	731,195	30,008	-	-	12,119	773,322
Customers' deposits and unrestricted investment accounts	2.29%	406,889	4,744,810	889,756	164	1,536,906	7,578,525
Euro medium term notes	5.89%	-	-	500,000	-	-	500,000
Other liabilities	N/A	2,212	7,434	5,000	-	256,719	271,365
Taxation	N/A	-	-	-	-	34,221	34,221
Tier 1 Perpetual Bond	7.33%	-	-	300,000	-	-	300,000
Shareholders' equity	N/A	-	-	-	-	1,142,741	1,142,741
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,140,296	4,782,252	1,694,756	164	2,982,706	10,600,174
TOTAL INTEREST RATE SENSITIVITY GAP		2,035,302	(2,879,250)	357,283	1,759,573	(1,272,908)	-
CUMULATIVE INTEREST RATE SENSITIVITY GAP		2,035,302	(843,948)	(486,665)	1,272,908	-	

• 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:

2021	**2022**		**2022**	2021
USD'000	**USD'000**		**RO'000**	RO'000
114,725	**240,145**	US Dollar	**92,456**	44,169
109,200	**108,727**	UAE Dirham	**41,860**	42,042
33,088	**30,447**	Others	**11,722**	12,739

32 RISK MANAGEMENT (CONTINUED)

32.4 Operational Risk

Operational risk is the risk of loss arising from systems failure, human error, frauds or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff training and assessment processes, including the use of internal audit. Further, the Bank has established an operational loss appetite statement to monitor losses under various operational loss categories and any breaches of set-off thresholds are reported to the Board Risk Committee. In addition to this, the Bank has an operational loss reporting database.

Information Security is an essential component of Operational Risk Management. The Bank has implemented the latest security infrastructure like firewalls, intrusion prevention systems, anti-virus soft wares, etc. Periodic vulnerability assessments are conducted to ensure the security of the systems.

As a part of Business Continuity Management initiatives, the Bank has taken necessary actions to ensure effective measures in case of a crisis situation, e.g. evacuation drills, testing of critical systems and applications from the Disaster Recovery site. The Bank has the capability to ensure that critical Banking processes are tested to ascertain availability during such situations.

32.4.1 Fraud Risk

The Bank has adopted a 'zero tolerance' policy towards fraud and corruption and as such will seek to take disciplinary and/or legal action against those who perpetrate, are involved in, or assist with fraudulent or improper activities. The Fraud risk management (FRM) unit manages the fraud risk for the Bank at an enterprise level. The unit monitors transactions originating from Cards, POS and other Digital channels. Besides, the unit conducts Fraud Risk Assessments to assess fraud risks on a pro-active basis, verifies the existing controls and proposes new controls, if required.

The unit is also responsible for managing Incidents across the Bank and maintenance of Operational Loss Database.

32.5 Strategic Risks

The Bank monitors strategic risks through regular quarterly assessment and reporting at the Board Risk Committee level. This includes reviews of human resource, economic (both at the macro and micro levels), regulatory/compliance, information technology and information security, legal and reputational related risks and the monitoring of strategic project risk arising from initiatives undertaken by the Bank. Furthermore, the Bank has augmented its Internal Capital Adequacy Assessment Process (ICAAP) to align the business strategy and the capital management processes. The Bank had engaged an internationally renowned consultant to review the current ICAAP process and to recommend enhancements that will, once implemented, escalate the ICAAP process and documentation to international best practices. This initiative was proposed and sponsored at the highest level by the Board Risk Committee and its recommendations are being progressively completed.

32.6 COVID-19

Outbreak of Coronavirus (COVID-19)

The World Health Organization officially declared COVID-19 as a global pandemic on 11 March 2020. From the latter half of Q1-2020, the economic environment and business landscape of the Bank have witnessed rapid changes as a result of the unprecedented outbreak of Coronavirus pandemic coupled with the significant depression in the global crude oil prices. Tightening of market conditions, lockdowns, restrictions on trade and movement of people have caused significant disruptions to businesses and economic activities globally and across industries & sectors.

Government measures

Governments and regulatory authorities across the globe have implemented several measures to contain the impact of the spread of the virus. The Central Banks in Oman and in the UAE had instituted a host of measures to protect the stability of country's economy. These measures include deferral of loan instalments for the affected borrowers (particularly the corporates and SMEs), deferment and waiver of interest/profit for affected Omani nationals employed in private sector, waiver of certain fees, providing capital relief and increasing the lending ratio etc. Some of these measures have been extended until 31 March 2022.

32 RISK MANAGEMENT (CONTINUED)
32.6 COVID-19 (continued)

Impact of COVID-19 on the Bank
The assessment of Significant Increase in Credit risk (SICR) and the measurement of ECLs are based on reasonable and supportable information that is available without undue cost or effort. In assessing forecast conditions, consideration has been given both to the effects of COVID-19 and the significant government support measures being undertaken. Relief measures, such as payment holidays, will not automatically lead to loans being measured on the basis of lifetime losses and considerable judgment has been exercised to measure ECLs at this time. When it is not possible to reflect such information in the models, management overlays or adjustments has been considered. This is also broadly consistent with guidelines issued by other regulators within the GCC.

The Central Bank of Oman has issued further IFRS 9 related guidance. These are summarized below:

- Measures related to deferment of loan repayment by a borrower may not on its own, trigger the counting of 30 "days past due" (DPD) or more backstop used to determine significant increase in credit risk (SICR) or the 90 days past due backstop used to determine default. However, Banks should continue to assess the obligor's likelihood of payment of amount due after the deferment period, and in case of SICR or credit impairment and if the same is not of a temporary nature, the risks should be recognized.
- The deferment of repayment by borrowers may indicate short term liquidity or cash flow problems and hence the deferment of loan repayment may not be a sole deciding factor for SICR or impairment until and unless Banks have sighted other supportable evidences of credit quality deterioration.
- Similarly, any covenant breach having particular relevance to Covid-19 e.g. delay in submission of audited financial accounts or any other breach, may be considered differently than normal breaches related to consistent borrower specific risk factors leading to borrowers' default. This sort of breach may not necessarily and automatically trigger SICR resulting in moving accounts to Stage-2.
- Banks must develop estimates based on the best available supportable information about past events, current conditions and forecasts of economic conditions. In assessing forecast conditions consideration should be given both to the effects of Covid-19 coupled with oil prices and policy measures taken to stabilize the economy.

The bank has made appropriate impairment provisions taking note of the above guidelines.

- Nevertheless, any changes made to ECL estimates will be subject to very high levels of uncertainty, as reasonable and supportable forward-looking information may not be currently available to substantiate those changes. As such, the macro-economic forecasts applied in the ECL models couldn't be recalibrated upfront with pre-mature effects of Covid-19 and support measures. Besides the individual and collective LGD's may also get impacted due to Covid-19 effect on market prices of collateral and guarantees. For this reason, Banks are expected to use post model adjustments and management overlays by applying multiple macroeconomic scenarios with careful application of probability weights to each of such scenarios while computing ECL on portfolio basis as prudence.
- The CBO has issued guidelines to further extend the restructuring of credit facilities to borrowers impacted by Covid 19 to 31st October-2022. The bank had complied with the circular and ensured all such cases were restructured before the specified date.

The IFRS 9 Steering Committee of the Bank is primarily responsible for overseeing the Bank's adequacy on ECL. It closely monitors the impact of COVID-19 by an ongoing review of the portfolio including a review of all individually significant exposures in the directly impacted industries and sectors.

Bank's retail portfolio largely comprises of nationals employed in government sector and hence this segment is expected to largely remain insulated from job cuts and salary reductions. Retail lending to private sector employees which forms a small proportion of Banks total retail portfolio is expected to witness some impact in the short to medium term due to the pandemic and hence could lead to potential credit stress. The Bank is fully committed to help its customers through this turbulent period as directed by the CBO. The Bank continued to support its customers and partners through well-executed business continuity plans, in addition to adopting health and safety measures announced by the Supreme Committee entrusted with finding mechanisms for dealing with developments resulting from the COVID-19 pandemic. The Bank continually reviews its precautionary and administrative measures in response to changes on the ground.

32 RISK MANAGEMENT (CONTINUED)
32.6 COVID-19 (continued)

Recalibration of IFRS 9 model
The recalibration considered refreshed macro-economic forecast which resulted in an updated assessment of impairment provisions. The recalibrated model used by the bank after further review by the independent agency which carried out the validation.

Accounting for modification loss:
In case of retail customers, the Bank plans to add the simple interest accrued during the deferral period to the total outstanding and either extend the original maturity period of the loan or increase the instalments. As retail loans have shorter tenor behaviourally, modification loss does not have material impact on the carrying value.

With regard to corporate loans the Bank had extended deferrals only for the principal repayments. A vast majority of customers were servicing the interest accruing on the loans. In rare circumstances, where the deferrals were for the entire installments the corresponding modification loss has not resulted in any significant impact to the carrying value.

Impact on the Capital Adequacy:
Besides, the Bank has also applied in its capital adequacy calculations the "Prudential filter" under interim adjustment arrangement for Stage-1 and Stage-2 ECL. The impact of above filter on the Bank's regulatory capital is 51 bps.

Although above measures are not exhaustive and may not fully counteract the impact of COVID-19 in the short run, they will mitigate the long-term negative impact of the pandemic. In response to this crisis, the Bank continues to monitor and respond to all liquidity and funding requirements. As at the reporting date the liquidity, funding and capital position of the Bank remains strong and is well placed to absorb the impact of the current disruption.

33 CONCENTRATIONS

The Bank seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risk with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate.

33 CONCENTRATIONS (CONTINUED)

The distribution of assets, liabilities and contingent items by geographical regions as of 31 December 2022 is as follows:

	Sultanate of Oman	UAE	Egypt	Others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	213,640	47,020	929	-	261,589
Due from Banks and other money market placements (net)	27,949	3,455	613	87,243	119,260
Loans, advances and Islamic financing assets (net)	3,278,009	66,066	-	9,624	3,353,699
Financial investments	375,348	12,619	-	16,420	404,387
Property and equipment	55,974	1,116	-	-	57,090
Other assets	93,844	4,086	125	-	98,055
TOTAL ASSETS	4,044,764	134,362	1,667	113,287	4,294,080
Due to Banks and other money market deposits	11,001	108,487	3	142,252	261,743
Customers' deposits and unrestricted investment accounts	2,934,709	112,250	463	-	3,047,422
Euro medium term notes	188,865	-	-	-	188,865
Other liabilities	138,767	362	106	-	139,235
Taxation	15,570	330	81	-	15,981
Shareholders' equity	488,870	(17,190)	2,021	-	473,701
Tier 1 perpetual bond	167,133	-	-	-	167,133
LIABILITIES AND SHAREHOLDERS' EQUITY	3,944,915	204,239	2,674	142,252	4,294,080
CONTINGENT LIABILITIES	266,416	18,040	-	39,526	323,982

	Sultanate of Oman	UAE	Egypt	Others	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	554,909	122,130	2,413	-	679,452
Due from Banks and other money market placements (net)	72,595	8,974	1,592	226,605	309,766
Loans, advances and Islamic financing assets (net)	8,514,310	171,600	-	24,997	8,710,907
Financial investments	974,930	32,777	-	42,649	1,050,356
Property and equipment	145,387	2,899	-	-	148,286
Other assets	243,750	10,613	325	-	254,688
TOTAL ASSETS	10,505,881	348,993	4,330	294,251	11,153,455
Due to Banks and other money market deposits	28,574	281,784	8	369,486	679,852
Customers' deposits and unrestricted investment accounts	7,622,621	291,558	1,203	-	7,915,382
Euro medium term notes	490,558	-	-	-	490,558
Other liabilities	360,434	940	275	-	361,649
Taxation	40,442	857	210	-	41,509
Shareholders' equity	1,269,793	(44,649)	5,249	-	1,230,393
Tier 1 perpetual bond	434,112	-	-	-	434,112
LIABILITIES AND SHAREHOLDERS' EQUITY	10,246,534	530,490	6,945	369,486	11,153,455
CONTINGENT LIABILITIES	691,991	46,857	-	102,664	841,512

33 CONCENTRATIONS (CONTINUED)

The distribution of assets, liabilities and off balance sheet items by geographical regions as of 31 December 2021 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	249,001	57,269	1,600	-	307,870
Due from Banks and other money market placements (net)	9,571	3,596	3,063	98,455	114,685
Loans, advances and Islamic financing assets (net)	3,025,929	60,350	-	2,367	3,088,646
Financial investments	425,594	11,231	-	10,353	447,178
Property and equipment	58,453	1,439	-	-	59,892
Other assets	56,704	5,896	196	-	62,796
TOTAL ASSETS	3,825,252	139,781	4,859	111,175	4,081,067
Due to Banks and other money market deposits	-	143,160	17,518	137,051	297,729
Customers' deposits and unrestricted investment accounts	2,797,006	120,215	511	-	2,917,732
Euro medium term notes	192,500	-	-	-	192,500
Other liabilities	101,156	2,940	380	-	104,476
Taxation	12,808	200	167	-	13,175
Shareholders' equity	453,304	(15,854)	2,505	-	439,955
Tier 1 perpetual bond	115,500	-	-	-	115,500
LIABILITIES AND SHAREHOLDERS' EQUITY	3,672,274	250,661	21,081	137,051	4,081,067
CONTINGENT LIABILITIES	303,181	16,611	-	36,456	356,248

	Sultanate of Oman	UAE	Egypt	Others	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and balances with Central Banks	646,755	148,751	4,156	-	799,662
Due from Banks and other money market placements (net)	24,860	9,340	7,956	255,727	297,883
Loans, advances and Islamic financing assets (net)	7,859,555	156,753	-	6,149	8,022,457
Financial investments	1,105,439	29,171	-	26,891	1,161,501
Property and equipment	151,826	3,738	-	-	155,564
Other assets	147,284	15,314	509	-	163,107
TOTAL ASSETS	9,935,719	363,067	12,621	288,767	10,600,174
Due to Banks and other money market deposits	-	371,844	45,501	355,977	773,322
Customers' deposits and unrestricted investment accounts	7,264,951	312,247	1,327	-	7,578,525
Euro medium term notes	500,000	-	-	-	500,000
Other liabilities	262,741	7,636	988	-	271,365
Taxation	33,268	519	434	-	34,221
Shareholders' equity	1,177,414	(41,179)	6,506	-	1,142,741
Tier 1 perpetual bond	300,000	-	-	-	300,000
LIABILITIES AND SHAREHOLDERS' EQUITY	9,538,374	651,067	54,756	355,977	10,600,174
CONTINGENT LIABILITIES	787,483	43,146	-	94,690	925,319

34 SEGMENTAL INFORMATION

For management purposes, the Bank is organised into four operating segments based on business units and are as follows:

- Retail Banking offers various products and facilities to individual retail and high net-worth customers to meet everyday banking needs. This includes asset products like personal loans, housing loan, credit cards and term loans and liability products like savings account, current account and term deposits.
- Wholesale Banking delivers a variety of products and services to Corporate, Government and Financial Institutions, that include lending, accepting deposits, trade finance, treasury and foreign exchange. It also includes investment Banking which offers investment products such as asset management, corporate advisory and brokerage services to retail customers and institutional clients.
- International operations include UAE and Egypt operations.
- Islamic Banking offers various products as per Shari'a principles.
- Funding Center – The Funding center is responsible for balancing and managing the liquidity of funds within the Bank. It acts as repository of funds by allocating funds transfer pricing to various business units for performance management purposes. The department also handles the Bank's investments in securities, asset/liability management and cash instruments.

Management monitors the operating results of these segments separately for the purpose of making decisions about resource allocation and performance assessment. The costs incurred by the support functions are allocated to operating segments for performance measurement purposes.

Segment information by business line is as follows:

Year ended 31 December 2022	Retail Banking	Wholesale Banking	International Banking	Islamic Banking	Funding center	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Net Interest income and net Income from Islamic financing and Investment activities	45,426	61,418	3,396	5,523	(12,224)	103,539
Fees, Commission and other operating income	14,310	18,746	511	1,100	31	34,698
Operating income	59,736	80,164	3,907	6,623	(12,193)	138,237
Operating expenditure	(36,000)	(16,577)	(4,274)	(3,758)	93	(60,516)
Operating profit/(loss)	23,736	63,587	(367)	2,865	(12,100)	77,721
Loan impairment (losses)/reversal	(4,320)	(13,773)	(638)	(1,518)	-	(20,249)
Net profit/(loss) before tax	19,416	49,814	(1,005)	1,347	(12,100)	57,472
Taxation	(2,346)	(6,020)	(2,357)	-	1,462	(9,261)
Net profit/(loss) after tax	17,070	43,794	(3,362)	1,347	(10,638)	48,211
TOTAL ASSETS	1,332,118	2,117,153	140,203	227,163	477,443	4,294,080
TOTAL LIABILITIES AND EQUITY	909,304	1,889,177	140,203	227,163	1,128,233	4,294,080

34 SEGMENTAL INFORMATION (CONTINUED)

Year ended 31 December 2022	Retail Banking	Wholesale Banking	International Banking	Islamic Banking	Funding center	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Net Interest income and net Income from Islamic financing and Investment activities	117,990	159,527	8,821	14,345	(31,751)	268,932
Fees, Commission and other operating income	37,169	48,691	1,327	2,857	81	90,125
Operating income	155,159	208,218	10,148	17,202	(31,670)	359,057
Operating expenditure	(93,506)	(43,057)	(11,101)	(9,761)	241	(157,184)
Operating profit/(loss)	61,653	165,161	(953)	7,441	(31,429)	201,873
Loan impairment (losses)/reversal	(11,221)	(35,774)	(1,657)	(3,943)	-	(52,595)
Net profit/(loss) before tax	50,432	129,387	(2,610)	3,498	(31,429)	149,278
Taxation	(6,094)	(15,636)	(6,122)	-	3,797	(24,055)
Net profit/(loss) after tax	44,338	113,751	(8,732)	3,498	(27,632)	125,223
TOTAL ASSETS	3,460,047	5,499,099	364,164	590,034	1,240,111	11,153,455
TOTAL LIABILITIES AND EQUITY	2,361,829	4,906,953	364,164	590,034	2,930,475	11,153,455

Disaggregated revenues 2022

IFRS15 requires the disclosure of disaggregated revenue from contracts with customers for major products / service lines. The below table provides disaggregation of commission and fee income (net) into revenues within Bank's reportable segments. Contract revenue is further segregated based on the products and services:

2022	Retail	Wholesale	International	Islamic	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Transactional	8,638	-	2	61	8,701
Trade Income	57	3,057	245	101	3,460
Account Services	93	997	(29)	31	1,092
Underwriting & Syndication	846	4,165	152	622	5,785
Investment banking	-	1,608	-	-	1,608
TOTAL	9,634	9,827	370	815	20,646

2022	Retail	Wholesale	International	Islamic	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
Transactional	22,435	-	6	159	22,600
Trade Income	149	7,939	637	262	8,987
Account Services	242	2,590	(76)	80	2,836
Underwriting & Syndication	2,197	10,818	395	1,616	15,026
Investment banking	-	4,177	-	-	4,177
TOTAL	25,023	25,524	962	2,117	53,626

34 SEGMENTAL INFORMATION (CONTINUED)

For management purposes the Bank also reports the segment information of its operations by the following geographical locations:

i. Oman
ii. United Arab Emirates (UAE)
iii. Egypt

Transactions between the above segments are conducted at estimated market rates.
Segment information by geography is as follows:

For the year ended 31 December 2022	Oman	UAE	Egypt	Total
	USD'000	USD'000	USD'000	USD'000
Net Interest income and Income from Islamic financing and Investment activities	100,143	3,395	1	103,539
Fees, Commission and other operating income	34,187	972	(461)	34,698
Operating income	134,330	4,367	(460)	138,237
Operating expenses (refer note below)	(57,919)	(2,573)	(24)	(60,516)
Operating profit	76,411	1,794	(484)	77,721
Total impairment losses (net) and taxation	(26,515)	(2,995)	-	(29,510)
SEGMENT PROFIT FOR THE YEAR	49,896	(1,201)	(484)	48,211
Other information				
Segment assets	4,153,877	139,149	1,054	4,294,080
SEGMENT CAPITAL EXPENSES	2,141	26	-	2,167

For the year ended 31 December 2022	Oman	UAE	Egypt	Total
	USD'000	USD'000	USD'000	USD'000
Net Interest income and Income from Islamic financing and Investment activities	260,111	8,818	3	268,932
Fees, Commission and other operating income	88,797	2,525	(1,197)	90,125
Operating income	348,908	11,343	(1,194)	359,057
Operating expenses	(150,439)	(6,683)	(62)	(157,184)
Operating profit	198,469	4,660	(1,256)	201,873
Total impairment losses (net) and taxation	(68,870)	(7,780)	-	(76,650)
SEGMENT PROFIT FOR THE YEAR	129,599	(3,120)	(1,256)	125,223
Other information				
Segment assets	10,789,291	361,426	2,738	11,153,455
SEGMENT CAPITAL EXPENSES	5,561	67	-	5,628

Note: Operating expenses does not include cost allocation.

34 SEGMENTAL INFORMATION (CONTINUED)

Segment information by business line is as follows:

Year ended 31 December 2021	Retail Banking	Wholesale Banking	International Banking	Islamic Banking	Funding center	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Net Interest income and net Income from Islamic financing and Investment activities	45,043	58,683	2,155	4,554	(18,853)	91,582
Fees, Commission and other operating income	12,786	17,089	1,511	383	-	31,769
Operating income	57,829	75,772	3,666	4,937	(18,853)	123,351
Operating expenditure	(37,517)	(18,086)	(4,238)	(3,649)	(8)	(63,498)
Operating profit/(loss)	20,312	57,686	(572)	1,288	(18,861)	59,853
Loan impairment (losses)/reversal	(100)	(23,541)	174	(618)	100	(23,985)
Net profit/(loss) before tax	20,212	34,145	(398)	670	(18,761)	35,868
Taxation	(3,072)	(5,189)	(181)	-	2,851	(5,591)
Net profit/(loss) after tax	17,140	28,956	(579)	670	(15,910)	30,277
TOTAL ASSETS	1,336,673	1,882,285	169,106	197,872	495,131	4,081,067
TOTAL LIABILITIES AND EQUITY	953,340	1,729,241	169,106	197,872	1,031,508	4,081,067

Year ended 31 December 2021	Retail Banking	Wholesale Banking	International Banking	Islamic Banking	Funding center	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Net Interest income and net Income from Islamic financing and Investment activities	116,995	152,423	5,597	11,829	(48,968)	237,876
Fees, Commission and other operating income	33,210	44,387	3,925	995	-	82,517
Operating income	150,205	196,810	9,522	12,823	(48,968)	320,393
Operating expenditure	(97,447)	(46,977)	(11,008)	(9,478)	(20)	(164,929)
Operating profit/(loss)	52,758	149,834	(1,486)	3,345	(48,988)	155,464
Loan impairment (losses)/reversal	(260)	(61,145)	452	(1,605)	260	(62,299)
Net profit/(loss) before tax	52,499	88,688	(1,034)	1,740	(48,728)	93,165
Taxation	(7,979)	(13,478)	(470)	-	7,405	(14,522)
Net profit/(loss) after tax	44,519	75,210	(1,504)	1,740	(41,323)	78,643
TOTAL ASSETS	3,471,878	4,889,052	439,236	513,953	1,286,055	10,600,174
TOTAL LIABILITIES AND EQUITY	2,476,208	4,491,535	439,236	513,953	2,679,242	10,600,174

34 SEGMENTAL INFORMATION (CONTINUED)

Disaggregated revenues 2021

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:

2021	Retail	Wholesale	International	Islamic	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Transactional	7,640	-	2	50	7,692
Trade Income	40	2,884	188	48	3,161
Account Services	132	941	-	19	1,092
Underwriting & Syndication	611	4,556	195	109	5,472
Investment banking	-	1,445	-	-	1,445
TOTAL	8,424	9,826	385	226	18,861

2021	Retail	Wholesale	International	Islamic	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
Transactional	19,844	-	5	130	19,979
Trade Income	105	7,492	488	125	8,210
Account Services	343	2,443	-	50	2,836
Underwriting & Syndication	1,588	11,834	507	283	14,212
Investment banking	-	3,753	-	-	3,753
TOTAL	21,880	25,522	1,000	588	48,990

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 2021	Oman	UAE	Egypt	Total
	USD'000	USD'000	USD'000	USD'000
Net Interest income and Income from Islamic financing and Investment activities	89,427	2,149	6	91,582
Fees, Commission and other operating income	30,258	778	733	31,769
Operating income	119,685	2,927	739	123,351
Operating expenses (refer note below)	(60,959)	(2,598)	59	(63,498)
Operating profit	58,726	329	798	59,853
Total impairment losses (net) and taxation	(29,569)	(7)	-	(29,576)
SEGMENT PROFIT FOR THE YEAR	29,157	322	798	30,277
Other information				
Segment assets	3,911,961	146,803	22,303	4,081,067
SEGMENT CAPITAL EXPENSES	2,261	12	-	2,273

34 SEGMENTAL INFORMATION (CONTINUED)

For the year ended 31 December 2021	Oman	UAE	Egypt	Total
	USD'000	USD'000	USD'000	USD'000
Net Interest income and Income from Islamic financing and Investment activities	232,275	5,582	16	237,873
Fees, Commission and other operating income	78,594	2,021	1,904	82,519
Operating income	310,869	7,603	1,920	320,392
Operating expenses	(158,335)	(6,748)	153	(164,930)
Operating profit	152,534	855	2,073	155,462
Total impairment losses (net) and taxation	(76,802)	(17)	-	(76,819)
SEGMENT PROFIT FOR THE YEAR	75,732	838	2,073	78,643
Other information				
Segment assets	10,160,938	381,306	57,930	10,600,174
SEGMENT CAPITAL EXPENSES	5,879	32	-	5,911

35 FAIR VALUE OF FINANCIAL INSTRUMENTS

Based on the valuation methodology outlined below, the fair values of all financial instruments at 31 December 2022 and 31 December 2021 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.

35 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Foreign exchange contracts are valued based on market prices. The market value adjustments in respect of foreign exchange contracts are included in other assets and other liabilities.

The fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations. Other unquoted equities are valued based on information provided by fund managers, investee financial information and current purchase prices.

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

Valuation models
Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on 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.

Total	Level 2	Level 1		Level 1	Level 2	Total
USD'000	USD'000	USD'000	31 December 2022	RO'000	RO'000	RO'000
			INVESTMENT MEASURED AT FVTPL			
4,863	-	4,863	Quoted equities	1,872	-	1,872
6,283	6,283	-	Unquoted equities	-	2,419	2,419
11,146	6,283	4,863	TOTAL	1,872	2,419	4,291
			INVESTMENT MEASURED AT FVOCI			
124,036	-	124,036	Quoted equities	47,754	-	47,754
124,036	-	124,036	Total	47,754	-	47,754
135,182	6,283	128,899	Total financial assets	49,626	2,419	52,045

Total	Level 2	Level 1		Level 1	Level 2	Total
USD'000	USD'000	USD'000	31 December 2021	RO'000	RO'000	RO'000
			INVESTMENT MEASURED AT FVTPL			
2,527	-	2,527	Quoted equities	973	-	973
6,724	6,724	-	Unquoted equities	-	2,589	2,589
9,251	6,724	2,527	TOTAL	973	2,589	3,562
			INVESTMENT MEASURED AT FVOCI			
93,293	-	93,293	Quoted equities	35,918	-	35,918
10,489	-	10,489	Quoted debt	4,038	-	4,038
58	58	-	Unquoted equities	-	22	22
103,840	58	103,782	TOTAL	39,956	22	39,978
113,091	6,782	106,309	TOTAL FINANCIAL ASSETS	40,929	2,611	43,540

35 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The Bank's primary medium and long-term financial liabilities are the borrowed funds and subordinated liabilities. The fair values of these financial liabilities not materially different from their carrying values, since these liabilities are repriced at intervals of three or six months, depending on the terms and conditions of the instrument and the resultant applicable margins approximate the current spreads that would apply for borrowings with similar maturities

Derivative financial instrument at level 2 are valued based on counter party valuation, quoted forward rates and yield curves (see note 36). There are no transfers between levels of fair value measurement hierarchy during the years ended 31 December 2022 and 2021.

36 DERIVATIVES

In the ordinary course of business, the Bank enters into various types of transactions with customers and for own account for hedging purpose that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. The Bank uses the following derivative financial instruments:

Derivative product types
Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

Swaps are contractual agreements between two parties to exchange movements in interest or foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity, foreign currency or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Derivatives held or issued for hedging purposes
As part of its asset and liability management the Bank uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. Hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall balance sheet exposures achieve this.

The Bank uses forward foreign exchange contracts, options and currency swaps to hedge against specifically identified currency risks. In addition, the Bank uses interest rate swaps to hedge against the cash flow risks arising from certain fixed interest rate loans and deposits.

For interest rate risk strategic hedging is carried out by monitoring the re-pricing of financial assets and liabilities and entering into interest rate swaps to hedge a proportion of the interest rate exposure.

Fair value hedges of interest rate risk
The Bank uses interest rate swaps to hedge its exposure to changes in the fair values of fixed-rate euro medium term notes (EMTN) issued in respect of the USD LIBOR benchmark interest rate. Pay-floating / receive-fixed interest rate swaps are matched to specific issuances of fixed-rate EMTN with terms that closely align with the critical terms of the hedged item.

The Bank's approach to managing market risk, including interest rate risk, is discussed in Note 32. The Bank's exposure to interest rate risk is disclosed in Note 32.3. Interest rate risk to which the Bank applies hedge accounting arises from fixed-rate senior unsecured bonds issued. The Bank hedges interest rate risk only to the extent of benchmark interest rates because the changes in fair value of a fixed-rate EMTN is significantly influenced by changes in the benchmark interest rate USD SOFR. Hedge accounting is applied where economic hedging relationships meet the hedge accounting criteria.

By using derivative financial instruments to hedge exposures to changes in interest rates, the Bank also exposes itself to credit risk of the derivative counterparty, which is not offset by the hedged item. The Bank minimizes counterparty credit risk in derivative instruments by entering into transactions with high-quality counterparties whose credit rating is higher than A, requiring counterparties to post collateral and clearing through CCPs.

36 DERIVATIVES (CONTINUED)

Before fair value hedge accounting is applied by the Bank, the Bank determines whether an economic relationship between the hedged item and the hedging instrument exists based on an evaluation of the qualitative characteristics of these items and the hedged risk that is supported by quantitative analysis. The Bank considers whether the critical terms of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship. The Bank evaluates whether the fair value of the hedged item and the hedging instrument respond similarly to similar risks. The Bank further supports this qualitative assessment by using regression analysis to assess whether the hedging instrument is expected to be and has been highly effective in offsetting changes in the fair value of the hedged item.

The Bank establishes a hedge ratio by aligning the par amount of the fixed-rate senior unsecured bonds and the notional amount of the interest rate swap designated as a hedging instrument. Under the Bank policy, in order to conclude that a hedging relationship is effective, economic relationship between the hedged item and the hedging instrument should exist along with critical terms (such as the nominal amount, maturity and underlying) of the hedging instrument and the hedged item match or are closely aligned.

In these hedging relationships, the main sources of ineffectiveness are:

- the effect of the counterparty and the Bank's own credit risk on the fair value of the interest rate swap, which is not reflected in the fair value of the hedged item attributable to the change in interest rate; and
- differences in maturities of the interest rate swap and the loans or the notes.

There were no other sources of ineffectiveness in these hedging relationships.

The effective portion of fair value gains on derivatives held in qualifying fair value hedging relationships and the hedging gain or loss on the hedged items are included in net interest income.

The amounts relating to items designated as hedging instruments at 31 December 2022 as disclosed below.

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

36 DERIVATIVES (CONTINUED)

31 December 2022				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 (note 9)	RO'000 (note 13)	than 1 year	RO'000	RO'000	47,754
Fair Value hedge - EMTN	**-**	**(3,635)**	**192,500**	**-**	**-**	**192,500**
Interest rate swaps	**20,557**	**(20,557)**	**442,065**	**13,131**	**31,662**	**397,272**
Forward foreign exchange purchase contracts	**4**	**(50)**	**388,784**	**143,828**	**244,956**	**-**
Forward foreign exchange sales contracts	**286**	**(93)**	**388,784**	**143,860**	**244,924**	**-**
Total	**20,847**	**(24,335)**	**1,412,133**	**300,819**	**521,542**	**589,772**
Total – USD'000	**54,148**	**(63,208)**	**3,667,878**	**781,348**	**1,354,655**	**1,531,875**

31 December 2021				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 (note 9)	RO'000 (note 13)	than 1 year	RO'000	RO'000	47,754
Fair Value hedge - EMTN	2,049	(2,049)	462,212	7,829	22,550	431,833
Interest rate swaps	8	(16)	254,848	54,015	200,833	-
Forward foreign exchange purchase contracts	1,034	(10)	254,848	54,001	199,840	1,007
Forward foreign exchange sales contracts	286	(93)	388,784	143,860	244,924	-
Total	3,091	(2,075)	971,908	115,845	423,223	432,840
Total – USD'000	**8,029**	**(5,390)**	**2,524,436**	**300,896**	**1,099,281**	**1,124,260**

37 COMPARATIVE AMOUNTS

Certain of the corresponding figures for 2021 have been reclassified in order to conform with the presentation for the current year.

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 2022 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 2022 that we have reviewed are in compliance with Shari'a principles.

b) In relation to the investment account, the basis of allocating the profits and bearing the losses conform to the basis that had been approved by us in accordance with Shari'a principles.

c) No earnings have been realized from sources which are Shari'a non-compliant. Late payment charges have been identified and recovered for disposal to charity.

d) Calculation and payment of Zakah is the individual responsibility of Shareholders and Depositors.

We beg Allah the Almighty to grant us all success and straightforwardness.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh

Sheikh Dr. Muhammad Zubair Usmani

Chairman Shari'a Supervisory Board

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Agreed-Upon Procedures Report on Muzn Islamic Banking's (Islamic Window of National Bank of Oman SAOG) Basel II - Pillar III and Basel III Disclosures

To the Board of Directors of National Bank of Oman SAOG

Purpose of this Agreed-Upon Procedures Report and Restriction on Use

We were engaged by the Board of Directors of National Bank of Oman SAOG ("the Bank") to perform agreed upon procedures on Muzn Islamic Banking's (Islamic Window of National Bank of Oman SAOG) Basel II – Pillar III and Basel III related disclosures (the "Disclosures") as set out in the Central Bank of Oman's (the "CBO") Circular No. IB 1 dated 18 December 2012 and BM 1114 dated 17 November 2013. Our report is solely for the purpose of assisting the Bank in complying with the CBO requirements and may not be suitable for any other purpose.

Responsibilities of the Bank

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

Management of the Bank and Muzn Islamic Banking is responsible for accuracy and completeness of the subject matter on which the agreed-upon procedures are performed.

Practitioners' Responsibilities

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

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

Practitioners' Responsibilities (continued)

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

Professional Ethics and Quality Control

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

Our firm applies International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Procedures and Findings

We have performed the procedures described below, which were agreed upon with the Bank in the terms of engagement dated 11 January 2022, on the Muzn Islamic Banking's Basel II – Pillar III and Basel III Disclosures:

S. No	Procedures	Findings
1	We have performed the procedures prescribed in the CBO Circular No. IB 1 dated 18 December 2012 and BM 1114 dated 17 November 2013 with respect to the Disclosures of the Bank as at and for the year ended 31 December 2022.	No exceptions noted.

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

KPMG
KPMG LLC

Ravikanth Petluri
5 March 2023

Enclosures:
Muzn Islamic Banking's Basel II – Pillar III and Basel III Disclosures

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CR.No: 1358131

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 2022 is RO 20,000,000. Muzn' s capital structure as at close of 31 December 2022, 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	20,000
Share premium	-
Legal reserve	-
General reserve	-
Other reserve	(23)
Subordinated debt reserve	-
Stock dividend(Proposed)	-
Retained earnings	5,984
Common equity Tier 1 before regulatory adjustments Deduction	**25,961**
Deferred tax asset	-
Common equity Tier 1	**25,961**
TIER I CAPITAL AFTER ALL DEDUCTIONS	**25,961**
TIER II CAPITAL	
Revaluation reserves / Cumulative fair value gains or losses on available for sale instruments	-
General loan loss provision/General loan loss reserve	1,644
Subordinated debt (After amortization)	-
TOTAL TIER II CAPITAL	**1,644**
Total Regulatory Capital	**27,605**
Amount of investment account holders funds	179,853
Profit equalization reserve	645
Investment risk reserve	262
TOTAL INVESTMENT ACCOUNT HOLDERS	**180,760**

CAPITAL ADEQUACY

Qualitative Disclosures:

The ultimate objectives of capital management are three fold:

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

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

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

The Asset Liability Committee (ALCO) currently reviews and monitors capital adequacy and requirement for capital on an ongoing basis both for the Muzn window and its divisions that require capital to be assigned separately. Risk weights are assigned to assets as per regulatory requirements from CBO. Assets funded by investment accounts are also assigned same risk weights as assets funded by own equity.

Qualitative Disclosures:

A set of triggers is followed as part of the capital management so as to provide the bank with an early warning system in terms of its level of capital, and to enable it to take suitable measures at an early stage to prevent capital falling below acceptable limits. For this purpose it has been decided by ALCO that the triggers set for the Bank will become applicable for Muzn as well.

The Bank prepares ICAAP (Internal Capital Adequacy Assessment Process) document in line with Basel II guidelines to evaluate all Enterprise-wide Risks that are not fully captured in the Pillar I Risks. Following the guidelines issued by the Central Bank of Oman in December 2012, assessment under ICAAP comprehensively for the whole bank is carried out and submitted to the Central Bank of Oman in accordance with the prescribed guidelines. The bank will also factor in the regulatory guidelines, wherever applicable on Basel III, while carrying out its assessment. Currently, a separate ICAAP is not prepared for Muzn.

Details	Amount
POSITION AS AT 31 DECEMBER 2022	**(RO'000)**
Tier I capital (after supervisory deductions)	**25,961**
Tier II capital (after supervisory deductions & up to eligible limits)	**1,644**
Risk Weighted Assets (RWAs) – Banking Book	**159,902**
Risk Weighted Assets (RWAs) – Operational Risk	**9,712**
Total Risk Weighted Assets (RWAs) – Banking Book + Operational Risk	**169,614**
Minimum required capital to support RWAs of banking book and operational risk	20,778
Minimum required capital comprises of;	
i) Tier I capital	19,134
ii) Tier II capital	1,644
Balance Tier I capital available for supporting Trading Book	6,827
Risk Weighted Assets (RWAs) – Trading Book	**7,878**
Total capital required to support Trading Book	965
Minimum Tier I capital required for supporting Trading Book	275
TOTAL REGULATORY CAPITAL	**27,605**
TOTAL RISK WEIGHTED ASSETS – ISLAMIC WINDOW	**177,492**
BIS CAPITAL ADEQUACY RATIO	**15.55**

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:

Details	Gross balance (Book value)	Net balance (Book value)	Risk Weighted Assets
Position as at 31 December 2022			RO'000
On balance sheet items	227,321	222,508	150,466
Off balance sheet items	18,024	18,024	9,436
Derivatives	-	-	-
Operational Risk	-	-	9,712
Market Risk	-	-	7,878
TOTAL	245,345	240,532	177,492
Common equity Tier I Capital	-	-	25,961
Tier 2 Capital	-	-	1,644
Tier 3 Capital	-	-	-
TOTAL REGULATORY CAPITAL	-	-	27,605
Total required Capital	-	-	21,743
Capital requirement for credit risk	-	-	19,588
Capital requirement for market risk	-	-	965
Capital requirement for operational risk	-	-	1,190
COMMON EQUITY TIER 1 RATIO			
TIER I RATIO	-	-	14.63
TOTAL CAPITAL RATIO	-	-	15.55

Disclosures for Investment Account Holders (IAH)

Muzn accepts funds from investment account holders (IAH) under Sharia compliant Mudaraba contracts and Wakala agreements. These funds are unrestricted in nature i.e. it is at the discretion of Muzn to invest in any Sharia compliant assets. There are no limits on the investment of IAH fund in any particular type of asset.

Currently, Muzn offers three types of Investment accounts:

- Savings accounts,
- Term deposits of various maturities from 1 month to five years and
- Flex Wakala

Investment from investment account holders (IAH) is pooled with Muzn's funds. Fee based income is not allocated to the joint pool. From the distributable profits earned by the pool assets, and after charging Mudarib share, allocation is made between shareholder funds and funds of IAH.

Under Wakala arrangement for Islamic Wakala Investment, the customer becomes the Principal (Muwakkil), and Muzn becomes the Investment Agent (Wakeel) for the funds invested by the customer. Muzn will accept deposits from Wakala Investment holders under a Wakala agreement and allocate these funds to an investment pool. While accepting the deposit from the customers, Bank informs the "Expected Targeted Profit Rate" on the deposit. Funds from this investment pool will be utilized to provide financing to customers under Islamic modes and to invest in other Shari a compliant investments opportunities. 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.

CAPITAL ADEQUACY (CONTINUED)

Ratios and returns

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

Particulars (RO'000)	2022	2021
Amount of Total PER	**645**	548
Amount of PSIA by IAH	**180,760**	148,173
PER to PSIA Ratio	**0.36%**	0.37%

Investment Risk Reserves Reserve (PER) to Profit Sharing Investment Account (PSIA)

Particulars (RO'000)	2022	2021
Amount of Total IRR	**262**	221
Amount of PSIA by IAH	**180,760**	148,173
IRR to PSIA Ratio	**0.14%**	0.15%

Return on Assets (ROA)

Particulars (RO'000)	2022	2021
Amount of total net income (before distribution of profit to unrestricted IAH)	**7,971**	7,481
Amount of assets	**222,508**	194,397
Return on assets (ROA)	**3.58%**	3.85%

Return on Equity (ROE)

Particulars (RO'000)	2022	2021
Amount of total net income (after distribution of profit to unrestricted IAH)	**2,637**	2,307
Amount of equity	**26,566**	23,952
Return on equity (ROE)	**9.93%**	9.63%

Rate of profit distributed to PSIA by type of IAH & Wakala Accounts

As at reporting date, Muzn has unrestricted IAH and Wakala Accounts and has distributed profit amounting RO 5,334,000 during the year.

Latest Profit rates paid to investment account holders for quarter ended 31 December 2022

	Weightages	Declared Profit Rate
Savings Account (Mudarabah)	15	0.66%
Flexi Wakala	45	0.10%
Flexi Wakala - Elite	45	2.25%
Flexi Wakala - Premium	25	1.75%
Wakala - Upto 6 months	40	0.25% - 1.75%
Wakala - > 6months to 1 Year	50	1.75% - 3.25%
Wakala - > 1 Year to 3 Years	55	2.75% - 3.75%
Wakala - > 3 Years	60	3.35% - 4.25%
Government Flexi Wakala	50	0.75%

Jointly Funded Assets and Return to IAH

	31 December 2022	31 December 2021
Assets		
Murabaha receivables	5,181	3,893
Ijarah Muntahia Bittamleek	56,243	63,479
Diminishing Musharaka	118,034	89,339
Forward Ijara	492	719
Service Ijarah	21	15
Total amount invested	179,971	157,445
Share of profit of IAH before PER and IRR for the year	5,472	5,298
Transfers to:		
PER	(97)	(86)
IRR	(41)	(38)
Share of profit of IAH after PER and IRR for the year	5,334	5,174

RISK EXPOSURE AND ASSESSMENT:

Risk Management

The primary objective of risk management is to appropriately safeguard the Bank's resources from the various risks which the Bank faces. Muzn's risk management incorporates the same essential principles and practices that govern the Bank's risk management which are detailed in the Bank's Basel II disclosures.

Bank's risk management processes have proven effective for Muzn throughout the current year. The Bank's Board of Directors have remained closely involved with key risk management initiatives, and ensured that Muzn's risks are effectively managed and adequate capital is held in line with the requirements. Detailed risk governance structure of the bank, which is also applicable to Muzn is disclosed in the main Pillar III document of the bank. In addition, a dedicated Sharia Supervisory Board (SSB) has been established which reports to the Board of Directors of the bank and ensures Sharia compliance in the operations of Muzn.

Specifically, Muzn has exposure to the following risks.

- Credit risk
- Liquidity risk
- Market risk
- Operational risk
- Rate of return risk, and
- Displaced commercial risk

Credit Risk

Credit risk is the risk of financial loss to Muzn if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from Muzn's financings and advances to customers and other banks.

Corporate Credit:

Muzn manages and controls credit risk by setting internal limits on the amount of risk it is willing to accept for individual counterparties and groups (single obligors) and industry sectors in line with the guidelines of Central Bank of Oman.

Muzn has a prudent provisioning policy for its financings and provisions are made taking into account both the Central Bank's norms and Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI").

For risk management reporting purposes for the corporate portfolio, Muzn considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Retail Credit:

Retail Credit Division manages the credit risk in the Muzn retail portfolio. The small retail credit portfolio is focused on Ijara, Murabaha and Diminishing Musharaka product programs approved by the Board Risk Committee. Both corporate and retail credit portfolios are monitored by the management through periodic performance reports which are presented to the Board Risk Committee.

Impairment Loss on Finances:

Muzn reviews its individually significant Finances at each reporting date to assess whether an impairment loss should be recorded in the statement of comprehensive income. Judgment by management is required in the estimation of the amount and timing of future cashflows when determining the impairment loss. In estimating these cashflows, 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:

i. 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).
ii. The base scenario was created on the assumption of stabilization of oil price at the level of 66 USD/ barrel for Brent oil.
iii. 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).

RISK EXPOSURE AND ASSESSMENT: (CONTINUED)

iv. 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.

v. GDP per capita was predicted through regression to corresponding GDP changes as estimated for a given scenario and assumed lowering pace of population growth not dependent on the scenario in question.

D) Corporate and small business lending

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

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

Consumer lending and retail mortgages

Consumer lending comprises 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

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 12mECL. 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 corporate and investment banking financial instruments, LGD values are assessed at least every twelve months by account managers and reviewed and approved by the Window's specialised credit risk department. The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Window segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows.

RISK EXPOSURE AND ASSESSMENT: (CONTINUED)

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

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

G) Significant Increase in Credit Risk

The Window continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL 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.

RISK EXPOSURE AND ASSESSMENT: (CONTINUED)

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 are no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

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

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

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

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

Total judgemental adjustments as at 31 December 2022 increased the loss allowance by 1.22% compared to ECL allowance derived through the ECL models.

H) Model risk management:

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

To manage the model risks, the Window has implemented the IFRS 9 Governance Framework (the Framework). The Framework is a bank wide policy and is applicable to all models of the bank. According to the Framework, all internally or externally (vendor based) developed risk quantification models that directly affect the financial reporting on Expected Loss (EL) and Lifetime Expected Loss (LEL) require independent validation.

The Framework establishes a systematic approach to manage the development, validation, approval, implementation and on-going use of the models. It sets out an effective management structure with clearly defined roles and responsibilities, policies and controls for managing model risk. The Framework is reviewed on a regular basis to ensure it meets regulatory standards and international practices. Any major change to the Framework must be approved by the Board of Directors or the BRC.

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

RISK EXPOSURE AND ASSESSMENT: (CONTINUED)

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

Sl No	Type of Credit Exposure	Total Gross Exposure as at	
		31-December-22	31-December-21
			(RO'000)
1	Murabaha receivables	**5,219**	3,937
2	Ijarah Muntahia Bittamleek	**57,048**	64,220
3	Diminishing Musharaka	**121,970**	91,578
4	Forward Ijara	**498**	722
5	Service Ijarah	**21**	15
	TOTAL	184,756	160,472

(ii) Geographic distribution of exposures by major types of credit exposure as at 31 December 2022:

As at 31 December 2022, all the credit exposures are within Oman (2021: 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 2022:

S. No	Economic Sector	Deferred sales under Murabaha	Ijara	Diminishing Musharaka	Forward Ijara	Service Ijara	Total	Percentage composition	Off Balance sheet exposure*
									(RO'000)
1	Personal	3,898	50,843	14,300	469	21	69,531	38%	731
2	Construction	-	4,819	47,538	29	-	52,386	28%	24,126
3	Manufacturing	516	40	11,294	-	-	11,850	6%	-
4	Trade	515	2	142	-	-	659	0%	-
5	Services	290	1,344	48,696	-	-	50,330	27%	-
6	Others	-	-	-	-	-	-	0%	12,901
	TOTAL	5,219	57,048	121,970	498	21	184,756	100%	37,758

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

As at 31 December 2022, the assets were funded by IAH & Wakala Account and shareholders in the following ratio:

IAH & Wakala Accounts	**81%**
Shareholders	**19%**

RISK EXPOSURE AND ASSESSMENT: (CONTINUED)

(iv) Residual contractual maturity as at 31 December 2022 of the whole financing portfolio, broken down by major types of credit exposure:

S. No	Time Band	Deferred sales under Murabaha	Ijara	Diminishing Musharaka	Forward Ijara	Service Ijara	Total
							(RO'000)
1	Up to 1 month	734	319	504	-	-	1,557
2	1-6 months	648	1,722	4,201	-	2	6,573
3	6-12 months	669	1,929	4,130	-	2	6,730
4	1-5 years	2,103	13,537	38,375	-	13	54,028
5	Over 5 years	1,027	38,736	70,824	492	4	111,083
	TOTAL	5,181	56,243	118,034	492	21	179,971

(v) Movement of gross finance

Movement of Gross Finances during the year ended 31 December 2022

S. No	Details	Stage 1	Stage 2	Stage 3	Total
					(RO'000)
1	Opening balance	101,931	55,354	3,188	160,473
2	Migration / changes (+ / -)	(2,870)	2,509	360	-
3	New Finances (+)	45,252	18,216	-	63,468
4	Recovery of Financing (-)	30,203	8,546	436	39,185
5	**Closing balance**	**114,110**	**67,533**	**3,112**	**184,756**
6	TOTAL ECL	200	2,953	1,665	4,818

(vi) Movement of Provisions and Reserve Profit

Particulars	2022	2021
		(RO'000)
Provision at beginning of the period	**3,067**	2,406
Charge / (Released) for the period	**1,519**	519
Reserve Profit for the period	**232**	142
Provision at end of the period	**4,818**	3,067

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 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 2022, subject to the standardized approach is as below:

Sr No	Product / Rating	Carrying 0%	Carrying 20%	Carrying 35%	Carrying 50%	Carrying 100%	Carrying 150%	Total
								(RO'000)
	RATED							
1	Sovereign	24,264	-	-	-	-	-	24,264
2	Banks	-	10,906	-	279	-	-	11,185
	UNRATED	-		-	-	-	-	-
1	Corporate	-	-	-	-	-	-	-
2	Retail	-	-	-	-	5,201	-	5,201
3	Claims secured by residential property	-	-	63,283	-	642	-	63,925
4	Claims secured by commercial property	-	-	-	-	109,695	-	109,695
5	Past due Financing	-	-	-	-	5,935	-	5,935
6	Other assets	927	-	-	-	6,189	-	7,116
7	Private Equity Investments	-	-	-	-	-	-	-
8	Off-balance Sheet Items	-	7,238	5,191	5,594	-	-	18,024
	TOTAL BANKING BOOK	25,191	18,144	68,474	5,873	127,662	-	245,345

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.

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

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.

Muzn Islamic Banking

RISK EXPOSURE AND ASSESSMENT: (CONTINUED)

Liquidity Risk (continued)

Besides its funding sources, Muzn has the support of its Parent Bank in meeting some of its liquidity needs.

The liquidity risk in Muzn is monitored through a regular reporting mechanism to the ALCO. In order to ensure that Muzn meets its financial obligations as and when they fall due, cash flow positions are closely monitored. Sufficient liquidity is required to be maintained by Banks not only for ensuring the continuation of operations, but also for the generation of earning assets and repayment of existing liabilities.

Liquidity ratios of Muzn (i.e. Liquid assets to total assets) are regularly monitored. The average ratio of liquid assets to total assets during the year for Muzn was 17.75% (as shown below). In addition, the cumulative gaps vis-à-vis cumulative liabilities prescribed by the Regulators/Internal Policies are monitored.

Muzn monitors its liquidity risk of funding related to current accounts and other equity with investment account holders on an individual basis as well as on an aggregate basis through cash flow and stock approach.

Treasury department of the Muzn window and the Asset Liability Committee (ALCO) controls and monitors the liquidity and ensures that the window is not exposed to undue liquidity risk and at the same time makes optimum use of its funds through Sharia compliant financing and investment activities.

Indicators of exposure to liquidity risk – short-term assets to short-term liabilities

Particulars	RO'000
Short-term Assets	34,520
Short-term Liabilities	109,488
Short-term Assets to Liabilities	31.53%

Indicators of exposure to liquidity risk - liquid assets ratio

Particulars	RO'000
Liquid Assets	39,501
Total Assets	222,508
Short-term Liabilities	109,488
Total Liabilities	195,942
Liquid Assets to Total Assets	**17.75%**
Liquid Assets to Short-term Liabilities	**36.08%**
Liquid Assets to Total Liabilities	**20.16%**

RISK EXPOSURE AND ASSESSMENT: (CONTINUED)

Quantitative Disclosures:

The maturity profile of the assets and liabilities in line with guidelines issued by Central bank of Oman, at 31 December 2022 was as follows:

	Due on demand and up to 30 days	More than 1 month to 6 months	More than 6 months to 12 months	More than 1 year to 5 years	Over 5 years	Total
31 DECEMBER 2022	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Cash and balances with Central Bank of Oman	2,410	1,629	625	2,460	786	7,910
Due from banks and financial institutions	11,185	-	-	-	-	11,185
Financial assets at amortized cost	-	-	963	-	19,443	20,406
Deferred sales under Murabaha	734	648	669	2,103	1,027	5,181
Ijara	319	1,722	1,929	13,537	38,736	56,243
Diminishing Musharaka	504	4,201	4,130	38,375	70,824	118,034
Forward Ijarah	-	-	-	-	492	492
Service Ijarah	-	2	2	13	4	21
Property and equipment	-	-	-	-	188	188
Other assets	2,848	-	-	-	-	2,848
TOTAL ASSETS	**18,000**	**8,202**	**8,318**	**56,488**	**131,500**	**222,508**
Current accounts	2,308	4,039	2,308	-	2,885	11,540
Due to banks and financial institu-tions	83	-	-	-	-	83
Other liabilities	3,559	-	-	-	-	3,559
Unrestricted investment account holders	**27,901**	**50,187**	**19,103**	**62,484**	**21,085**	**180,760**
Mudaraba savings account (including reserves)	860	1,720	1,720	2,582	2,629	9,511
Due to banks and financial institu-tions under Wakala	17,709	-	-	-	-	17,709
Customer Wakala accounts	9,332	48,467	17,383	59,902	18,456	153,540
Owner's equity	-	-	-	-	26,566	26,566
Total liabilities and Unrestricted in-vestment accountholders and owners' equity	33,851	54,226	21,411	62,484	50,536	222,508
TOTAL LIQUIDITY GAP	**(15,851)**	**(46,024)**	**(13,093)**	**(5,996)**	**80,964**	**-**
CUMULATIVE LIQUIDITY GAP	**(15,851)**	**(61,875)**	**(74,968)**	**(80,964)**	**-**	**-**

RISK EXPOSURE AND ASSESSMENT: (CONTINUED)

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 2022, Muzn has minimal exposure to market risk as:

- Muzn does not have material exposure in currencies other than Omani Riyal;
- Muzn does not hold trading positions in equity;
- Muzn has no position in commodities.

Market Risk arises from fluctuations in profit rates. There are no trading positions in equities or derivatives. Market Risk is managed based on Central Bank of Oman guidelines. The Muzn ALCO regularly monitors the portfolio of assets and liabilities in the banking book for any interest rate risks. Stress tests are also conducted periodically to analyze the impact of Bank and market specific stress factors crises on the earnings and capital of the Bank. The results are reviewed by ALCO, Management and Board Committee.

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

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

The bank follows basic indicator approach for determining operational risk.

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

Capital Charge for Operational Risk under Basic Indicator Approach as per Basel II is RO 777 (000s). The Risk weighted assets for operational risk as per Basel II is RO 9,712 (000s).

Insurance is another tool used by the bank as an operational risk mitigant. Insurance such as Bankers' Blanket Bond, Electronic and Computer Crimes, Professional Indemnity, incomplete transactions, etc as obtained by the bank aim at protecting the bank from high severity risks by reducing the financial impact of the same.

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

RISK EXPOSURE AND ASSESSMENT: (CONTINUED)

Rate of return risk

Qualitative Disclosures:
Rate of return risk refers to the possible impact on the net income of Muzn arising from the impact of changes in market rates and relevant benchmark rates on the return on assets and on the returns payable on funding. An increase in benchmark rates may result in IAH having expectation of a higher rate of return, while the returns on assets may be adjusting more slowly due to longer maturities, thereby affecting the net income of Muzn.

The profit distribution to Investment Accounts is based on profit sharing agreements. Therefore, Muzn is not subject to any significant profit rate risk. However, the profit sharing agreements will result in Displaced Commercial Risk (DCR) when Muzn' s results do not allow distribution of profits in line with market rates. To cater against DCR, Muzn creates a Profit Equalization Reserve.

Rate of return risk is managed by monitoring the sensitivity of the bank's financial assets and liabilities to various standardized profit rate shocks. Standardised shocks include a 100 basis point and 200 basis point parallel shifts in yield curves that are considered on a monthly basis. The impact of these shocks is analysed in the context of its impact on Earnings and Economic Value. The impact is compared against internal limits which have been formulated in line with the Central Bank of Oman and Basel Committee guidelines. The analysis is regularly reviewed by the Management and Board Risk Committee.

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

As at December 2022	200 bps increase	200 bps decrease
Earnings impact - RO'000s	291	(291)

RISK EXPOSURE AND ASSESSMENT: (CONTINUED)
Rate of return risk (continued)

Muzn's profit sensitivity position, in line with guidelines issued by Central bank of Oman, based on contractual re-pricing arrangements at 31 December 2022 was as follows:

	Effective average profit rate	Due on demand and within 6 months	Due within 7 to 12 month	Due within 1 to 5 years	Due after 5 years	Non-profit bearing	Total
31 DECEMBER 2022	**%**	**(RO'000)**	**(RO'000)**	**(RO'000)**	**(RO'000)**	**(RO'000)**	**(RO'000)**
Cash and balances with Central Bank of Oman ("CBO")	N/A	-	-	-	-	7,910	7,910
Due from banks and financial Institutions	0.0%	10,010	-	-	-	1,175	11,185
Financial assets at amortized cost	5.1%	-	963	13,952	5,491	-	20,406
Deferred sales under Murabaha	5.4%	1,382	669	2,103	1,027	-	5,181
Ijara	5.3%	2,041	1,929	13,537	38,736	-	56,243
Diminishing Musharaka	5.8%	4,705	4,130	38,375	70,824	-	118,034
Forward Ijarah	5.8%	-	-	-	-	492	492
Service Ijarah	4.5%	2	2	13	4	-	21
Property and equipment – net	N/A	-	-	-	-	188	188
Other assets	N/A	-	-	-	-	2,848	2,848
TOTAL ASSETS		**18,140**	**7,693**	**67,980**	**116,082**	**12,613**	**222,508**
Current accounts	N/A	-	-	-	-	11,540	11,540
Due to banks and financial institutions	0.0%	83	-	-	-	-	83
Other liabilities	N/A	-	-	-	-	3,559	3,559
Unrestricted investment account holders	N/A	78,088	19,103	62,484	21,085	-	180,760
Mudaraba savings account (including reserves)	0.6%	2,580	1,720	2,582	2,629	-	9,511
Due to banks and financial institutions under Wakala	2.3%	17,709	-	-	-	-	17,709
Customer Wakala accounts	3.5%	57,799	17,383	59,902	18,456	-	153,540
Owners' equity	N/A	-	-	-	-	26,566	26,566
Total liabilities and owners' equity	N/A	78,171	19,103	62,484	21,085	41,665	222,508
ON-BALANCE SHEET GAP	**N/A**	**(60,031)**	**(11,410)**	**5,496**	**94,997**	**(29,052)**	**-**
CUMULATIVE PROFIT SENSITIVITY GAP	**N/A**	**(60,031)**	**(71,441)**	**(65,945)**	**29,052**	**-**	**-**

RISK EXPOSURE AND ASSESSMENT: (CONTINUED)

Displaced commercial risk

Displaced commercial risk refers to the magnitude of risks that are transferred to the shareholders of Muzn in order to cushion the Investment Account Holders (IAH) from bearing some or all of the risks to which they are contractually exposed to in Mudaraba funding contracts. Muzn creates and manages both PER and Investment risk reserve to smoothen IAH returns. Further, Muzn also adjusts its Mudarib share in order to smoothen returns of IAH.

Qualitative Disclosure:

- The Bank has set up prudential reserve account to minimize the adverse impact of income smoothing for PSIA on its shareholders' returns and to meet potential but unexpected losses that would be borne by the IAH on investments financed by PSIA, namely:
- **Profit Equalization Reserve (PER)**
  PER comprises amount appropriated out of the gross income from the Mudaraba to be available for smoothing returns paid to the IAH and the shareholders, and consists of a PSIA portion and a shareholders' portion;
- **Investment Risk Reserve (IRR)**
  IRR comprises amounts appropriated out of the income of IAH after deduction of the Mudarib share of income, to meet any future losses on the investments financed by the PSIA.

An analysis of distribution during the year to IAH by Muzn is as follows:

Particulars	Amount RO'000
Total profits available for distribution	10,934
• Muzn 's share as fund provider	5,600
• Share of IAH	5,472
Profits for IAH before smoothening	5,472
Smoothening:	
• PER	(97)
• IRR	(41)
Profits paid out to IAH after smoothening	5,334

- During the period the Bank utilized OMR Nil (FY 2021: Nil) from PER for the purpose of enhancing the returns to depositors
- The Bank is taking all the Risk Weighted Assets funded by IAH for the purpose of arriving at Total Risk Weighted Assets and capital requirement is calculated accordingly.

Quantitative Disclosures

Historical Rate of Return of IAH:

Historical Rate of Return of unrestricted Investment	2022	2021	2020	2019	2018
Accountholder:	**(RO'000)**	**(RO'000)**	**(RO'000)**	**(RO'000)**	**(RO'000)**
Profits available for distribution	**10,934**	9,469	8,920	6,617	5,634
Profit Distributed	**5,334**	5,174	4,925	3,898	3,352
Funds Invested	**179,971**	157,445	148,918	140,476	116,565
Rate as %age of fund invested	**2.96%**	3.29%	3.27%	2.77%	2.88%

RISK EXPOSURE AND ASSESSMENT: (CONTINUED)
Displaced commercial risk (continued)

Five years comparison of historical profit rates for unrestricted IAH.

	2022	2021	2020	2019	2018
Savings Account (Mudarabah)	**0.66%**	0.53%	0.52%	0.46%	0.77%
Flexi Wakala	**0.10%**	0.10%	0.10%	0.10%	0.10%
Flexi Wakala - Elite	**2.25%**	2.25%	2.25%	2.25%	2.25%
Flexi Wakala - Premium	**1.75%**	1.75%	1.75%	1.75%	1.75%
Wakala- Upto 6 months	**0.25% - 1.75%**	0.10% - 0.25%	0.10% - 0.25%	0.10% - 0.40%	0.10% - 0.25%
Wakala - > 6months to 1 Year	**1.75% - 3.25%**	0.40% - 0.75%	0.40% - 0.75%	0.40% - 1.75%	0.40% - 0.75%
Wakala - > 1 Year to 3 Years	**2.75% - 3.75%**	1.75% - 2.50%	1.75% - 2.50%	1.75% - 2.50%	1.75% - 2.50%
Wakala - > 3 Years	**3.35% - 4.25%**	3.00% - 3.50%	3.00% - 3.50%	2.50% - 3.50%	3.00% - 3.50%
Government Flexi Wakala	**0.75%**	0.75%	0.75%	0.75%	1.00%

Contract Specific Risks
The Credit Risk Appetite document of Muzn has provided limits for the purpose of financing, it is defined within the purpose of financing are the various Shari'a compliant financing contracts that can be used. The risk weighting requirement for each of the Sharia compliant financing contracts, based on the risk profile of the customer as provided in the IBRF is taken into account for the purposes of computing the Capital Adequacy Ratio of Muzn.

Quantitative Disclosures:
Credit risk weighted assets by type of financing contracts is as follows:

Financing Contracts	Risk Weighted As-sets Amount '000
Murabaha receivables	5,219
Ijarah Muntahia Bittamleek	28,072
Diminishing Musharaka	113,644
Forward Ijara	193
Service Ijara	21
Letter of Guarantee	2,797
Letter of Credit	1,447
Total RWA of Financing Contracts	**151,393**
Total RWA from Non-Financing Con-tracts	**8,509**
TOTAL RWA – BANKING BOOK	**159,902**

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:

Deposits and other accounts	2022	2021
		(RO'000)
Directors, Sharia Supervisors and shareholders	**38**	13
Financings		
Directors, Sharia Supervisors and shareholders	**45**	-

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

Income from Islamic financing	2022	2021
		(RO'000)
Income from Islamic financing	**2**	-

RISK EXPOSURE AND ASSESSMENT: (CONTINUED)
Displaced commercial risk (continued)

Remuneration paid to Directors & Sharia Supervisors	2022	2021
		(RO'000)
Chairman		
• remuneration proposed	**8**	8
• sitting fees paid	**2**	2
• other expenses paid	**-**	-
Other Directors		
• remuneration proposed	**15**	15
• sitting fees paid	**11**	11
• other expenses paid	**1**	-
Management fee payable to conventional banking	**120**	100

Muzn maintains a formal procedure on handling of customer complaints. Complaints related to Muzn are dealt with by the conventional banking call center equipped with the required resources to respond to customer calls in a professional manner. The complaint management team of the Conventional Bank takes active part in resolution of customers' complaint and considers customers feedback on products and services. All complaints are logged and investigated by persons not directly related to the subject matter of the complaint.

Sharia Governance Disclosures

Sharia Supervisory Board (SSB)
Muzn's independent Shari'a Supervisory Board is an external Shari'a Committee comprising of independent and well renowned Shari'a Scholars who guide and ensure that the operations, services and products offered by Muzn comply with the principles of Shari'a.

In case SSB rules any earnings Sharia non-compliant, such income is diverted to a charity account and disbursed to charitable organization. Income generated from late payment charges (whereby client undertakes to donate to charity a certain amount in case of delay in installment payments) and whenever a transaction which is treated as Shari'a non-Compliant by Sharia Audit Unit and endorsed by SSB, the income from such Shari'a non-compliant account becomes part of charity Account.

The Internal Sharia reviewer performs functions based on the Shari'a guidelines provided by CBO in the IBRF, Sharia rulings and resolutions issued by SSB. Sharia audit includes continuous audit for transactions of all departments. Its observations and findings are reported in the Sharia audit report to SSB which is also conveyed and discussed with management, with documentation of management responses in addition to recommending action plan for each observation.

As per IBRF, Islamic banks are required to apply Accounting standards issued by AAOIFI and abide by the comprehensive IBRF regulatory framework and guidelines.

Muzn's Sharia Supervisory Board consists of following members namely:

Sheikh Dr. Muhammad Zubair Usmani – Chairman

- PhD in Islamic Finance , University of Karachi, Karachi, 2001
- Ustad Ul Hadeeth & Fiqh Jamia Darul Uloom Karachi, 1989 to date
- Member, Shariah Advisory forum (SAF), Central Bank of Pakistan ,2004 to date
- Chairman Sharia Board, Habib Bank Limited – Islamic Banking Group, 2015-to date
- Member Sharia Board, AAOIFI Bahrain Pakistan Wing, 2021 to date
- Shariah Advisor, Adamjee Life Takaful, 2015 to date
- Shariah Advisor, Askari Takaful, Pakistan, 2019 to date
- Member Executive Committee, Center for Islamic Economics, Karachi, 2007 to date

Sheikh Dr. Abdulrahman Abdullah Al-Saadi – Member

- PhD, Business administration, Islamic Finance, Imam Mohammad Bin Saud Islamic University, Saudi Arabia, 2012
- Assistant Professor, Islamic Banking Department, University of Bahrain, since 2013.
- Shariah and Legal Advisor, Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), since 2012.
- Member of sharia board of NBF bank, UAE, since 2020
- Member of sharia board, JEQUITY PARTNERS, Bahrain.
- Member of Islamic Banking Shariah Practitioners Forum, United Arab Emirates, since 2019
- Rapporteur, Shari'ah Board, AAOIFI, since 2012.
- Orator, Ministry of Islamic Affairs, Bahrain, since more than 10 years.

RISK EXPOSURE AND ASSESSMENT: (CONTINUED)
Displaced commercial risk (continued)

Sheikh Saleh Al Kharusi – Member

- MA in Islamic Jurisprudence from Sultan Qaboos University, Oman, 2011
- Director of the Notary Public Office – Ministry of Justice
- Part-time lecturer in Institute of Sharia Sciences.

HH Sayyid Dr. Adham Al Said – Member

- BSc in Economics from Sultan Qaboos University, Oman - 1999
- MA in Economics from New York University, USA - 2002
- PhD in Economics from University of Western Australia, Australia - 2011
- Assistant Professor of Economics, Sultan Qaboos University
- Partner, The Firm for Business and Economic Consulting
- Chairman of Board of Trustees, Scientific College of Design.

There were a total of four SSB meetings held in 2022. Date of the meetings and attendance of each SSB Member is follows:

Name of the Board Member	Date of Meeting and attendance			
	29/05/2022	26/07/2022	04/10/2022	19/12/2022
Sheikh DR. Muhammad Zubair Usmani	√	√	√	√
Sheikh DR. Abdulrahman Al Saadi	√	√	√	√
Sheikh Saleh Nasser Al Kharusi	√	√	√	√
H.H Sayyid Dr. Adham Al Said	√	√	√	√

Remuneration for Sharia Supervisory Board Members in 2022:
Total Remuneration paid to the Four Scholars for the year 2022 was OMR 30,415. The breakup is as follows:-

Name of the Board Member	Total Fees(RO)
Sheikh DR. Muhammad Zubair Usmani	9,625
Sheikh DR. Abdulrahman Al Saadi	7,700
Sheikh Saleh Nasser Al Kharusi	7,700
H.H Sayyid Dr. Adham Al Said	5,390

RISK EXPOSURE AND ASSESSMENT: (CONTINUED)
Displaced commercial risk (continued)

Sharia compliance key controls
Sharia compliance is ensured in day to day business of Muzn through the following key controls:

- All the products being offered by Muzn are approved by the SSB;
- All investments made by Muzn are approved by SSB;
- The Fatwa approving such products are available on the website of Muzn;
- The responsibility of payment of zakat is on individual shareholders and investment account holders;
- There has been no non-compliance with Sharia rules and regulations during the year;
- Muzn has in place a Sharia Compliance Unit (SCU) which facilitates the management in ensuring compliance with Sharia (as manifested by the guidelines and Fatawa issued by the SSB) and Islamic banking stipulations of the Central Bank on a day to day basis in all its business activities, operations and transactions. This is achieved through review and approval of the contracts, agreements, policies, procedures, products, process flows, transactions, reports (profit distribution calculations), etc;
- Templates of agreements used by Muzn are approved by SSB;
- Islamic banking knowledge and experience is considered to be a compulsory requirement for hiring of staff handling core Muzn functions; staff has been provided training throughout the year on Sharia matters;

Disclosure of the nature, size and number of violations of Sharia compliance during the year:
There is no violation to SSB's Sharia ruling and AAOIFI Sharia standard have been found during the year.

Disclosure of annual Zakah contributions of the Licensee, where relevant, according to constitution, general assembly or national requirements or as required by the respective SSB
SSB issues its Sharia compliance certificate where it identifies that Sharia compliance has been observed in the bank's transactions and contracts, and in case of any violation, the observation is listed in the report. In addition, and as per Management decision, SSB certificate also stipulates that Zakat calculation and payment is the responsibility of the shareholders.

Social service and customer education
To promote the cause of Islamic Banking, Muzn Islamic Banking actively takes part in educating the public and customers about various aspects of Islamic Finance. The Muzn team also took active part in various Islamic banking conferences and forums, engaging in healthy discussions regarding issues, developments and opportunities of Islamic banking and the ways in which the industry is helping the country in promoting financial inclusion, SME sector, trade and economic growth.

Muzn Islamic Banking as part of National Bank of Oman distributed food hampers to the poor and needy people in the holy month of Ramadan. A team of volunteers including the senior management team delivered several food hampers to low income families across the Muscat Governorate to inaugurate this initiative.

RISK EXPOSURE AND ASSESSMENT: (CONTINUED)

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 2022.

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	20,000
Retained earnings	5,984
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	**25,984**
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)	**25,984**
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)	**25,984**

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 subsidiar-ies and held by third parties (amount allowed in group Tier 2)	-
t of which: instruments issued by subsidiaries subject to phase out	-

RISK EXPOSURE AND ASSESSMENT: (CONTINUED)
BASEL III – Transition Disclosure: (continued)

General Provisions	1,644
Cumulative fair value (losses) or gains on available for sale instruments	(23)
Tier 2 capital before regulatory adjustments	**1,621**
TIER 2 CAPITAL: REGULATORY ADJUSTMENTS	
National specific regulatory adjustments	-
REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT.	-
OF WHICH: Cumulative fair value gains or losses on available for sale instruments	-
Total regulatory adjustments to Tier 2 capital	**-**
Tier 2 capital (T2)	**1,621**
Total capital (TC = T1 + T2)	**27,605**
Total risk weighted assets	**177,492**
Of which: Credit risk weighted assets	159,902
Of which: Market risk weighted assets	7,878
Of which: Operational risk weighted assets	9,712
CAPITAL RATIOS	
Common Equity Tier 1 (as a percentage of risk weighted assets)	14.63
Tier 1 (as a percentage of risk weighted assets)	14.63
Total capital (as a percentage of risk weighted assets)	15.55
Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB/D-SIB buffer requirement expressed as a percentage of (risk weighted assets	-
of which: capital conservation buffer requirement	-
of which: bank specific countercyclical buffer requirement	-
of which: D-SIB/G-SIB buffer requirement	-
Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	-
NATIONAL MINIMA (IF DIFFERENT FROM BASEL III)	
National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	7.000
National Tier 1 minimum ratio (if different from Basel 3 minimum)	9.000
National total capital minimum ratio (if different from Basel 3 minimum)	11.000
TOTAL INVESTMENT ACCOUNT HOLDERS	
Amount of investment account holders funds	179,853
Profit equalization reserve	645
Investment risk reserve	262
TOTAL INVESTMENT ACCOUNT HOLDERS	**180,760**

Prepared under the guidelines on composition of capital disclosure requirements

RISK EXPOSURE AND ASSESSMENT: (CONTINUED)
BASEL III – Transition Disclosure: (continued)

Balance sheet as in published financial statements

	Balance sheet as in published financial state-ments
ASSETS	**31-Dec-22**
	RO'000s
Cash and balances with Central Bank of Oman	7,910
Certificates of deposit	-
Due from banks	11,185
Financing to banks	-
Financing to Customers	179,971
Investments	20,406
Property and equipment	188
Deferred tax assets	-
Other assets	2,848
TOTAL ASSETS	**222,508**
LIABILITIES	
Due to banks	17,792
Customer deposits	174,591
Euro medium term notes	-
Other liabilities	3,559
Subordinated bonds	-
TOTAL LIABILITIES	**195,942**
SHAREHOLDERS' EQUITY	
Paid-up share capital	20,000
Share premium	-
Legal reserve	-
General reserve	-
Retained earnings	5,984
Other reserves	605
Cumulative changes in fair value of investments	(23)
Subordinated debt reserve	-
Tier 1 perpetual bond	-
TOTAL SHAREHOLDERS' EQUITY	**26,566**
Total liability and shareholders' funds	**222,508**

RISK EXPOSURE AND ASSESSMENT: (CONTINUED)
BASEL III – Transition Disclosure: (continued)

Balance sheet as in published financial statements expanded

		RO'000s
	Balance sheet as in published financial statements 31-Dec-22	**Reference**
ASSETS		
Cash and balances with Central Bank of Oman	7,910	
Certificates of deposit	-	
Balance with banks and money at call and short notice	11,185	
Investments	20,406	
FINANCING OF WHICH :		
Financing to Banks - Gross	-	
General Provisions considered for Tier 2	-	
Net Financing to banks	-	
Financing to Customers - Gross	184,756	
ECL Stage 1	(192)	
ECL Stage 2	(2,928)	A1
ECL Stage 3	(1,665)	
Net Financing to customers	**179,971**	
Fixed assets	188	
Other assets of which:	2,848	
Deferred tax assets	-	
Amount considered for CET1		
Current year allocation - not eligible	-	
TOTAL ASSETS	**222,508**	
CAPITAL & LIABILITIES		
Paid-up Capital	-	
Of which:		
Amount eligible for CET1	20,000	
Amount eligible for AT1	-	C1
Reverses and Surplus	5,984	
Of which: Amount eligible for CET1		C2
Retained earnings carried forward	3,347	
Profit for current year not eligible	2,637	
Impairment reserve	-	
General reserve	-	
Subordinated debt reserve	-	
Proposed Stock Dividend	-	
TOTAL AMOUNT ELIGIBLE FOR CET1	-	

RISK EXPOSURE AND ASSESSMENT: (CONTINUED)
BASEL III – Transition Disclosure: (continued)

		RO'000s
Tier 1 perpetual bond	-	
Proposed Cash Dividend	-	
Cumulative changes in fair value of investments	(23)	
Amount eligible for Tier 2		
Other reserve	605	
TOTAL CAPITAL	**26,566**	
Deposits Of which:		
Deposits from banks	17,792	
Customer deposits	174,591	
Euro medium term notes	-	
Other deposits (Sub-debt)	-	
Other liabilities & provisions Of which:	3,559	
TOTAL	**222,508**	

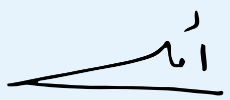
		RO'000s
Basel III common disclosure template to be used during the transition of regulatory adjustments		
	Component of regulatory capital reported by bank	**Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from step 2**
COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES		
Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	20,000	C1
Retained earnings	5,984	
Accumulated other comprehensive income (and other reserves)	-	C2
Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	
COMMON EQUITY TIER 1 CAPITAL BEFORE REGULATORY ADJUSTMENTS	**25,984**	
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)	**25,984**	
ADDITIONAL TIER 1 CAPITAL: INSTRUMENTS (TIER1 PERPETUAL BOND)	**-**	
ADDITIONAL TIER 1 CAPITAL: REGULATORY ADJUSTMENTS - NIL		
TIER 1 CAPITAL (T1 = CET1 + AT1)	**25,984**	

RISK EXPOSURE AND ASSESSMENT: (CONTINUED)
BASEL III – Transition Disclosure: (continued)

		RO'000s
Basel III common disclosure template to be used during the transition of regulatory adjustments		
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)	-	A1
of which: instruments issued by subsidiaries subject to phase out	-	
General provisions	1,644	
Cumulative fair value gains or losses on available for sale instruments	(23)	
TIER 2 CAPITAL BEFORE REGULATORY ADJUSTMENTS	**1,621**	
TIER 2 CAPITAL: REGULATORY ADJUSTMENTS	**-**	
National specific regulatory adjustments	-	
REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RE-SPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREAT-MENT.	-	
OF WHICH: Cumulative fair value gains or losses on available for sale instruments	-	
TOTAL REGULATORY ADJUSTMENTS TO TIER 2 CAPITAL	**-**	
TIER 2 CAPITAL (T2)	**1,621**	
TOTAL CAPITAL (TC = T1 + T2)	**27,605**	

1. Common Equity.
Common equity comprises of assigned capital amounting to RO 20,000,000 transferred from National Bank of Oman SAOG.

2. All other regulatory capital instruments - Nil
This report on Basel II & III disclosures set out from pages no 1 to 28 was authorized for issue on 30th January 2023.



Amal Suhail Bahwan
Chairperson

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Independent auditors' report

To the Shareholders of National Bank of Oman SAOG

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **Muzn Islamic Banking** (the "Islamic window"), which comprise the statement of financial position as at 31 December 2022, the statement of income, changes in equity, cash flows and sources and uses of charity fund for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Islamic window as at 31 December 2022, and results of its operations, changes in owners' equity, its cash flows and charity fund for the year then ended in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") as modified by the Central Bank of Oman (the "CBO").

In our opinion, the Islamic window has also complied with the Islamic Shari'a Principles and Rules as determined by the Shari'a Supervisory Board of the Islamic window during the year ended 31 December 2022.

Basis for Opinion

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

Continued on page 2

KPMG

Continued from page 1

Responsibilities of the Board of Directors for the Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

— 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.

Continued on page 3

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Continued from page 2

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

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

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

KPMG

5 March 2023

KPMG LLC

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CR.No: 1358131

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Tax Card No. [illegible]

Statement of Financial Position

As at 31 December 2022

		2022	2021
ASSETS	**Notes**	**RO'000**	**RO'000**
Cash and balances with Central Bank of Oman	5	**7,910**	15,056
Due from banks and financial institutions	6	**11,185**	1,333
Investments in Sukuk, shares and other securities	7	**20,406**	17,911
Murabaha receivables - net	8	**5,181**	3,893
Ijarah Muntahia Bittamleek - net	9	**56,243**	63,479
Diminishing Musharaka - net	10	**118,034**	89,339
Forward Ijarah - net	11	**492**	719
Service Ijarah	12	**21**	15
Property and equipment	13	**188**	334
Other assets	14	**2,848**	2,318
TOTAL ASSETS		**222,508**	194,397
LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY			
LIABILITIES			
Current accounts		**11,540**	10,570
Due to banks and financial institutions	15	**83**	27
Other liabilities	16	**3,559**	11,675
TOTAL LIABILITIES		**15,182**	22,272
EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS	18	**180,760**	148,173
OWNERS' EQUITY			
Assigned capital	19	**20,000**	20,000
Impairment reserve		**605**	605
Retained earnings		**5,984**	3,347
Investment fair value reserve		**(23)**	-
TOTAL OWNERS' EQUITY		**26,566**	23,952
TOTAL LIABILITIES, UNRESTRICTED INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY		**222,508**	194,397

The financial statements were approved by the Board of Directors on 30 January 2023.

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

The notes 1 to 27 form part of these financial statements.

Statement of Income

For the year ended 31 December 2022

		2022	2021
INCOME	**Notes**	**RO'000**	**RO'000**
Income from Islamic financing	20	**9,179**	8,739
Inter-bank Wakala		**391**	9
Investment income		**1,122**	989
Income from jointly financed investments and receivables		**10,692**	9,737
Return on unrestricted investment accountholders before the window's share as Mudarib	21	**(5,334)**	(5,174)
Profit equalisation reserve		**(97)**	(86)
Investment risk reserve		**(41)**	(38)
Return on unrestricted investment accountholders		**(5,472)**	(5,298)
Muzn's share in income from investment as Mudarib and Rabul Maal		**5,220**	4,439
Other operating income		**964**	383
TOTAL OPERATING INCOME		**6,184**	4,822
General and administrative expenses	22	**(1,839)**	(1,725)
Depreciation	13	**(189)**	(272)
TOTAL OPERATING EXPENSES		**(2,028)**	(1,997)
PROFIT BEFORE IMPAIRMENT LOSSES		**4,156**	2,825
Impairment for credit losses - net	17	**(1,519)**	(518)
PROFIT FOR THE YEAR		**2,637**	2,307

Statement of Changes in Equity

For the year ended 31 December 2022

	Share capital	Impairment reserve	Retained Earnings	Investment fair value	Total
	(RO'000)	(RO'000)	(RO'000)		(RO'000)
Balance at 1 January 2022	**20,000**	**605**	**3,347**	**-**	**23,952**
Profit for the year	**-**	**-**	**2,637**	**-**	**2,637**
Investment fair value reserve (net of tax)	**-**	**-**	**-**	**(23)**	**(23)**
BALANCE AT 31 DECEMBER 2022	**20,000**	**605**	**5,984**	**(23)**	**26,566**
Balance at 1 January 2021	20,000	605	1,040	-	21,645
Profit for the year	-	-	2,307	-	2,307
BALANCE AT 31 DECEMBER 2021	**20,000**	**605**	**3,347**	**-**	**23,952**

The notes 1 to 27 form part of these financial statements.

Statement Of Cash Flows

For the year ended 31 December 2022

	2022	2021
OPERATING ACTIVITIES	**RO'000**	**RO'000**
Profit for the year	**2,637**	2,307
Adjustments for:		
Depreciation	**189**	272
Provisions for credit loss	**1,519**	518
Profit on investment at FVPL	**(35)**	-
Profit equalization reserve	**97**	86
Investment risk reserve	**41**	38
OPERATING CASH FLOWS BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES	**4,448**	3,221
Changes in Murabaha receivables :	**(1,281)**	(1,104)
Ijarah Muntahia Bittamleek - net	**7,411**	8,431
Diminishing Musharaka assets	**(30,392)**	(15,650)
Forward Ijarah assets	**223**	(722)
Service Ijarah assets	**(6)**	7
Other assets	**(530)**	(740)
Current accounts	**970**	483
Other liabilities	(8,116)	6,660
NET CASH FLOWS (USED IN) / FROM OPERATING ACTIVITIES	**(27,273)**	586
INVESTING ACTIVITIES		
Purchase of property and equipment	**(43)**	(75)
Purchase of investments	**(2,483)**	(20)
NET CASH USED IN INVESTING ACTIVITIES	**(2,526)**	**(95)**
FINANCING ACTIVITIES		
Increase / (decrease) in unrestricted investment accountholders	**28,621**	(15,910)
NET CASH FROM / (USED IN) FINANCING ACTIVITIES	**28,621**	**(15,910)**
Decrease) / Increase in cash and cash equivalents)	**(1,178)**	(15,419)
Cash and cash equivalents at the beginning of the year	**2,481**	17,900
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**1,303**	**2,481**
REPRESENTING:		
Cash and balances with Central Banks	**7,910**	15,056
Due from banks maturing within three months	**11,185**	1,333
Due to banks maturing within three months	**(17,792)**	(13,908)
	1,303	2,481

The notes 1 to 27 form part of these financial statements.

Statement of Sources and Uses of Charity Fund

For the year ended 31 December 2022

	2022	2021
	RO	**RO**
Balance as at 1 January	-	-
Non-Islamic income for the year	**32,555**	11,694
TOTAL SOURCE	**32,555**	11,694
Use of charity fund:		
Oman Association for Disabled	**(10,852)**	-
Oman Society for the Hearing Impaired	-	(2,924)
Association for Welfare of Children Disabilities	**(10,852)**	(2,924)
Oman Charitable Organization	-	(5,846)
Omani Association for Down syndrome	**(10,851)**	-
Undistributed charity fund as at 31 December	-	-

The notes 1 to 27 form part of these financial statements.

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

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

The principle activities of Muzn are taking demand, saving and deposit accounts, providing Murabaha finance, Ijarah financing, Musharaka financing and other Sharia compliant forms of financing as well as managing investor's money on the basis of Mudaraba or agency for a fee, providing commercial banking services and other investment activities. Muzn's activities are regulated by the Central Bank of Oman ('CBO') and supervised by Sharia Supervisory Board ('SSB') comprising of five members.

Muzn's address is PO Box 751 and PC 112, Muscat, Sultanate of Oman.

Muzn employed 49 employees as at 31 December 2022 (2021: 54).

2 BASIS OF PREPARATION

2.1 Statement of compliance

In accordance with the requirements of Section 1.2 of Title 3 of the Islamic Banking Regulatory Framework ("IBRF") issued by CBO, the financial statements have been prepared in accordance with Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of Muzn and the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), as adopted by CBO and other applicable regulations of CBO. In accordance with requirements of AAOIFI, matters that are not covered by FAS, Muzn uses guidance from the relevant International Financial Reporting Standards ("IFRS") in so far as those requirements do not contravene with Shari'a principles and rules and the AAOIFI "Conceptual Framework for Financial Reporting by Islamic Financial Institutions" (the conceptual framework).

Statement of restricted investment accountholders and statement of Qard fund and Zakat are not presented as these are not applicable / relevant to Muzn's operations.

2.2 Basis of measurement

The financial statements are prepared on historical cost basis except for the measurement at fair value of certain instruments carried at fair value.

2.3 Functional and presentation currency

The financial statements have been presented in Rial Omani (RO) which is the functional currency of Muzn. Except as otherwise indicated, financial information presented has been rounded off to the nearest thousand Rial Omani (RO).

2.4 Use of estimates and judgements

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set below have been consistently applied in dealing with items that are considered material in relation to Muzn's financial statements to the period presented.

3.1 Foreign currency translations

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in statement of income.

3.2 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash on hand, non-restricted cash deposited with the Central Bank of Oman and, amounts due from/to other banks and financial institutions, interbank Wakala with original maturity of three months.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Further, this should also be as per the Sharia principles and guidelines.

Income and expenses are presented on a net basis only for permitted transaction.

3.4 Murabaha receivables

Murabaha receivables are stated net of deferred profits and provisions for impairment. Muzn considers the promise made in the deferred sales to the purchase orderer as obligatory. Murabaha receivables are sales on deferred payment terms. Muzn arranges a Murabaha transaction by buying an asset and then selling this asset to Murabaha (beneficiary) after computing a margin profit over cost. The sales price (cost plus profit margin) is repaid in instalments by the Murabaha over the agreed period. Promise made in the Murabaha to the purchase orderer is binding upon the customer.

3.5 Ijarah Muntahia Bittamleek - net

Assets acquired for leasing (Ijara) are stated at cost, less accumulated depreciation. Leased assets are depreciated over the life of the lease in systematic manner. Muzn assesses at each reporting date whether there is objective evidence that these assets are impaired. Impairment losses are measured as the difference between the carrying amount of the asset (including lease rental receivables) and the estimated recoverable amount. Impairment losses, if any, are recognised in the statement of income.

3.6 Diminishing Musharaka

Musharaka contract represents a partnership between Muzn and a customer whereby each party contributes to the capital in equal or varying proportions to develop a new asset or share an existing one, and whereby each of the party becomes an owner of the capital on a permanent or declining basis and shall have a share of profits or losses.

These are stated at the fair value of consideration given less any amounts written off and provision for impairment, if any. In Diminishing Musharaka based transactions, Muzn enters into a Musharaka based on Shirkat-ul-milk for financing an agreed share of fixed asset (e.g. house or land) with its customers and enters into periodic profit payment agreement on Ijara basis for the utilisation of Muzn's Musharaka share by the customer.

Over the tenor, one partner's investment in the partnership declines on account of the other partner's increase in the partnership investment through repayment of the former partner's share.

3.7 Service Ijarah

Deferred Contracts under Service Ijarah are stated net of deferred profits and provisions for impairment. Muzn considers the payments to be made under Deferred Service Ijarah Contracts as obligatory.

3.8 Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment loss. Depreciation is calculated so as to write off the cost of property and equipment, by equal instalments over their estimated economic useful lives from the date the asset is brought into use, as follows:

NATURE OF ASSETS	USEFUL LIFE IN YEARS
Furniture and fixtures	10
Equipment	5-10
Motor vehicles	4
Leasehold improvements	3-10

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to statement of income when the expense is incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in statement of income as an expense when incurred.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Unrestricted investment accountholders

Equity of investment accountholders ("IAH") are funds held by the Window in one common pool of unrestricted investment account, which is invested by the Window ('Mudarib') in its own discretion. These include funds raised under Mudaraba contracts and Wakala contracts under multi-level investment arrangements. The funds received under the Wakala arrangement is invested Mudaraba investment pool and is considered as investment made by an investment account holder.

Under both the Mudaraba and a comingled Wakala arrangement, the investment accountholder authorizes the Window to invest the accountholder's funds in a manner which the Window deems appropriate without laying down any restrictions as to the purpose the funds should be invested.

The Window charges management fee (Mudarib fees) to investment accountholders. The allocation of income is determined by the management of the Window at a pre-agreed ratio with IAH. Administrative expenses incurred in connection with the management of the fund are borne directly by the Window and are not charged to investment accounts. Only profits earned on pool of assets funded from IAH are allocated between the owners' equity and IAH. All equity of investment accountholders are carried at cost plus profit and related reserves less amounts settled.

The basis applied by the Window in arriving at the equity of investment accountholder's share of income is total investment income less shareholders' income. In case of Wakala contracts, the Window does not acts as both an investment agent and Mudarib of the same fund at one time. Therefore, in case of comingling of Wakala investment funds with the Mudaraba pool, the investment agent will only charge Wakala Fee and will not share profits from the Mudaraba investment pool in the capacity of Mudarib.

Under FAS 30, ECL is allocated to the assets invested using funds from unrestricted investment accounts.

3.10 Sukuk, shares and other securities

Equity-type instruments at fair value through profit and loss

Investments at fair value through statement of income include investments held for trading and investments designated upon initial recognition as investments at fair value through statement of income.

An investment is classified as held for trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Any investments that form part of a portfolio where there is an actual pattern of short-term profit taking are also classified as 'held for trading'. These investments are subsequently measured at fair value. The unrealized gains and losses arising from the remeasurement to fair value are included in the statement of income.

Equity-type instruments at fair value through equity

This includes all equity-type instruments that are designated as fair value through equity upon initial recognition. Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value with unrealised gains or losses recognised proportionately in owners' equity and equity of investment accountholders until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in owners' equity or equity of investment accountholders his recognised in statement of income.

Debt-type instruments at fair value through statement of income

These include debt-type investments held for trading purposes and those investments that are designated under this category on initial recognition. Subsequent to acquisition, investments designated at fair value through statement of income are re-measured at fair value with recognized gains or losses recognized in statement of income.

Debt-type instruments at amortised cost

Debt-type instruments which are managed on a contractual yield basis and are not held for trading and has not been designated at fair value through statement of income are classified as debt-type instruments at amortised cost. Such investments are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such investment is recognised in the statement of income, when the investment is de-recognised or impaired.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Investment risk reserve

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

3.12 Profit equalisation reserve

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

3.13 Provisions

Provisions are recognised when Muzn has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be measured reliably.

3.14 Earnings prohibited by shari'a

Muzn is committed to avoid recognising any income generated from Shari'ah non-compliant sources. Accordingly, all Shari'ah non-compliant income is credited to a charity fund where Muzn disburses these funds according to the Sharia Supervisory Board's supervision and instructions.

3.15 Zakah

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

3.16 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.

3.17 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.

3.18 Revenue recognition

3.18.1 Murabaha profit

Murabaha profit is recognized when the income is quantifiable and contractually determined at the commencement of the contract, income will be recognised on a time-proportionate basis over the period of the contract based on the principal amounts outstanding. Where the income from a contract is not quantifiable or contractually determinable, it will be recognized when realised. Income related to non performing accounts will be excluded from the statement of income.

3.18.2 Diminishing Musharaka

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

3.18.3 Ijarah Muntahia Bittamleek

Ijarah income is recognised on a time proportionate basis over the Ijarah term and is stated net of depreciation. Income related to non-performing Ijarah accounts that are non-performing is excluded from the statement of income.

3.18.4 Service Ijarah

Where the income is quantifiable and contractually determined at the commencement of the contract, income will be recognised on a time-apportioned basis over the period of the contract based on the principal amounts outstanding. Where the income from a contract is not quantifiable or contractually determinable, it will be recognized when realised. Income related to non performing accounts will be excluded from the statement of income.

3.18.5 Dividend income

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

3.18.6 Fee and Commission Income

Fee and commission income is recognized upon rendering of services.

3.18.7 Sukuk & investment income

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

Income from investments is recognised when earned.

3.18.8 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.

3.18.9 Income allocation

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Taxation

Muzn is not a separate legal entity and therefore is not taxable on a stand-alone basis as per the prevailing tax laws.

National Bank of Oman SAOG is taxable on a consolidated basis i.e including Muzn's financial results, accounted for as per the International Financial Reporting Standards. Accordingly, no current tax and deferred tax has been accounted for in these financial statements.

3.20 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 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 are recognised as an expense when the Window is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if it is probable that the offer made by the Window will be accepted, and the number of acceptances can be estimated reliably.

3.21 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.

3.22 Sharia supervisory board

All business activities, products, transactions, agreements, contracts and other relevant documents are subject to the supervision of the Sharia Supervisory Board of Muzn, which meets four times a year and consists of three prominent Sharia scholars as voting members and two non-voting members who are expert in the field. The SSB members appointed for a period of three years are:

- Sh. Dr. Mohamed Bin Ali Elgari - Chairman
- Dr. Mohammed Daud Bakar - Member
- H.H. Sh. Dr. Adham Al Said - Member
- Sh. Saleh Al Kharusi – Member

3.23 Financial Instruments

a) Classification of financial instruments

Financial assets consist of balances with Central Bank of Oman, due from banks and financial instituions, debt type investments classified at amortised cost, equity investments, Murabaha receivables, Ijarah, Diminishing Musharaka, Forward Ijarah, Service Ijarah and other receivables.

Financial liabilities contracts consist of placement from financial institutions, placements from customers, customers' current accounts and other payables. All financial assets and financial liabilities are carried at amortised cost.

b) Measurement of financial Instruments

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit and loss, transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

Amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus the capital repayments, plus or minus the cumulative amortization using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability. The calculation of the effective profit rate includes all fees paid or received that are an integral part of the effective profit rate.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.23 Financial Instruments (continued)

c) Trade and settlement date accounting

The Window recognises financing, investments, deposits and equity of investment accountholders on the date on which they are originated. Purchases and sale of all other financial assets and liabilities are recognised on the trade date, i.e. the date that the Window contracts to purchase or sell the asset or liability.

d) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Window has transferred substantially all risk and rewards of ownership.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Window could be required to pay.

Financial liabilities are derecognised when the obligation specified in the contract is legally discharged, cancelled, or expired.

e) Impairment

Overview of ECL principles

The adoption of IFRS 9 has fundamentally changed the Window's financing loss impairment method by replacing incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Window has been recording the allowance for expected credit losses for all financing exposure and other debt financial assets not held at FVPL, together with financing commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

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

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

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

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

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

Stage 1: Twelve months ECL

For exposures where there has not been a Significant Increase in Credit Risk ("SICR"), since initial recognition, a portion of the LTECL associated with the probability of default events occurring within next twelve months is recognised.

Stage 2: LTECL – not credit impaired

For credit exposures where there has been a SICR since initial recognition but that are not credit impaired, LTCEL is recognised. LTECL (Stage 2) is a probability-weighted estimate of credit losses and is determined based on the difference between the present value of all cash shortfalls. The cash shortfall is the difference between all contractual cash flows that are due to the Window and the present value of the recoverable amount, for financial assets that are not credit-impaired at the reporting date.

Stage 3: LTECL – credit impaired

Financial contracts are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.

For Stage 3 financial contracts, the provisions for credit-impairment are determined based on the difference between the net carrying amount and the recoverable amount of the financial contract.

At initial recognition of a financial asset, the Window 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:

Stage 1

Credit risk has not increased significantly since initial recognition – recognise 12-month expected credit losses.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
3.23 Financial Instruments (continued)

Stage 2
Credit risk has increased significantly since initial recognition – recognise lifetime expected losses (this is recognising a provision earlier than under IAS 39 Financial assets: Recognition and Measurement) with revenue being calculated based on the gross amount of the asset

Stage 3
There is objective evidence of impairment as at the reporting date to recognise lifetime expected losses, with revenue being based on the net amount of the asset (that is, based on the impaired amount of the asset).

Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and profit is subsequently recognised based on a credit-adjusted effective profit rate (EPR). ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Window has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

The calculation of ECLs
The Window calculates ECLs based on a two probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EPR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

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

- PD – The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

- EAD – The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued profit from missed payments.

- LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the window would expect to receive, including from the realisation of any collateral, if any. It is usually expressed as a percentage of the EAD. The Window has applied a LGD of 0% on Government Sukuk issued by Government of Oman which are classified as investments under amortised cost.

Credit-impaired financial assets
At each reporting date, the Window assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

a) significant financial difficulty of the borrower or issuer;
b) a breach of contract such as a default or past due event;
c) the restructuring of a financing or advance by the Window on the terms that the Window would not consider otherwise;
d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
e) the disappearance of an active market for a security because of financial difficulties.

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
3.23 Financial Instruments (continued)

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

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

Presentation of allowance for credit losses in the statement of financial position

Allowance for credit losses are presented in the statement of financial position as follows:

- Financial assets measured at amortised cost, as a deduction from the gross carrying amount of the assets;
- Financing commitments and financial guarantee contracts: generally as a provision under other liabilities; and
- Where a financial contract includes both a drawn and undrawn component, and the Window has identified the ECL on the financing commitments / off-balance sheet component separately from those on the drawn component, the Window presents allowance for credit losses for drawn components. The amount is presented as a deduction from the gross carrying amount of the drawn component. Allowance for credit losses for the undrawn component is presented as a provision in other liabilities.

Calculation of expected credit loss (ECL)
Inputs, assumptions and techniques used for ECL calculation

Assessment of Significant Increase in Credit Risk

Key concepts in FAS 30 that have the most significant impact and require a high level of judgment, as considered by the Window while determining the impact assessment, are:

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Window compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Window's existing risk management processes.

The Window's assessment of significant increases in credit risk is being performed at least quarterly for each individual exposure based on eleven factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2. The Window will consider a financial asset to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

a. The remaining Lifetime PD at the reporting date has increased as result of downgrading of internal rating by two notches;
b. Inadequate or unreliable financial and other information such as unavailability of audited financial statement
c. Non-cooperation by the counterparty in matter pertaining to documentation
d. Counterparty is the subject of litigation by third parties that may have a significant impact on his financial position
e. Frequent changes in senior management
f. Intra-group transfer of funds without underlying transactions
g. Deferment/delay in the date for commencement of commercial operations by more than one year
h. Modification of terms resulting in concessions granted to counterparty including extension of moratorium, deferment of payment, waiver of covenants, etc. In applying this requirement, Window is guided by the extant instructions of CBO in regard to treating an account as restructured.
i. A fall of 25 percent or more in the turnover or in the EBIT as compared to previous year

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
3.23 Financial Instruments (continued)

j. Erosion in net-worth by more than 20 percent as compared to the previous year and coupled with an increase in leverage.
k. A fall in the debt service ratio

FAS 30 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date.

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios
The measurement of ECL for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgment.

Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables), that are closely correlated with credit losses in the relevant portfolio.

The windows 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.

3.24 Right-of-use asset
The Window recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use asset is measured at cost, less any accumulated amortisation and impairment losses, and adjustment for any effect of Ijarah modification or reassessment. The cost of right-of-use assets represents the fair value of total consideration paid/ payable and includes initial direct costs and any dismantling or decommissioning costs. The Window amortises the right-of-use asset from the commencement date to the end of the useful economic life of the right-of use assets which coincides with the end of the Ijarah term using a systematic basis that is reflective of the pattern of utilization of benefits from the right-of-use asset. Right-of-use asset is also subject to impairment in line with FAS 30 requirements. The carrying value of right-of-use asset is recognised under “Property and equipment “ in the statement of financial position.

3.25 Ijarah liability
At the commencement date of the lease (i.e., the date the underlying asset is available for use), the Window recognises Ijarah liability measured at the fair value of total rentals payable for Ijarah term. After the commencement
date, the amount of Ijarah liability is increased to reflect return on the Ijarah liability – by way of amortisation of deferred Ijarah cost and reduced to reflect the Ijarah rentals made. In addition, the carrying amount of Ijarah liability is remeasured if there is a modification, a change in the Ijarah term or change in the in-substance fixed lease payments. The carrying value of Ijarah liability is recognised under “Other liabilities” in the statement of financial position.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.26 Due to banks
Due to banks and financial institutions comprise of payables under Wakala contracts. These are recognised at fair value of consideration received less amounts settled, if any. Profits on these accounts are paid as per the respective agreement. Under these contracts, the bank acts as agent and corresponding bank is Muwakkil.

3.27 Placements with financial institutions
Placements with financial institutions comprise of short-term treasury contracts with financial institutions in the form of Wakala investments. These placements are stated at amortised cost net of deferred profits and allowance for credit losses, if any

3.28 Current accounts
Customers’ current accounts balances are in non-investment accounts and are recognised when received by the Window. The transaction is measured at the cash equivalent amount received by the Window at the time of contracting. At the end of the accounting year, the accounts are measured at their book value, which represents the settlement value to the customers.

3.29 Fair value
Fair value is determined for each financial asset individually in accordance with the valuation policies set out below: - For quoted investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the statement of financial position date. - For unquoted investments, fair value is determined by reference to recent significant buy or sell transaction with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods. - For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Islamic Window using current profit rates. For investments with similar terms and risk characteristics. - Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost, less impairment loss, if any.

3.30 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 derecognised when:

i. the right to receive cash flows from the asset has expired;
ii. the Window has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires

3.31 New standards, amendments and interpretations

3.31.1 New standards, amendments and interpretations effective from 1 January 2022
For the year ended 31 December 2022, the Window has adopted all of the amendments in standards issued by AAOIFI that are relevant to this operations and effective for the period beginning on 1 January 2022.

FAS 37- Financial Reporting by Waqf Institutions
AAOIFI issued FAS 37 “Financial Reporting by Waqf Institutions” in 2020. The objective of the standard is to establish principles of financial reporting by Waqf institutions, which are established and operated in line with Shari’ah principles and rules. This standard shall be effective for the financial periods beginning on or after 1 January 2022 with early adoption permitted. There is no impact of this standard on Muzn Financial statements

FAS 38 Wa’ad, Khiyar and Tahawwut
AAOIFI has issued FAS 38 Wa’ad, Khiyar and Tahawwut in 2020. The objective of this standard is to prescribe the accounting and reporting principles for recognition, measurement and disclosures in relation to shariah compliant Wa’ad (promise), Khiyar (option) and Tahawwut (hedging) arrangements for Islamic financial institutions. This standard is effective for the financial reporting periods beginning on or after 1 January 2022 with an option to early adopt.

This standard classifies Wa’ad and Khiyar arrangements into two categories as follows:

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.31 New standards, amendments and interpretations (continued)

a) "ancillary Wa'ad or Khiyar" which is related to a structure of transaction carried out using other products i.e. Murabaha, Ijarah, etc.; and
b) "product Wa'ad and Khiyar" which is used as a stand-alone Shariah compliant arrangement.

Further, the standard prescribes accounting for constructive obligations and constructive rights arising from the stand-alone Wa'ad and Khiyar products and accounting for Tahawwut (hedging) arrangements based on a series of Wa'ad and Khiyar contracts.

There is no material impact on the Window upon adoption of this standard.

3.31.2 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 39 Financial Reporting for Zakah

AAOIFI has issued FAS 39 Financial Reporting for Zakah in 2021. The objective of this standard is to establish principles of financial reporting related to Zakah attributable to different stakeholders of an Islamic financial Institution. This standard supersedes FAS 9 Zakah and is effective for the financial reporting periods beginning on or after 1 January 2023 with an option to early adopt.

This standard shall apply to institution with regard to the recognition, presentation and disclosure of Zakah attributable to relevant stakeholders. While computation of Zakah shall be applicable individually to each institution within the Window, this standard shall be applicable to the financial statements of the Window.

This standard does not prescribe the method for determining the Zakah base and measuring Zakah due for a period. An institution shall refer to relevant authoritative guidance for determination of Zakah base and to measure Zakah due for the period.

The Window is currently assessing the impact of applying this standard.

FAS 40 Financial Reporting for Islamic Finance Windows

AAOIFI issued FAS 40 "Financial Reporting for Islamic Finance Windows" in 2021. The objective of this standard is to establish financial reporting requirements for Islamic financial services offered by conventional financial institutions (in form of Islamic finance window). This standard shall be effective for the financial periods beginning on or after 1 January 2024 with early adoption permitted.

The Window is currently assessing the impact of applying this standard.

FAS 1 General Presentation and Disclosures in the Financial Statements

AAOIFI has issued the revised FAS 1 General Presentation and Disclosures in the Financial Statements in 2021. This standard describes and improves the overall presentation and disclosure requirements prescribed in line with the global best practices and supersedes the earlier FAS 1. It is applicable to all the Islamic Financial Institutions and other institutions following AAOIFI FAS's. This standard is effective for the financial reporting periods beginning on or after 1 January 2023 with an option to early adopt.

The revision of FAS 1 is in line with the modifications made to the AAOIFI conceptual framework for financial reporting. Some of the significant revisions to the standard are as follows:

a) Revised conceptual framework is now integral part of the AAOIFI FAS's;
b) Definition of Quassi equity is introduced;
c) Definitions have been modified and improved;
d) Concept of comprehensive income has been introduced;
e) Institutions other than Banking institutions are allowed to classify assets and liabilities as current and non-current;
f) Disclosure of Zakah and Charity will be included in the notes to the financial statements;
g) True and fair override has been introduced;
h) Treatment for change in accounting policies, change in estimates and correction of errors has been introduced;
i) Disclosures of related parties, subsequent events and going concern have been improved;
j) Improvement in reporting for foreign currency, segment reporting;

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.31 New standards, amendments and interpretations (continued)

k) Presentation and disclosure requirements have been divided into three parts. First part is applicable to all institutions, second part is applicable only to Windows and similar IFI's and third part prescribes the authoritative status, effective date an amendments to other AAOIFI FAS's; and
l) The illustrative financial statements are not part of this standard and will be issued separately.

The Window is assessing the impact of adoption of this standard and expects changes in certain presentation and disclosures in its financial statements.

4 CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

4.1 Financial Instruments

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

Classification of financial assets: assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and profit of the principal amount outstanding.

Calculation of expected credit loss (ECL): changes to the assumptions and estimate on uncertainties that have a significant impact on ECL. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation.

Inputs, assumptions and techniques used for ECL calculation

The following have the most significant impact and require a high level of judgment, as considered by the window while determining the impact assessment, are:

- Assessment of significant Increase in credit risk
- Macro-economic factors, forward looking information and multiple scenarios
- Definition of default
- Expected life

The Window's ECL calculations are outputs of complex models with number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Window's internal credit grading model
- The Window's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime Expected Credit Losses (LTECL) basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on Probability of Default (PD), Exposure At Default (EAD) and Loss Given Default (LGD)
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

4.2 Useful life of property and equipment

Depreciation is charged so as to write off the cost of assets over their estimated useful lives. The calculation of useful lives is based on management's assessment of various factors such as the operating cycles, the maintenance programs, and normal wear and tear using its best estimates.

5 CASH AND BALANCES WITH CENTRAL BANK OF OMAN ("CBO")

	2022	2021
		(RO'000)
Cash in hand	927	1,031
Balances with Central Bank of Oman	6,983	14,025
Cash and balances with Central bank of Oman	7,910	15,056

All the above exposures are classified as Stage 1 as at 31 December 2022 (2021 : Stage 1).

ECL on the cash and balances with Central Banks is not material and accordingly no adjustment has been accounted by Muzn.

6 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2022	2021
	(RO'000)	(RO'000)
Due from foreign banks (note a)	**10,906**	888
Due from head office (note b)	**279**	445
DUE FROM BANKS AND FINANCIAL INSTITUTIONS	11,185	1,333

(a) Due from foreign banks is from a international bank with Aa1 rating with a current maturity, due to which the computed ECL is insignificant amount (2022:Aa1).
(b) Due from banks and financial institutions is from head office, due to which the computed ECL is insignificant amount.

7 FINANCIAL ASSETS

7.1 Investment in Sukuk, Shares & Other Securities - net

	2022	2021
Investments measured at Fair value through profit and loss (FVTPL)	(RO'000)	(RO'000)
Quoted investments-Oman	**1,008**	-
TOTAL FVTPL EQUITY INVESTMENTS	1,008	-
Investments measured at Fair value through equity		
Quoted investments- foreign	**1,182**	-
TOTAL INVESTMENTS MEASURED THROUGH EQUITY	1,182	-
Debt type investments classified at amortised cost		
Government sukuk	**17,281**	16,438
Manufacturing and Banking sector sukuk	**963**	1,513
TOTAL FINANCIAL ASSETS AT AMORTISED COST	18,244	17,951
Less: Allowance for credit losses (refer 7.2)	**(28)**	(40)
INVESTMENT IN SUKUK, SHARES & OTHER SECURITIES - NET	20,406	17,911

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

	2022	2021
	(RO'000)	(RO'000)
Balance at 1 January	**40**	31
(Released) / provided during the year	**(12)**	9
BALANCE AT 31 DECEMBER	28	40

8 MURABAHA RECEIVABLES

	2022	2021
	(RO'000)	(RO'000)
Gross Murabaha receivables	**5,839**	4,386
Less: Deferred profit	**(620)**	(449)
	5,219	3,937
Less: Provision movement	**(38)**	(44)
NET MURABAHA RECEIVABLES	5,181	3,893

The Murabaha receivables pertain to finance provided to retail customers. The credit quality of the Murabaha receivables that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by Muzn.

Deferred Profit Movement

	2022	2021
	(RO'000)	(RO'000)
Deferred profit at the beginning of the period	**449**	310
Murabaha sales revenue during the period	**3,244**	2,599
Murabaha cost of sales	**(3,073)**	(2,460)
DEFERRED PROFIT AT THE END OF THE PERIOD	620	449

9 IJARAH MUNTAHIA BITTAMLEEK - NET

	2022	2021
	(RO'000)	(RO'000)
Gross book value	**117,132**	120,116
Accumulated depreciation	**(60,084)**	(55,896)
Net book value at 31 December	**57,048**	64,220
Less: Allowances for credit losses	**(805)**	(741)
IJARAH MUNTAHIA BITTAMLEEK - NET	56,243	63,479

The Ijara pertains to finance provided to retail and corporate customers. The credit quality of the Ijarah that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by Muzn.

10 DIMINISHING MUSHARAKA

	2022	2021
	(RO'000)	(RO'000)
Diminishing Musharaka receivables	**121,970**	91,578
Less: Allowances for credit losses	**(3,936)**	(2,239)
DIMINISHING MUSHARAKA	118,034	89,339

Diminishing Musharaka pertains to finance provided to retail and corporate customers. The credit quality of the Diminishing Musharaka that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by Muzn.

11 FORWARD IJARAH

	2022	2021
	(RO'000)	(RO'000)
Forward Ijarah receivables	**498**	722
Less: Allowances for credit losses	**(6)**	(3)
FORWARD IJARAH	492	719

Forward Ijarah pertains to finance provided to retail and corporate customers. The credit quality of the Forward Ijarah that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by Muzn.

12 SERVICE IJARAH

	2022	2021
	(RO'000)	(RO'000)
Gross deferred Service Ijarah	**24**	18
Less: Unearned income	**(3)**	(3)
	21	15
Less: Allowances for credit losses	**-**	-
SERVICE IJARAH	21	15

13 PROPERTY AND EQUIPMENT

31-December-2022	Motor vehicles, furniture and equipment	Leasehold improvements	Right-of-use Asset	Total
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
COST				
1 January 2022	**1,317**	**564**	**360**	**2,241**
Additions	**2**	**-**	**41**	**43**
Disposals	**(26)**	**-**	**(94)**	**(120)**
31 DECEMBER 2022	1,293	564	307	2,164
ACCUMULATED DEPRECIA-TION				
1 January 2022	**1,212**	**505**	**190**	1,907
Charge for the year	**63**	**21**	**105**	189
Disposals	**(26)**	**-**	**(94)**	(120)
31 December 2022	**1,249**	**526**	**201**	1,976
NET BOOK VALUE AT 31 DECEMBER 2022	44	38	106	188

31-December-2022	Motor vehicles, furniture and equipment	Leasehold improvements	Right-of-use Asset	Total
	(RO'000)	(RO'000)	(RO'000)	(RO'000)
COST				
1 January 2021	1,318	573	330	2,221
Additions	2	-	59	61
Disposals	(3)	(9)	(29)	(41)
31 DECEMBER 2021	1,317	564	360	2,241
ACCUMULATED DEPRECIA-TION				
1 January 2021	1,084	492	115	1,691
Charge for the year	132	22	118	272
Disposals	(3)	(9)	(43)	(55)
31 December 2021	1,213	505	190	1,908
NET BOOK VALUE AT 31 DECEM-BER 2021	104	50	170	334

14 OTHER ASSETS

	2022	2021
	(RO'000)	(RO'000)
Profit receivable	**2,420**	2,008
Miscellaneous assets	**428**	310
	2,848	2,318

15 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2022	2021
	(RO'000)	(RO'000)
Due to Head office	**83**	27

16 OTHER LIABILITIES

	2022	2021
	(RO'000)	(RO'000)
Profits payable	**2,329**	1,903
Sundry creditors	**1,186**	9,665
Lease liabilities	**44**	107
	3,559	11,675
LEASE LIABILITIES MOVEMENT		
Balance at 1 January	**107**	150
Additions during the year	**41**	59
Finance charges on leases	**4**	6
Lease payments	**(108)**	(108)
BALANCE AT 31 DECEMBER	44	107

17 MOVEMENT IN EXPECTED CREDIT LOSSES

	2022	2021
	(RO'000)	(RO'000)
At 1 January	**3,067**	2,407
Provided during the year	**1,519**	518
Contractual profit reserved	**232**	142
AT 31 DECEMBER	4,818	3,067

18 EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS

	2022	2021
	(RO'000)	(RO'000)
Mudaraba savings account	**8,604**	7,497
Wakala from financial institutions	**17,709**	13,881
Wakala from customers	**153,540**	126,026
Profit equalization reserve	**645**	548
Investment risk reserve	**262**	221
TOTAL UNRESTRICTED INVESTMENT ACCOUNT HOLDERS	180,760	148,173

There are no restricted investment as at 31 December 2022 (2021: Nil).

18 EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS (CONTINUED)

The Window utilizes the funds from equity of unrestricted investment account holders to finance assets. Asset in which funds are invested are as below:

	2022	2021
	(RO'000)	(RO'000)
Murabaha receivables	**5,204**	3,633
Ijarah Muntahia Bittamleek - net	**56,490**	60,484
Diminishing Musharaka	**118,551**	83,371
Forward Ijara	**494**	671
Service Ijarah	**21**	14
TOTAL	180,760	148,173

Equity of investment account holders' fund is commingled with Window's and Wakala fund to form one general Mudaraba pool. This pooled fund is used to fund and invest in banking assets generating income, however no priority is granted to any party for the purpose of investments and distribution of profits.

The Window does not allocate non-performing assets to IAH pool. All the impairment allowances are allocated to owners' equity. Recoveries from non-performing financial assets are also not allocated to IAH accountholders. The profits earned on pool of assets funded from IAH and owners' equity are allocated between the owners' equity and IAH.

As per the policy of the Window, minimum of 40 % of return on assets earned is distributed to investment accountholders and 60 % is retained by the Window as Mudarib share. The Window did not charge any administration expenses to investment accounts.

The average profit rate attributed to the equity of investment accountholders based on the above ratio for the year was 3.11% (2021: 3.40%).

Basis of distribution of the profit between owners' equity and unrestricted investment accountholders
The investment profits are distributed between owners' equity and unrestricted investment accountholders for the year ended 31 December 2022 and year ended December 2021 as follows:

	2022	2021
	PERCENTAGE	PERCENTAGE
Unrestricted investment accountholders share	**40%**	40%
Mudarib share	**60%**	60%

a.) The investment risk reserve at 0.5 percent is deducted from customer's share after allocating the Mudarib share of profit as per the approved policy in order to cater against future losses of unrestricted investment accountholders. Investment risk reserve will revert to the investment accountholders as per terms and conditions of Mudaraba contract.

b.) The profit equalisation reserve at 1 percent is the amount Muzn appropriates in excess of the profit to be distributed to unrestricted accountholders before allocating the Mudarib share of income to maintain a certain level of return. Profit equalisation reserve will revert to owners' equity and unrestricted investment accountholders.

19 ASSIGNED CAPITAL

The assigned capital consists of RO 20,000,000 transferred from National Bank of Oman SAOG (31 December 2021: RO 20,000,000).

20 INCOME FROM FINANCING

	2022 (RO'000)	2021 (RO'000)
Profit from Murabaha receivables	**220**	182
Profit from Ijarah Muntahia Bittamleek	**3,039**	3,753
Profit from Diminishing Musharaka	**5,920**	4,804
	9,179	8,739

21 RETURN ON UNRESTRICTED INVESTMENT ACCOUNTHOLDERS

	2022 (RO'000)	2021 (RO'000)
Mudarabha savings account	**50**	35
Wakala	**3,675**	2,804
Flex Wakala	**1,447**	2,260
Inter-bank Wakala	**162**	75
TOTAL	5,334	5,174

22 GENERAL AND ADMINISTRATIVE EXPENSES

	2022 (RO'000)	2021 (RO'000)
Salaries and allowances	**1,166**	1,265
Rent expenses	**13**	4
Publicity expenses	**58**	23
Management fee to Head Office	**120**	100
Repair and maintenance	**67**	78
Legal and professional fees	**62**	12
Stationery	**10**	5
Directors' fees	**37**	36
Travel expenses	**2**	1
Miscellaneous expenses	**304**	201
	1,839	1,725

23 RELATED PARTY TRANSACTIONS

In the ordinary course of business, Muzn conducts transactions with certain of Directors and Shareholders of NBO and companies over which they are able to exert significant influence. The aggregate amounts of balances with such related parties are as follows:

	2022 (RO'000)	2021 (RO'000)
Islamic financing	**45**	-
Customers' deposits	**38**	13
The statement of income includes the following amounts in relation to transactions with related parties:		
Income from Islamic financing	**2**	-
REMUNERATION PAID TO SHARIA SUPERVISORY BOARD MEMBERS		
CHAIRMAN		
• remuneration proposed	**8**	8
• sitting fees paid	**2**	2
OTHERS		
• remuneration proposed	**15**	15
• sitting fees paid	**11**	11
• other expenses paid	**1**	-
• Management fee payable to conventional banking	**120**	100

24 CONTINGENT LIABILITIES AND COMMITMENTS

24.1 Credit related contingent items

The Window is a party to financial instrument with off-balance sheet credit risk in the normal course of business to meet the financing needs of its customers. These financial instruments include standby letters of credit, financial guarantees to third parties, commitments to extend credit and others. The Window's exposure to credit loss in the event of non-performance by the other party to such financial instruments is represented by the contract value or the notional amount of the instrument. However, generally the credit risk on these transactions is lower than the contract value or the notional amount.

The risk involved is essentially the same as the credit risk involved in extending financing facilities and therefore these transactions are subject to the same credit organisation, portfolio maintenance and collateral requirements for customers applying for financing to customers.

The outstanding contract value or the notional amounts of these instruments at 31 December were as follows:

	2022 (RO'000)	2021 (RO'000)
Letters of credit	**7,238**	192
Letters of guarantee	**5,594**	6,022
Acceptances	**69**	-
	12,901	6,214

The contingent liabilities are concentrated to wholesale and retail trade sector only.

24 CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

24.2 Capital and investment commitments

	2022	2021
	(RO'000)	(RO'000)
Contractual commitments for Forward Ijarah	**48**	48
Contractual commitments for Diminishing Musharaka	**24,809**	9,113
	24,857	9,161

25 FINANCIAL RISK MANAGEMENT

The primary objective of risk management is to safeguard the Muzn's resources from the various risks which Muzn faces. The Risk Group comprises of Corporate Credit Risk, Retail Credit Risk, Market Risk and Operational Risk. All risk management functions report to Chief Risk Officer and are independent from Business Units. Muzn has exposure to credit risk, liquidity risk and market risk.

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. It is pertinent to mention that the financing portfolio consists of all standard accounts and there is no impairment in the portfolio.

With the recent adoption of the expected credit losses approach, credit risk management has been enhanced further where more attributes have been taken into consideration, including but not limited, identifying existing emerging key risks related to industry, economics, transaction structure, terms and condition of the payments etc in assessment of ECL.

Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect the Expected Credit Loss (ECL) applicable to the stage 1 and stage 2 exposures which are considered as performing. The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically. The assessment of significant increase in credit risk and the calculation of ECL both incorporate forward-looking information.

(a) Geographical concentrations

All the financial asset and financial liabilities reported in the balance sheet and all the items reported in off balance are based in Sultanate of Oman.

25 FINANCIAL RISK MANAGEMENT (CONTINUED)
Credit risk (continued)

(b) Customer concentrations

On Assets	Due from Banks and financial institutions	Debt type investments classified at amortized cost	Murabaha receivables	Ijarah Muntahia Bittamleek - net
31 DECEMBER 2022				
Retail	-	-	**3,861**	**50,680**
Corporate	**11,185**	**20,406**	**1,320**	**5,563**
	11,185	20,406	5,181	56,243

On Assets	Diminishing Musharaka	Forward Ijarah	Service Ijarah
31 DECEMBER 2022			
Retail	**14,119**	**465**	**21**
Corporate	**103,915**	**27**	**-**
	118,034	492	21

On Liabilities	Current accounts	Wakala accounts	Wakala from financial institutions	Due to banks and financial institutions	Mudaraba saving account (including reserves)
31 DECEMBER 2022					
Retail	**870**	28,967	**-**	**-**	**9,511**
Corporate	**10,670**	124,573	**17,709**	**83**	**-**
	11,540	153,540	17,709	83	9,511

On Assets	Due from Banks and financial insti-tutions	Debt type investments classified at amortised cost	Murabaha receivables	Ijarah Muntahia Bittamleek - net
31 DECEMBER 2021				
Retail	-	-	2,725	55,262
Corporate	1,333	17,911	1,168	8,217
	1,333	17,911	3,893	63,479

On Assets	Diminishing Musharaka	Forward Ijarah	Service Ijarah
31 DECEMBER 2021			
Retail	9,887	719	15
Corporate	79,452	-	-
	89,339	719	15

On Liabilities	Current accounts	Wakala accounts	Wakala from financial institutions	Due to banks and financial institutions	Mudaraba saving account (including reserves)
31 DECEMBER 2021					
Retail	737	25,857	-		8,266
Corporate	9,833	100,169	13,881	27	-
	10,570	126,026	13,881	27	8,266

25 FINANCIAL RISK MANAGEMENT (CONTINUED)
Credit risk (continued)

(c) Economic sector concentrations

	ASSETS				
	Murabaha receivables	Ijarah Muntahia Bittamleek - net	Diminishing Musharaka	Forward Ijarah	Service Ijarah
31 DECEMBER 2022	RO'000	RO'000	RO'000	RO'000	RO'000
Personal	3,898	50,843	14,300	469	21
Construction	-	4,819	47,538	29	-
Manufacturing	516	40	11,294	-	-
Trade	515	2	142	-	-
Services	290	1,344	48,696	-	-
	5,219	57,048	121,970	498	21

	Current accounts	Equity of unrestricted investment accountholders
31 DECEMBER 2022	RO'000	RO'000
Personal	11,540	180,760
	11,540	180,760

	ASSETS				
	Murabaha receivables	Ijarah Muntahia Bittamleek - net	Diminishing Musharaka	Forward Ijarah	Service Ijarah
31 DECEMBER 2021	RO'000	RO'000	RO'000	RO'000	RO'000
Personal	2,762	55,494	10,074	722	15
Construction	-	5,625	26,161	-	-
Manufacturing	219	150	11,269	-	-
Trade	493	5	430	-	-
Services	463	2,946	43,644	-	-
	3,937	64,220	91,578	722	15

	Current accounts	Equity of unrestricted investment accountholders
31 DECEMBER 2021	RO'000	RO'000
Personal	10,570	148,173
	10,570	148,173

25 FINANCIAL RISK MANAGEMENT (CONTINUED)
Credit risk (continued)

Impairment assessment

Definition of default and cure

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

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

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

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

Incorporation of forward-looking information

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

Economic variable assumptions

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

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

i. 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)
ii. The base scenario was created on the assumption of stabilisation of oil price at the level of 66 USD/ barrel for Brent oil (2021: 42 USD/barrel for Brent oil).
iii. 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).

25 FINANCIAL RISK MANAGEMENT (CONTINUED)
Credit risk (continued)

iv. 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.
v. 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 2022.

		31 DECEMBER 2022		
Key drivers	ECL scenario and assigned weightage	2022	2023	2024
Real Interest Rate	Base scenario	7.1%	7.1%	7.1%
	Upside scenario	4.5%	5.4%	5.9%
	Downside scenario	10.4%	9.5%	8.9%
GDP	Base scenario	2.9%	4.2%	2.9%
	Upside scenario	2.9%	8.7%	4.2%
	Downside scenario	2.9%	4.2%	2.9%
GDP per capita	Base scenario	-0.9%	0.2%	-1.0%
	Upside scenario	-0.9%	4.6%	0.3%
		-0.9%	0.2%	-1.0%

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 2021.

		31 DECEMBER 2021		
Key drivers	ECL scenario and assigned weightage	2022	2023	2024
Real Interest Rate	Base scenario	7.1%	7.1%	7.1%
	Upside scenario	3.2%	4.7%	5.4%
	Downside scenario	13.0%	11.5%	10.6%
GDP	Base scenario	11.0%	3.5%	3.5%
	Upside scenario	11.0%	4.5%	3.9%
	Downside scenario	11.0%	2.3%	3.1%
GDP per capita	Base scenario	6.9%	-0.4%	-0.4%
	Upside scenario	6.9%	0.5%	-0.1%
	Downside scenario	6.9%	-1.3%	-0.9%

25 FINANCIAL RISK MANAGEMENT (CONTINUED)
Credit risk (continued)

Credit risk grade
The Window allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk grade deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

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

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

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

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

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

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

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

25 FINANCIAL RISK MANAGEMENT (CONTINUED)
Credit risk (continued)

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

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

The Window estimates regulatory and FAS 30/ FAS 30 LGDs on a different basis. Under FAS 30/ FAS 30, LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI FAS 30/ FAS 30 segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

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

As a backstop, the Window considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower

Credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Window's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. The Window also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Window may also consider that events set out below are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

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

25 FINANCIAL RISK MANAGEMENT (CONTINUED)
Credit risk (continued)

Significant Increase in Credit Risk (continued)
Management overlays may be applied to the model outputs if consistent with the objective of identifying a significant increase in credit risk.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured at 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Window determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When the contractual terms of a financing have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

The Window monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

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

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

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

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

Total judgemental adjustments as at 31 December 2022 increased the loss allowance by 1.22% compared to ECL allowance derived through the ECL models.

25 FINANCIAL RISK MANAGEMENT (CONTINUED)
Credit risk (continued)

Impairment charge and provisions held as at 31 December 2022

	As per CBO Norms	As per FAS 30	Difference
	RO 000	RO 000	RO 000
Impairment loss charged to profit and loss account	-	(1,519)	-
Provisions required as per CBO norms /held as per FAS 30	4,010	4,175	165
Gross NPF ratio	-	3.14	-
Net NPF ratio	-	2.80	-

25 FINANCIAL RISK MANAGEMENT (CONTINUED)
Credit risk (continued)

Impairment charge and provisions held as at 31 December 2021

	As per CBO Norms	As per FAS 30	Difference
	RO 000	RO 000	RO 000
Impairment loss charged to profit and loss account	-	(518)	-
Provisions required as per CBO norms /held as per FAS 30	3,510	3,067	(443)
Gross NPF ratio	-	2.25	-
Net NPF ratio	-	2.00	-

The related difference (net of tax) between the existing financing loss impairment computed in accordance with the requirements of AAOIFI and CBO guidelines and the impairment allowance computed under FAS 30, has been transferred to a financing loss impairment reserve from accumulated losses.

Muzn Islamic Banking

25 FINANCIAL RISK MANAGEMENT (CONTINUED)
Credit risk (continued)

Comparison of provision held as per FAS 30 and required as per CBO guidelines as at 31 December 2022.

Asset Classification as per CBO Norms	Asset Classification as per FAS 30	Gross amount	Provision required as per CBO Norms	Provision held as per FAS 30	Difference between CBO provision required and provision held	Net Amount as per CBO norms	Net Amount as per FAS 30	Profit recognised in P&L as per FAS 30	Reserve Profit as per CBO norms
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
(1)	(2)								
Standard	Stage 1	111,366	1,158	193	965	110,208	111,173	-	-
	Stage 2	46,041	517	850	(333)	45,524	45,191	-	-
	Stage 3	-	-	-	-	-	-	-	-
SUBTOTAL		**157,407**	**1,675**	**1,043**	**632**	**155,732**	**156,364**	**-**	**-**
Special mention	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	23,706	237	2,077	(1,840)	23,469	21,629	-	-
	Stage 3	-	-	-	-	-	-	-	-
SUBTOTAL		**23,706**	**237**	**2,077**	**(1,840)**	**23,469**	**21,629**	**-**	**-**
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-	-
SUBTOTAL		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	2,309	556	113	527	1,669	2,196	-	**84**
SUBTOTAL		**2,309**	**556**	**113**	**527**	**1,669**	**2,196**	**-**	**84**
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	1,334	1,542	909	1,192	(767)	425	-	**559**
SUBTOTAL		**1,334**	**1,542**	**909**	**1,192**	**(767)**	**425**	**-**	**559**
Other items not covered under CBO circular BM and related 977 instructions	Stage 1	43,557	-	12	(12)	43,557	43,545	-	-
	Stage 2	963	-	21	(21)	963	942	-	-
	Stage 3	-	-	-	-	-	-	-	-
SUBTOTAL		**44,520**	**-**	**33**	**(33)**	**44,520**	**44,487**	**-**	**-**
TOTAL	**Stage 1**	**154,923**	**1,158**	**205**	**953**	**153,765**	**154,718**	**-**	**-**
	Stage 2	**70,710**	**754**	**2,948**	**(2,194)**	**69,956**	**67,762**	**-**	**-**
	Stage 3	**3,643**	**2,098**	**1,022**	**1,719**	**902**	**2,621**	**-**	**643**
	Total	**229,276**	**4,010**	**4,175**	**478**	**224,623**	**225,101**	**-**	**643**

25 FINANCIAL RISK MANAGEMENT (CONTINUED)
Credit risk (continued)

Comparison of provision held as per FAS 30 and required as per CBO guidelines as at 31 December 2021.

Asset Classification as per CBO Norms	Asset Classification as per FAS 30	Gross amount	Provision required as per CBO Norms	Provision held as per FAS 30	Difference between CBO provision required and provision held	Net Amount as per CBO norms	Net Amount as per FAS 30	Profit recog-nised in P&L as per FAS 30	Reserve Profit as per CBO norms
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)-(10)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	**(10)**
Standard	Stage 1	101,931	1,140	928	221	100,782	101,003	-	**9**
	Stage 2	40,992	522	324	198	40,470	40,668	-	**-**
	Stage 3	-	-	-	-	-	-	-	**-**
SUBTOTAL		**142,923**	**1,662**	**1,252**	**419**	**141,252**	**141,671**	**-**	**9**
Special mention	Stage 1	-	-	-	-	-	-	-	**-**
	Stage 2	14,362	-	826	(812)	14,348	13,536		**14**
	Stage 3	-	-	-	-	-	-	-	**-**
SUBTOTAL		**14,362**	**-**	**826**	**(812)**	**14,348**	**13,536**	**-**	**14**
Substandard	Stage 1	-	-	-	-	-	-	-	**-**
	Stage 2	-	-	-	-	-	-	-	**-**
	Stage 3	-	-	-	-	-	-	-	**-**
SUBTOTAL		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-	-
SUBTOTAL		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Loss	Stage 1	-	-	-	-	-	-	-	**-**
	Stage 2	-	-	-	-	-	-	-	**-**
	Stage 3	3,188	1,436	949	874	1,365	2,239	-	**387**
SUBTOTAL		**3,188**	**1,436**	**949**	**874**	**1,365**	**2,239**	**-**	**387**
Other items not covered under CBO circular BM and related 977 instructions	Stage 1	24,535	-	40	(40)	24,535	24,495	-	**-**
	Stage 2	963	-	-	-	963	963	-	**-**
	Stage 3	-	-	-	-	-	-	-	**-**
SUBTOTAL		**25,498**	**-**	**40**	**(40)**	**25,498**	**25,458**	**-**	**-**
TOTAL	**Stage 1**	**126,466**	**1,140**	**968**	**181**	**125,317**	**125,498**	**-**	**9**
	Stage 2	**56,317**	**522**	**1,150**	**(614)**	**55,781**	**55,167**	**-**	**14**
	Stage 3	**3,188**	**1,436**	**949**	**874**	**1,365**	**2,239**	**-**	**387**
	Total	**185,971**	**3,098**	**3,067**	**441**	**182,463**	**182,904**	**-**	**410**

25 FINANCIAL RISK MANAGEMENT (CONTINUED)
Credit risk (continued)

Comparison of provision held as per FAS 30 and required as per CBO guidelines as at 31 December 2022.
Restructured Financing

Amounts in RO'000

Asset classification as per CBO's Norms	Asset classi-fication as per FAS 30	Gross carrying amount	Provision required as per CBO's norms	Provision held as per FAS 30	Difference between CBO provision required and provision held under FAS 30	Net carrying amount as per FAS 30	Reserve interest as per CBO's norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)+(8)	(7) = (3)-(5)	(8)
Classified as performing	Stage 1	-	-	-	-	-	-
	Stage 2	20,179	203	1,303	(1,101)	18,954	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		**20,257**	**203**	**1,303**	**(1,101)**	**18,954**	**-**
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	78	-	-	-	-	-
SUBTOTAL		**-**	**-**	**-**	**-**	**-**	**-**
TOTAL	Stage 1	-	-	-	-	-	-
	Stage 2	20,257	203	1,303	(1,101)	18,954	-
	Stage 3	-	-	-	-	-	-
	Total	20,257	203	1,303	(1,101)	18,954	-

Comparison of provision held as per FAS 30 and required as per CBO guidelines as at 31 December 2021.
Restructured Financing

Amounts in RO'000

Asset classification as per CBO's Norms	Asset classi-fication as per FAS 30	Gross carrying amount	Provision required as per CBO's norms	Provision held as per FAS 30	Difference between CBO provision required and provision held under FAS 30	Net carrying amount as per FAS 30	Reserve interest as per CBO's norms
(1)	(2)	(3)	(4)	(5)	(8)+(5)-(4) = (6)	(5)-(3) = (7)	(8)
Classified as performing	Stage 1	-	-	-	-	-	-
	Stage 2	439	4	2	2	437	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		**439**	**4**	**2**	**2**	**437**	**-**
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-
SUBTOTAL		**-**	**-**	**-**	**-**	**-**	**-**
TOTAL	Stage 1	-	-	-	-	-	-
	Stage 2	439	4	2	2	437	-
	Stage 3	-	-	-	-	-	-
	Total	439	4	2	2	437	-

25 FINANCIAL RISK MANAGEMENT (CONTINUED)
Credit risk (continued)

Movement in Expected credit losses (ECL) as at 31 December 2022

	Stage 1	Stage 2	Stage 3	Total
	RO 000	RO 000	RO 000	RO 000
EXPOSURE SUBJECT TO ECL				
• Financing contracts with customers	111,366	69,747	3,643	184,756
• Debt type investments classified at amortised cost	19,473	963	-	20,435
• Unutilized portion of financing contracts and Financial Guarantees	12,901	-	-	12,901
• Due from banks, Central Bank and Other Financial Assets	11,185	-	-	11,185
	154,925	**70,710**	**3,643**	**229,277**
OPENING BALANCE AS AT 1 JANUARY 2022				
• Financing contracts with customers	517	1,150	1,360	3,027
• Debt type investments classified at amortised cost	40	-	-	40
• Financing Commitments and Financial Guarantees	-	-	-	-
• Due from banks, Central Bank and Other Financial Assets	-	-	-	-
	557	**1,150**	**1,360**	**3,067**
FINANCING CONTRACTS WITH CUSTOMERS				
Net transfer between stages				
• Transfer to Stage 1	131	(127)	(4)	-
• Transfer to Stage 2	(37)	37	-	-
• Transfer to Stage 3	(4)	(45)	49	-
• Debt type investments classified at amortised cost	-	-	-	-
• Unutilized portion of financing contracts and Financial Guarantees	-	-	-	-
• Due from banks, Central Bank and Other Financial Assets	-	-	-	-
	90	**(135)**	**45**	**-**
CHARGE FOR THE PERIOD (NET)				
• Financing contracts with customers (including contractual profit reserved)	(414)	1,912	260	1,758
• Debt type investments classified at amortised cost	(33)	21	-	(12)
• Unutilized portion of financing contracts and Financial Guarantees	-	5	-	5
• Due from banks, Central Bank and Other Financial Assets	-	-	-	-
	(447)	**1,938**	**260**	**1,751**
CLOSING BALANCE - AS AT 31 DECEMBER 2022				
• Financing contracts with customers	193	2,927	1,665	4,785
• Debt type investments classified at amortised cost	7	21	-	28
• Unutilized portion of financing contracts and Financial Guarantees	-	5	-	5
• Due from banks, Central Bank and Other Financial Assets	-	-	-	-
	200	**2,953**	**1,665**	**4,818**

25 FINANCIAL RISK MANAGEMENT (CONTINUED)
Credit risk (continued)

Movement in Expected credit losses (ECL) as at 31 December 2021

	Stage 1	Stage 2	Stage 3	Total
	RO 000	RO 000	RO 000	RO 000
EXPOSURE SUBJECT TO ECL				
• Financing contracts with customers	101,931	55,354	3,188	160,473
• Debt type investments classified at amortised cost	17,951	-	-	17,951
• Unutilized portion of financing contracts and Financial Guarantees	6,214	-	-	6,214
• Due from banks, Central Bank and Other Financial Assets	1,333	-	-	1,333
	127,429	**55,354**	**3,188**	**185,971**
OPENING BALANCE AS AT 1 JANUARY 2021				
• Financing contracts with customers	698	510	1,168	2,376
• Debt type investments classified at amortised cost	31	-	-	31
• Financing Commitments and Financial Guarantees	-	-	-	-
• Due from banks, Central Bank and Other Financial Assets	-	-	-	-
	729	**510**	**1,168**	**2,407**
FINANCING CONTRACTS WITH CUSTOMERS				
Net transfer between stages				
• Transfer to Stage 1	(65)	65	-	-
• Transfer to Stage 2	-	3	(3)	-
• Transfer to Stage 3	-	(56)	56	-
• Debt type investments classified at amortised cost	-	-	-	-
• Unutilized portion of financing contracts and Financial Guarantees	-	-	-	-
• Due from banks, Central Bank and Other Financial Assets	-	-	-	-
CHARGE FOR THE PERIOD (NET)				
• Financing contracts with customers (including contractual profit reserved)	(116)	628	139	651
• Debt type investments classified at amortised cost	9	-	-	9
• Unutilized portion of financing contracts and Financial Guarantees	-	-	-	-
• Due from banks, Central Bank and Other Financial Assets	-	-	-	-
	(107)	**628**	**139**	**660**
CLOSING BALANCE - AS AT 31 DECEMBER 2021				
• Financing contracts with customers	517	1,150	1,360	3,027
• Debt type investments classified at amortised cost	40	-	-	40
• Unutilized portion of financing contracts and Financial Guarantees	-	-	-	-
• Due from banks, Central Bank and Other Financial Assets	-	-	-	-
	557	**1,150**	**1,360**	**3,067**

25 FINANCIAL RISK MANAGEMENT (CONTINUED)
Credit risk (continued)

Movement in financing as at 31 December 2022

	RO 000	RO 000	RO 000	RO 000
EXPOSURE SUBJECT TO ECL				
Opening Balance - as at 1 January 2022	101,931	55,354	3,188	160,473
Net Transfer between stages	(2,870)	2,509	360	-
New Finances	45,252	18,216	-	63,438
Recovery of Financing	**(30,203)**	**(8,546)**	**(436)**	**(39,185)**
CLOSING BALANCES - AS AT 31 DECEMBER 2021	**114,110**	**67,533**	**3,112**	**187,756**

Movement in financing as at 31 December 2021

	RO 000	RO 000	RO 000	RO 000
EXPOSURE SUBJECT TO ECL				
Opening Balance - as at 1 January 2021	111,507	37,044	2,742	151,293
Net Transfer between stages	(24,044)	24,375	(331)	0
New Finances	17,117	1,622	839	19,578
Recovery of Financing	(2,649)	(7,687)	(62)	(10,398)
CLOSING BALANCES - AS AT 31 DECEMBER 2021	**101,931**	**55,354**	**3,188**	**160,473**

25 FINANCIAL RISK MANAGEMENT (CONTINUED)
Credit risk (continued)

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts as of 31 December 2022:

	Stage 1	Stage 2	Stage 3	Total
	RO 000	RO 000	RO 000	RO 000
GROSS FINANCING TO CUSTOMERS - CORPORATE BANKING				
Performing financing (Grades 1-5)	48,486	38,307	-	86,793
Performing financing (Grades 6)	453	1,020	-	1,473
Performing financing (Grades 7)	-	23,706	57	23,763
Non-performing financing (Grades 8-10)	-	-	3,196	3,196
GROSS FINANCING TO CUSTOMERS - CORPORATE BANKING	**48,939**	**63,033**	**3,253**	**115,225**
GROSS FINANCING TO CUSTOMERS – RETAIL BANKING				
Performing financing (Grades 1-7)	62,427	6,714	-	69,141
Non-performing financing (Grades 8-10)	-	-	390	390
GROSS FINANCING TO CUSTOMERS - CORPORATE BANKING	**62,427**	**6,714**	**390**	**69,531**
GROSS FINANCING TO CUSTOMERS - CORPORATE BANKING	**111,366**	**69,747**	**3,643**	**184,756**
LOSS ALLOWANCE-CARRYING AMOUNT	**193**	**2,927**	**1,022**	**4,142**
CREDIT RELATED CONTINGENT ITEMS				
Performing financing (Grades 1-5)	**5,465**	**7,189**	**-**	**12,654**
Performing financings (Grades 6)	-	40	-	40
Performing financings (Grades 7)	-	139	-	139
TOTAL GROSS CREDIT RELATED CONTINGENT ITEMS	**5,465**	**7,368**	**-**	**12,833**
LOSS ALLOWANCE-CARRYING AMOUNT	**-**	**5**	**-**	**5**
DUE FROM BANKS AND MONEY MARKET PLACEMENTS				
Performing Banks (Aa1 to Baa3)	8,596	-	-	8,596
Performing Banks (Unrated)	2,589	-	-	2,589
DUE FROM BANKS AND MONEY MARKET PLACEMENTS	**11,185**	**-**	**-**	**11,185**
LOSS ALLOWANCE-CARRYING AMOUNT	**-**	**-**	**-**	**-**
INVESTMENT SECURITIES	**19,472**	**963**	**-**	**20,434**
LOSS ALLOWANCE-CARRYING AMOUNT	**7**	**21**	**-**	**28**

25 FINANCIAL RISK MANAGEMENT (CONTINUED)
Credit risk (continued)

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts as of 31 December 2021:

	Stage 1	Stage 2	Stage 3	Total
	RO 000	RO 000	RO 000	RO 000
GROSS FINANCING TO CUSTOMERS - CORPORATE BANKING				
Performing financing (Grades 1-5)	24,467	31,477	-	55,944
Performing financing (Grades 6)	19,840	938	-	20,778
Performing financing (Grades 7)	-	11,706	-	11,706
Non-performing financing (Grades 8-10)	-	-	2,978	2,978
GROSS FINANCING TO CUSTOMERS - CORPORATE BANKING	**44,307**	**44,121**	**2,978**	**91,406**
GROSS FINANCING TO CUSTOMERS – RETAIL BANKING				
Performing financing (Grades 1-7)	57,623	11,233	-	68,856
Non-performing financing (Grades 8-10)	-	-	211	211
GROSS FINANCING TO CUSTOMERS - RETAIL BANKING	**57,623**	**11,233**	**211**	**69,067**
TOTAL GROSS FINANCING TO CUSTOMERS	**101,930**	**55,354**	**3,189**	**160,473**
LOSS ALLOWANCE-CARRYING AMOUNT	**961**	**1,151**	**915**	**3,027**
CREDIT RELATED CONTINGENT ITEMS				
Performing financing (Grades 1-5)	**6,214**	**-**	**-**	**6,214**
TOTAL GROSS CREDIT RELATED CONTINGENT ITEMS	**6,214**	**-**	**-**	**6,214**
LOSS ALLOWANCE-CARRYING AMOUNT	**-**	**-**	**-**	**-**
DUE FROM BANKS AND MONEY MARKET PLACEMENTS				
Performing Banks (Aa1 to Baa3)	888	-	-	888
Performing Banks (Unrated)	445	-	-	445
DUE FROM BANKS AND MONEY MARKET PLACEMENTS	**1,333**	**-**	**-**	**1,333**
LOSS ALLOWANCE-CARRYING AMOUNT	**-**	**-**	**-**	**-**
INVESTMENT SECURITIES	**16,988**	**963**	**-**	**17,951**
LOSS ALLOWANCE-CARRYING AMOUNT	**40**	**-**	**-**	**40**

25 FINANCIAL RISK MANAGEMENT (CONTINUED)
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.

Liquidity risk
Liquidity risk is the potential inability to meet Muzn's liabilities as they become due. It arises when Muzn is unable to generate cash to cope with a decline in deposits or increase in assets.

Muzn's liquidity risk management is governed by the Treasury Risk Policy document approved by the Board of Directors as well as the provisions of the relevant CBO guidelines on liquidity risk management through cash flow approach. The liquidity management does not only measure the liquidity position of Muzn on an going basis but also examine how funding requirement are likely to evolve under various scenarios.

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

Treasury department of Muzn controls and monitors the liquidity risk and ensures that Muzn is not exposed to undue liquidity risk and at the same time makes optimum use of its funds. The middle office in Credit risk division also monitors the liquidity position of Muzn and provides the liquidity gap to Treasury Department to meet liquidity gaps.

The Central Bank of Oman has issued guidelines on the implementation of Basel III liquidity framework which are Liquidity Coverage Ratio (LCR) and Net Stable Funding (NSFR).The Liquidity coverage ratio (LCR) is a short time ratio designed to increase resilience against a liquidity shortage of up to 30 days. The LCR is computed as per CBO requirement under the circular BM1127 (BASEL III: Framework on Liquidity coverage ratio and LCwR 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 2021 is as follows:

25 FINANCIAL RISK MANAGEMENT (CONTINUED)
Liquidity risk (continued)

	Due on demand and up to 30 days	More than 1 month to 6 months	More than 6 months to 12 months	More than 1 year to 5 years	Over 5 years	Total
31 DECEMBER 2022	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Cash and balances with Central Bank of Oman	2,410	1,629	625	2,460	786	7,910
Due from banks and financial institutions	11,185	-	-	-	-	11,185
Debt type investments classified at amortised cost	-	-	963	-	19,443	20,406
Murabaha receivables	734	648	669	2,103	1,027	5,181
Ijarah – net	319	1,722	1,929	13,537	38,736	56,243
Diminishing Musharaka	504	4,201	4,130	38,375	70,824	118,034
Forward Ijarah	-	-	-	-	492	492
Service Ijarah	-	2	2	13	4	21
Property and equipment (net)	-	-	-	-	188	188
Other assets	2,848	-	-	-	-	2,848
TOTAL ASSETS	**18,000**	**8,202**	**8,318**	**56,488**	**131,500**	**222,508**
Current accounts	2,308	4,039	2,308	-	2,885	11,540
Due to banks and financial institutions	83	-	-	-	-	83
Other liabilities	3,559	-	-	-	-	3,559
Unrestricted investment account holders						
Mudaraba savings account (including reserves)	860	1,720	1,720	2,582	2,629	9,511
Due to banks and financial institutions under Wakala	17,709	-	-	-	-	17,709
Customer Wakala accounts	9,332	48,467	17,383	59,902	18,456	153,540
Owners' equity	-	-	-	-	26,566	26,566
TOTAL LIABILITIES AND UNRESTRICTED INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY	**33,851**	**54,226**	**21,411**	**62,484**	**50,536**	**222,508**
On-balance sheet gap	(15,851)	(46,024)	(13,093)	(5,996)	80,964	-
Cumulative liquidity gap	(15,851)	(61,875)	(74,968)	(80,964)	-	-

25 FINANCIAL RISK MANAGEMENT (CONTINUED)
Liquidity risk (continued)

The maturity profile of the assets, liabilities and equity at 31 December 2021 is as follows:

	Due on demand and up to 30 days	More than 1 month to 6 months	More than 6 months to 12 months	More than 1 year to 5 years	Over 5 years	Total
31 DECEMBER 2021	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Cash and balances with Central Bank of Oman	12,124	1,089	765	519	559	15,056
Due from banks and financial institutions	1,333	-	-	-	-	1,333
Debt type investments classified at amortised cost	-	550	-	4,786	12,575	17,911
Murabaha receivables	217	1,100	357	1,458	761	3,893
Ijarah – net	585	3,663	4,166	11,977	43,088	63,479
Diminishing Musharaka	528	3,945	5,139	40,245	39,482	89,339
Forward Ijarah	-	-	92	627	-	719
Service Ijarah	-	1	1	7	6	15
Property and equipment (net)	-	-	-	-	334	334
Other assets	2,318	-	-	-	-	2,318
TOTAL ASSETS	**17,105**	**10,348**	**10,520**	**59,619**	**96,805**	**194,397**
Current accounts	2,114	3,700	2,114	-	2,642	10,570
Due to banks and financial institutions	27	-	-	-	-	27
Other liabilities	11,675	-	-	-	-	11,675
Unrestricted investment account holders						
Mudaraba savings account (including reserves)	750	1,500	1,500	2,249	2,267	8,266
Due to banks and financial institutions under Wakala	5,027	8,854	-	-	-	13,881
Customer Wakala accounts	15,370	47,981	32,584	9,989	20,102	126,026
Owners' equity	-	-	-	-	23,952	23,952
TOTAL LIABILITIES AND UNRESTRICTED INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY	**34,963**	**62,035**	**36,198**	**12,238**	**48,963**	**194,397**
On-balance sheet gap	(17,858)	(51,687)	(25,678)	47,381	47,842	-
Cumulative liquidity gap	(17,858)	(69,545)	(95,223)	(47,842)	-	-

25 FINANCIAL RISK MANAGEMENT (CONTINUED)
Liquidity risk (continued)

Liquidity coverage ratio for the year ended 31 December 2022:

	Total unweighted value (average)	Total weighted value (average)
	RO 000	**RO 000**
HIGH QUALITY LIQUID ASSETS		
Total High Quality Liquid Assets (HQLA)	34,661	34,235
Cash outflows		
Retail deposits and deposits from small business customers of which:	29,511	2,319
Stable deposits	9,035	271
Less stable deposits	20,476	2,048
Unsecured wholesale funding, of which: Operational deposits (all counterparties) and deposits in networks of coopera-tive banks	45,120	15,590
Additional requirements, of which Credit and liquidity facilities	-	-
Other contingent funding obligations	11,057	5,698
TOTAL CASH OUTFLOWS	**85,688**	**23,607**
CASH INFLOWS		
Inflows from fully performing exposures	19,824	19,010
Other cash inflows	4,377	4,377
TOTAL CASH INFLOWS	**24,201**	**23,387**
TOTAL HIGH QUALITY LIQUID ASSETS		**34,235**
TOTAL NET CASH OUTFLOWS		**5,902**
LIQUIDITY COVERAGE RATIO		**580.1%**

Net Stable Funding Ratio for the year ended 31 December 2022:

	Total weighted value
	RO 000
Total available stable funding	187,422
Total required stable funding	164,026
NET STABLE FUNDING RATIO	**114.3%**

25 FINANCIAL RISK MANAGEMENT (CONTINUED)
Liquidity risk (continued)

Liquidity coverage ratio for the year ended 31 December 2021:

	Total unweighted value (average)	Total weighted value (average)
	RO 000	RO 000
HIGH QUALITY LIQUID ASSETS		
Total High Quality Liquid Assets (HQLA)	28,804	28,577
Cash outflows		
Retail deposits and deposits from small business customers of which:	26,967	2,254
Stable deposits	7,820	339
Less stable deposits	19,147	1,915
Unsecured wholesale funding, of which: Operational deposits (all counterparties) and deposits in networks of cooperative banks	61,262	22,751
Additional requirements, of which Credit and liquidity facilities	-	-
Other contingent funding obligations	10,826	5,113
TOTAL CASH OUTFLOWS	**99,055**	**30,118**
CASH INFLOWS		
Inflows from fully performing exposures	1,956	1,212
Other cash inflows	3,058	3,058
TOTAL CASH INFLOWS	**5,014**	**4,270**

TOTAL HIGH QUALITY LIQUID ASSETS		**28,577**
TOTAL NET CASH OUTFLOWS		**25,847**
LIQUIDITY COVERAGE RATIO		**110.6%**

Net Stable Funding Ratio for the year ended 31 December 2021:

	Total weighted value
	RO 000
Total available stable funding	143,606
Total required stable funding	136,742
NET STABLE FUNDING RATIO	**105.0%**

25 FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk
Market risk includes currency risk, profit rate risk and equity price 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 2022	200 bps increase	200 bps decrease
Earnings impact - RO'000s	291	(291)

As at December 2021	200 bps increase	200 bps decrease
Earnings impact - RO'000s	385	(385)

25 FINANCIAL RISK MANAGEMENT (CONTINUED)
Market risk (continued)

Profit rate sensitivity gap

Sensitivity to profit rates arises from mismatches in the period to re-pricing of assets and that of the corresponding liability. Muzn manages these mismatches by following policy guidelines and reduces risk by matching the re-pricing of assets and liabilities.

	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
31 DECEMBER 2022	%	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Cash and balances with Central Bank of Oman	N/A	-	-	-	-	7,910	7,910
Due from banks and financial Institutions	0.0%	10,010	-	-	-	1,175	11,185
Debt type investments classified at amortised cost	5.1%	-	963	13,952	5,491	-	20,406
Murabaha receivables	5.4%	1,382	669	2,103	1,027	-	5,181
Ijarah - net	5.3%	2,041	1,929	13,537	38,736	-	56,243
Diminishing Musharaka	5.8%	4,705	4,130	38,375	70,824	-	118,034
Forward Ijarah	5.8%	-	-	-	-	492	492
Service Ijarah	4.5%	2	2	13	4	-	21
Property and equipment - net	N/A	-	-	-	-	188	188
Other assets	N/A	-	-	-	-	2,848	2,848
TOTAL ASSETS		18,140	7,693	67,980	116,082	12,613	222,508
Current accounts	N/A	-	-	-	-	11,540	11,540
Due to banks and financial institutions	0.0%	83	-	-	-	-	83
Other liabilities	N/A	-	-	-	-	3,559	3,559
Unrestricted investment account holders							
Mudaraba savings account (including reserves)	0.6%	2,580	1,720	2,582	2,629	-	9,511
Due to banks and financial institutions under Wakala	2.3%	17,709	-	-	-	-	17,709
Customer Wakala accounts	3.5%	57,799	17,383	59,902	18,456	-	153,540
Owners' equity	N/A	-	-	-	-	26,566	26,566
Total liabilities and owners' equity	**N/A**	**78,171**	**19,103**	**62,484**	**21,085**	**41,665**	**222,508**
ON-BALANCE SHEET GAP		(60,031)	(11,410)	5,496	94,997	(29,052)	-
CUMULATIVE PROFIT SENSITIVITY GAP		(60,031)	(71,441)	(65,945)	29,052	-	-

25 FINANCIAL RISK MANAGEMENT (CONTINUED)
Market risk (continued)

Profit rate sensitivity gap (continued)

	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
31 DECEMBER 2021	%	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)	(RO'000)
Cash and balances with Central Bank of Oman	N/A	-	-	-	-	15,056	15,056
Due from banks and financial Institutions	0.0%	-	-	-	-	1,333	1,333
Debt type investments classified at amortised cost	5.1%	968	2,986	4,357	9,600	-	17,911
Murabaha receivables	5.4%	1,317	357	1,458	761	-	3,893
Ijarah - net	5.3%	4,248	4,166	11,977	43,088	-	63,479
Diminishing Musharaka	5.8%	4,473	5,139	40,245	39,482	-	89,339
Forward Ijarah	N/A	-	-	-	-	719	719
Service Ijarah	6.0%	1	1	7	6	-	15
Property and equipment - net	N/A	-	-	-	-	334	334
Other assets	N/A	-	-	-	-	2,318	2,318
TOTAL ASSETS		11,007	12,649	58,044	92,937	19,760	194,397
Current accounts	N/A	-	-	-	-	10,570	10,570
Due to banks and financial institutions	0%	27	-	-	-	-	27
Other liabilities	N/A	-	-	-	-	11,675	11,675
Unrestricted investment account holders							
Mudaraba savings account (including reserves)	0.7%	2,250	1,500	2,249	2,267	-	8,266
Due to banks and financial institutions under Wakala	2.1%	5,027	8,854	-	-	-	13,881
Customer Wakala accounts	3.8%	63,351	32,584	9,989	20,102	-	126,026
Owners' equity	N/A	-	-	-	-	23,952	23,952
Total liabilities and owners' equity		70,655	42,938	12,238	22,369	46,197	194,397
ON-BALANCE SHEET GAP		(59,648)	(30,289)	45,806	70,568	(26,437)	-
CUMULATIVE PROFIT SENSITIVITY GAP		(59,648)	(89,937)	(44,131)	26,437	-	-

25 FINANCIAL RISK MANAGEMENT (CONTINUED)
Market risk (continued)

(c) Equity risk
Currently, Muzn is not exposed to any Equity risk. The window applies the stress testing on a regular basis. 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.

(d) 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.

26 CAPITAL RISK MANAGEMENT

Muzn manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders within acceptable risk return framework. Muzn's overall strategy remains the same as applicable for Head Office.

The capital adequacy for Muzn is set out as below:

	2022	2021
		(RO'000)
Capital base		
Tier I capital	**25,961**	23,347
Tier II capital	**1,644**	700
TOTAL CAPITAL BASE	**27,605**	24,047
Risk weighted assets		
Credit risk	**159,902**	127,985
Market risk	**7,878**	1,827
Operational risk	**9,712**	7,585
TOTAL RISK WEIGHTED ASSETS	**177,492**	137,397
Capital ratios		
TOTAL TIER I RATIO	**14.63%**	16.99%
TOTAL CAPITAL RATIO	**15.55%**	17.50%

27 SEGMENTAL INFORMATION

Muzn is organised into three main business segments:

i. Retail banking – incorporating private customer current accounts, savings, deposits, Murabaha receivables, Ijarah, Forward Ijarah and Diminishing Musharaka.
ii. Corporate banking – incorporating corporate customer current accounts, savings, deposits, Murabaha receivables, Diminishing Musharaka, Ijarah and Forward Ijarah.
iii. Treasury and investments

Other operations comprise investment management and institutional finance neither of which constitutes a separately reportable segment.
Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position, but exclude items such as taxation and deposits.

Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

27 SEGMENTAL INFORMATION (CONTINUED)

	Retail banking	Corporate banking	Treasury and investments	Others	Total
AT 31 DECEMBER 2022	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Segment operating revenues	3,366	5,815	1,511	-	10,692
Other revenues	74	729	99	62	964
Segment operating revenues	3,440	6,544	1,610	62	11,656
Profit expenses	(984)	(4,188)	(162)	(138)	(5,472)
NET OPERATING INCOME	2,456	2,356	1,448	(76)	6,184
SEGMENT COST					
Operating expenses including depreciation	(700)	(157)	(116)	(1,055)	(2,028)
Impairment for finances net of allowance for provision	77	(1,608)	12	-	(1,519)
NET PROFIT FOR THE YEAR	1,833	591	1,344	(1,131)	2,637
Gross segment assets	70,458	115,225	38,602	3,036	227,321
Less: Impairment allowance	(384)	(4,401)	(28)	-	(4,813)
SEGMENT ASSETS	70,074	110,824	38,574	3,036	222,508
SEGMENT LIABILITIES	38,383	135,301	17,792	31,032	222,508

	Retail banking	Corporate banking	Treasury and investments	Others	Total
AT 31 DECEMBER 2021	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Segment operating revenues	5,702	3,037	998	-	9,737
Other revenues	75	144	109	55	383
Segment operating revenues	5,777	3,181	1,107	55	10,120
Profit expenses	(1,041)	(4,058)	(75)	(124)	(5,298)
NET OPERATING INCOME	4,736	(877)	1,032	(69)	4,822
SEGMENT COST					
Operating expenses including depreciation	(787)	(247)	(87)	(876)	(1,997)
Impairment for finances net of allowance for provision	9	(518)	(9)	-	(518)
NET PROFIT FOR THE YEAR	3,958	(1,642)	936	(945)	2,307
Gross segment assets	70,097	91,406	33,309	2,652	197,464
Less: Impairment allowance	(458)	(2,569)	(40)	-	(3,067)
SEGMENT ASSETS	69,639	88,837	33,269	2,652	194,397
SEGMENT LIABILITIES	33,949	110,144	13,908	36,396	194,397

59

Branches in Oman

18

Sadara Centres

06

Muzn Islamic Banking Branches

02

Branches in UAE

NBO's Branch Network

BRANCH	TELEPHONE NO	
Azaiba - HO Branch	24778190	24778355
MUSCAT SOUTH REGION BRANCHES		
Hamriya	24831520	24833792
Corniche	24715103	24714245
Wattaya	24563830	24560585
Qurriat	24846100	24846415
Qurum	24560050	24562615
CBD	24778350	24778351
Amerat	24879464	24875766
Shati Qurum	24607161	24607687
MUSCAT NORTH REGION BRANCHES		
Al Azaiba	24597855	24591341
Al Mawaleh	24511164	24511165
Bousher	24587291	24587294
Ministry of Health	24692310	24692309
Al Khoudh	24537950	24537951
Seeb Town	24423512	24423511
Maabella	24453314	24455957
Ghoubra\Main Branch	24778337	24778339
Bukha	26828014	
Muscat International Airport	24356922	24356921
Ministry of Education	24253778	24253778
Khasab	26731442	26730467
Al Khuwair	24486441	24486481
Sultan Qaboos University	24446768	24446556

BRANCH	TELEPHONE NO	
DAKHLIYA & DAHIRA 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		
Afi	26780972	26781562
Rustaq	26878334	26878332
Sohar Al Hambar	26859105	26859104
Shinas	26748394	26747663
Barka	26882007	
Khabourah	26802380	26805155
Musna	26870182	26871118
Saham	26855299	26855146
Bidaya	26709340	26709240
Sohar Ind	26755878	26755875
Al Suwaiq	26862764	
Sohar	26840234	26843780
Liwa	26762073	26762075
SHARQIYA REGION BRANCHES		
Ibra	25570144	25570015
Sur	25545158	25540246
Al Kamil	25557524	25557770
Bani Bu Ali	25554015	25554138
Jalaan	25550950	25550110
Masirah	25504516	25504026
Al Mudhaibi	25578484	25578014
Sinaw	25524212	25524223
Duqum	25427101	25427130

BRANCH	TELEPHONE NO	
DHOFAR REGION BRANCHES		
Salalah	23291346	23291601
SQH	23211092	23211042
Mirbat	23268345	23268346
Saada	23225283	23226031
New Salalah	23298027	23298037
SADARA CENTRE		
Azaiba HO	24778151	
Al Khoudh	24271367	
Al Mawaleh	24348118	
MOE	24510007	
Al Khuwair	22826073	
CBD	24774339	
Shatti	24607679	
Sur	25545414	
Sohar Hambar	26859103	
Rustaq	26878334	
SIA	26755886	
Saham	26855299	
Barka	26882368	
Buraimi	25642989	
Nizwa	25431401	
Firq	25431122	
Salalah	23298092	
MUZN ISLAMIC BANKING		
Muzn Aziba	24778223	24778508
Muzn Mabelah	24452325	24452387
Muzn Sohar	26846692	26846044
Muzn Nizwa	25411241	25411681
Muzn Sur	25540726	25540642
Muzn Salalah	23291310	23289230
UAE		
Abu Dhabi	97126974000	
Dubai	97143049400	

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