BANK DHOFAR SAOG

BOARD OF DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2022

Registered and principal place of business:

Bank Dhofar SAOG
Central Business District
P.O. Box 1507, Ruwi
Postal Code 112
Sultanate of Oman

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FOR THE YEAR ENDED 31 DECEMBER 2022

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THE BOARD OF DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

Dear Shareholders,

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

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

2022 Financial Overview

The key highlights of Bank's financials are summarized below

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

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

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

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

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

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

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

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

Maisarah Islamic Banking Services - Financial Performance Highlights

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

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

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

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

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

Capital Adequacy

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

Distributed & Proposed Dividends

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

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

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

Corporate Social Responsibility and Sustainability

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

Awards & Accolades

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

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

The Year Ahead (2023)

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

Acknowledgment

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

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

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

Eng. Abdul Hafidh Salim Rajab Al-Ojaili
Chairman

BankDhofar SAOG
P.O. Box 1507 Ruwi
Postal Code 112
Sultanate of Oman

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

Report on the audit of the financial statements

Our opinion

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

What we have audited

The Bank's financial statements comprise:

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

Basis for opinion

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

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

Independence

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

Our audit approach

Overview

Key Audit Matter	• Measurement of expected credit losses

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

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

Our audit approach (continued)

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

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

Key audit matters

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

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

Our audit approach (continued)

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

Other information

The directors are responsible for the other information. The other information comprises the Board of Directors' Report; Corporate Governance Report; Management Discussion and Analysis Report; Disclosure Requirements under Pillar III of Basel II and III; Maisarah Islamic Banking Services Annual Report 2022 (comprising its financial statements, the Annual Report of Shari'a Supervisory Board, Management Discussion and Analysis Report; and Disclosure Requirements under Pillar III of Basel II and Basel III), but does not include the financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report and the Bank's Annual Report and Financial Highlights of last five years and Financial Ratios of last five years, which are expected to be made available to us after that date.

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

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

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

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

Other information (continued)

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

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

PricewaterhouseCoopers

Mario Portelli
Muscat, Sultanate of Oman
2 March 2023

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س ت ١٢٣٠٨١٥
C.R. No 1230865
PricewaterhouseCoopers LLC

	Notes	31-Dec-2022 RO'000	31-Dec-2021 RO'000
Assets			
Cash and balances with Central Bank of Oman	5	176,617	251,479
Investment securities	8	469,422	446,216
Loans, advances, and financing to banks	6	148,353	125,098
Loans, advances, and financing to customers (conventional)	7	2,880,469	2,855,580
Islamic financing receivables	7	550,017	490,643
Other assets	11	67,181	245,787
Deferred tax assets	24	6,127	3,420
Property and equipment	10	7,854	7,797
Intangible assets	9	11,292	12,766
Total assets		4,317,332	4,438,786
Liabilities			
Due to banks	12	572,842	460,889
Deposits from customers (conventional)	13	2,416,687	2,538,622
Islamic customers deposits	13	475,132	437,017
Other liabilities	14	120,824	256,960
Tax Liabilities	24 *(e)*	13,632	9,422
Employee benefit obligations	14 *(a)*	1,138	2,357
Subordinated loans	15	-	35,000
Total liabilities		3,600,255	3,740,267
Shareholders' equity			
Share capital	16 *(a)*	299,635	299,635
Share premium	17	95,656	95,656
Legal reserve	18 *(a)*	67,955	64,538
Special reserve	18 *(d)*	16,988	16,988
Special reserve –restructured loans	18 *(e)*	1,281	1,281
Special impairment reserve	18 *(f)*	12,184	12,184
Special revaluation reserve - investment	18 *(g)*	(709)	(709)
Subordinated loan reserve	18 *(b)*	-	28,000
Investment revaluation reserve	18(c)	(3,506)	(3,477)
Retained earnings	19	72,093	28,923
Total equity attributable to the equity holders of the Bank		561,577	543,019
Perpetual Tier 1 Capital Securities	16 *(b)*	155,500	155,500
Total equity		717,077	698,519
Total liabilities and equity		4,317,332	4,438,786
Contingent liabilities and commitments	28 *(a)*	662,748	569,225
Net assets per share (Rial Omani)	20	0.187	0.181

The financial statements including notes and other explanatory information on pages 14 to 114 were approved and authorised for issue by the Board of Directors on 25 January 2023 and were signed on their behalf by:

BankDhofar SAOG
ص.ب: ١٥٠٧ روي
الرمز البريدي ١١٢
سلطنة عمان
P.O. Box 1507 Ruwi
Postal Code 112
Sultanate of Oman

Eng. Abdul Hafidh Salim Rajab Al-Ojaili
Chairman

Abdul Hakeem Omar Al Ojaili
Chief Executive Officer

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	**31-Dec-2022 RO'000**	31-Dec-2021 RO'000
Interest income	*21*	**184,807**	173,132
Interest expense	*22*	**(84,146)**	(90,373)
Net interest income		**100,661**	82,759
Income from Islamic financing / Investments	*21*	**36,462**	33,588
Unrestricted investment account holders' share of profit and profit expense	*22*	**(14,707)**	(13,924)
Net income from Islamic financing and Investment activities		**21,755**	19,664
Fees and commission income	*29*	**19,205**	17,906
Fees and commission expense	*29*	**(4,313)**	(2,459)
Net fees and commission income		**14,892**	15,447
Other operating income	*22 (a)*	**5,844**	8,576
Operating income		**143,152**	126,446
Staff and administrative costs	*23*	**(62,625)**	(65,253)
Depreciation	*9&10*	**(7,058)**	(7,087)
Operating expenses		**(69,683)**	(72,340)
Net Impairment losses on financial assets	*7*	**(34,343)**	(24,651)
Recovery of bad debts written-off		**1,078**	-
Profit from operations after provision		**40,204**	29,455
Income tax expense	*24*	**(6,031)**	(4,332)
Profit for the period		**34,173**	25,123
Other comprehensive income:			
Items that will not be reclassified to P&L:			
Movement in fair value reserve (FVOCI equity instrument)		**(406)**	245
Items that are or may be reclassified to profit or loss in subsequent periods:			
Movement in fair value reserve (FVOCI debt Instruments)		**377**	(1,352)
Other comprehensive loss for the period		**(29)**	(1,107)
Total comprehensive income for the period		**34,144**	24,016
Earnings per share attributable to equity shareholders of the Bank (basic and diluted) (Rials Omani)	25	**0.008**	0.005

The notes on pages 14 to 114 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	Special reserve RO'000	Special reserve restructured loan RO'000	Special impairment reserve RO'000	Special revaluation reserve RO'000	Subordinated loans reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000	Perpetual Tier 1 capital securities RO'000	Total equity RO'000
Balances as at 1 January 2022		**299,635**	**95,656**	**64,538**	**16,988**	**1,281**	**12,184**	**(709)**	**28,000**	**(3,477)**	**28,923**	**543,019**	**155,500**	**698,519**
Profit for the period		-	-	-	-	-	-	-	-	-	**34,173**	**34,173**	-	**34,173**
Other comprehensive income for the period:														
Net changes of fair value reserve														
FVOCI equity instruments	*18 (c)*	-	-	-	-	-	-	-	-	**(406)**	-	**(406)**	-	**(406)**
FVOCI debt instruments	*18 (c)*	-	-	-	-	-	-	-	-	**377**	-	**377**	-	**377**
Total comprehensive income for the period		-	-	-	-	-	-	-	-	**(29)**	**34,173**	**34,144**	-	**34,144**
Transfer to legal reserve	*18 (a)*	-	-	**3,417**	-	-	-	-	-	-	**(3,417)**	-	-	-
Transfer to Subordinated reserve	*18 (b)*								**7,000**		**(7,000)**			
Transfer to retained earnings	*18(d)*	-	-	-	-	-	-	-	**(35,000)**	-	**35,000**	-	-	-
Perpetual Tier 1 capital securities:												-	-	-
Repayment of Tier 1 capital securities	*16(b)*	-	-	-	-	-	-	-	-	-	-	-	**(115,500)**	**(115,500)**
Issuance of Tier 1 capital securities	*16(b)*	-	-	-	-	-	-	-	-	-	-	-	**115,500**	**115,500**
Payment towards perpetual additional Tier 1 coupon		-	-	-	-	-	-	-	-	-	**(9,376)**	**(9,376)**	-	**(9,376)**
AT 1Issuance Cost											**(217)**	**(217)**		**(217)**
Dividend Paid	*35*	-	-	-	-	-	-	-	-	-	**(5,993)**	**(5,993)**	-	**(5,993)**
Balances as at 31 December 2022		**299,635**	**95,656**	**67,955**	**16,988**	**1,281**	**12,184**	**(709)**	**-**	**(3,506)**	**72,093**	**561,577**	**155,500**	**717,077**

The notes on pages 14 to 114 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	Special reserve RO'000	Special reserve for restructured loan RO'000	Special impairment reserve – net of tax RO'000	Special revaluation reserve RO'000	Subordinated loans reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000	Perpetual Tier 1 capital securities RO'000	Total equity RO'000
Balance at 1 January 2021		299,635	95,656	62,025	17,488	1,281	12,184	(709)	21,000	(2,370)	34,174	540,364	155,500	695,864
Profit for the year		-	-	-	-	-	-	-	-	-	25,123	25,123	-	25,123
Other comprehensive income for the year:		-	-	-	-	-	-	-	-	-	-	-	-	-
Net changes in fair value reserve														
• FVOCI equity instrument	*18(c)*	-	-	-	-	-	-	-	-	245	-	245	-	245
• FVOCI debt instruments	*18(c)*	-	-	-	-	-	-	-	-	(1,352)	-	(1,352)	-	(1,352)
Total comprehensive income for the year		-	-	-	-	-	-	-	-	(1,107)	25,123	24,016	-	24,016
		-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to legal reserve	*18(a)*	-	-	2,513	-	-	-	-	-	-	(2,513)	-	-	-
Transfer to subordinated loan reserve	*18(b)*	-	-	-	-	-	-	-	7,000	-	(7,000)	-	-	-
Transfer to Retained Earnings	*18(d)*	-	-	-	(500)	-	-	-	-	-	500	-	-	-
Perpetual Tier 1 capital securities:														
Payment towards perpetual additional Tier 1 coupon		-	-	-	-	-	-	-	-	-	(9,376)	(9,376)	-	(9,376)
Transactions with shareholders recorded directly in equity														
Dividend paid	*35*	-	-	-	-	-	-	-	-	-	(11,985)	(11,985)	-	(11,985)
Balances as at 31 December 2021		299,635	95,656	64,538	16,988	1,281	12,184	(709)	28,000	(3,477)	28,923	543,019	155,500	698,519

The notes on pages 14 to 114 are an integral part of these financial statement

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	31-Dec-2022 RO'000	31-Dec-2021 RO'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period before taxation		**40,204**	29,455
Adjustment for:			
Depreciation, amortisation and impairment	*9&10*	**7,058**	7,087
Net Impairment on financial asset and recovery of bad debts written-off	*7*	**33,265**	24,651
Dividend income	*22 (b)*	**(265)**	(126)
End of Service provision for the year		**291**	471
Revaluation loss		**115**	13
Gain on Sale of property and equipment		**(95)**	(16)
Interest expense on subordinated loans	*22*	**1,905**	2,188
Gain on sale of investments		**(13)**	(2,071)
Operating profit before operating assets and liabilities changes		**82,465**	61,652
Net increase/(decrease) in:			
Due to banks		**110,492**	8,934
Due from banks		**31,129**	(22,239)
Loans & advances and financing		**(122,028)**	(105,079)
Other assets		**169,933**	(70,071)
Customer deposits		**(93,401)**	114,324
Other liabilities		**(122,720)**	65,753
Cash generated from operations before tax and end of service benefits		**55,870**	53,274
Taxes paid	*24*	**(4,527)**	(10,793)
End of service benefits paid	*14 (a)*	**(1,510)**	(737)
Net cash generated from operating activities		**49,833**	41,744
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment and intangible assets		**(5,641)**	(6,203)
Dividends received from investment securities		**265**	126
Purchase of investments		**(81,533)**	(86,185)
Proceeds from sale/maturities of investments		**67,948**	98,728
Proceeds from sale of property and equipment		**95**	16
Net cash generated (used in)/generated from investing activities		**(18,866)**	6,482
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of subordinated loans		**(35,000)**	-
Dividend paid		**(5,993)**	(11,985)
Issuance of AT 1 securities (OMR)		**115,500**	-
Payment of AT 1 securities (USD)		**(115,500)**	-
Interest on Tier 1 perpetual bond		**(9,376)**	(9,376)
AT 1 issuance cost		**(217)**	-
Interest expense on subordinated loans		**(1,905)**	(2,188)
Net cash (used in) financing activities		**(52,491)**	(23,549)
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(21,524)**	24,677
Cash and cash equivalents at beginning of the year		**297,203**	272,526
Cash and cash equivalents at end of the year		**275,679**	297,203
Cash and cash equivalent comprise of:			
Cash and balances with Central Bank of Oman		**176,617**	251,479
Capital deposit with Central Bank of Oman		**(500)**	(500)
Due from banks with a short term maturity of 3 months or less		**99,562**	46,224
		275,679	297,203

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

There are no significant non-cash changes to be disclosed for 2022 and 2021.
The notes on pages 14 to 114 are an integral part of these financial statements.

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Bank Dhofar SAOG (the "Bank") is incorporated in the Sultanate of Oman as a public joint stock company and is principally engaged in corporate, retail and investment banking activities. The Bank's Islamic Banking Window, "Maisarah Islamic Banking services" has an allocated capital of RO 70 million (2021: RO 70 million) from the core paid up capital of the shareholders. The Bank has a primary listing of its ordinary shares on the Muscat Stock Exchange ("MSX"), and the Bank's Additional Tier I Perpetual Bonds are listed on the Muscat Stock Exchange ("MSX"). The Bank's principal place of business is its Head Office located at Central Business District ("CBD"), Muscat, Sultanate of Oman.

2 BASIS OF PREPARATION

2.1 Statement of compliance

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

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

2.2 Basis of measurement

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

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgements

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

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

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

2 BASIS OF PREPARATION *(continued)*

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

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

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

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

2.6 The following new standards and amendments have been issued by the International Accounting Standards Board (IASB) but are not yet mandatory for the year ended 31 December 2022:

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

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

Major new IFRSs or amendments

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

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

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Foreign currency transactions

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

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

3.2 Financial assets and liabilities

3.2.1 Recognition and initial measurement

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

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

3.2.2 Classification

(a) Financial assets

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

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

Financial assets measured at amortised cost

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Financial assets and liabilities *(continued)*

3.2.2 Classification *(continued)*

Financial assets measured at fair value through other comprehensive income

i) Debt Instruments

An investment in debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL;

- The asset is held within business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These debt instruments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity.

ii) Equity Instruments

For an equity instrument that is not held for trading, the Bank may elect at initial recognition to irrevocably designate those instruments under FVOCI. This election is made on an investment by investment basis. Amounts presented in other comprehensive income are not subsequently transferred to the statement of comprehensive income.

Financial assets measured at fair value through profit or loss

Financial assets at fair value through profit or loss comprises of investments held for trading and designated as FVTPL on initial recognition. They are initially recognised at fair value with transaction costs recognised in the statement of comprehensive income as incurred. Subsequently, they are measured at fair value and any gains or losses are recognised in the statement of comprehensive income.

Business model assessment

Business model assessment involves determining how financial assets are managed in order to generate cash flows. The Bank's business model assessment is based on the following categories:

- Held to collect: The objective of the business model is to hold assets and collect contractual cash flows. Any sales of the asset are incidental to the objective of the model.

- Held to collect and for sale: Both collecting contractual cash flows and sales are integral to achieving the objectives of the business model.

- Other business model: The business model is neither held-to-collect nor held-to-collect and for sale.

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Financial assets and liabilities *(continued)*

3.2.2 Classification *(continued)*

(a) Financial assets *(continued)*

Business model assessment *(continued)*

- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

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

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

Financial guarantee contracts and loan commitments

For financial guarantee contracts and loan commitments, the loss allowance is recognised as provision for expected credit losses as described in note 3.3. The Bank has issued no loan commitment that are measured at FVTPL. Allowance for expected credit losses arising from financial guarantee and loan commitments are included within allowance for expected credit losses under other liabilities in statement of financial position.

Loans & advances and financing receivables

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

(b) Financial liabilities

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Financial assets and liabilities *(continued)*

3.2.3 De-recognition

Financial assets

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

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

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

Financial liabilities

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

3.2.4 Modifications of financial assets and financial liabilities

Financial assets

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Financial assets and liabilities *(continued)*

3.2.4 Modifications of financial assets and financial liabilities *(continued)*

Financial liabilities

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

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

3.2.5 Offsetting

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

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

3.2.6 Amortised cost measurement

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

3.2.7 Fair value measurement

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2 Financial assets and liabilities *(continued)*

3.2.7 Fair value measurement *(continued)*

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

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

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

3.2.8 Designation at fair value through profit or loss

Financial assets

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

Financial liabilities

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

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

3.3 Allowance for expected credit losses

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

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

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

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

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

The Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade’. The Bank does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as ‘Stage 1 financial instruments’.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 Allowance for expected credit losses *(continued)*

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as ‘Stage 2 financial instruments.

Allowance for expected credit losses is measured using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

- Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.

- Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

Details of these statistical parameters/inputs are as follows:

- PD – The probability of default is an estimate of the likelihood that the borrower of a loan or debt will not be able to make the necessary scheduled repayments and defaults over a given time horizon. Bank has developed PD models for various portfolios reflecting the existing state of the environment in which the bank operates and in line with a forward-looking view. The PD models are built to capture the changing risk of default of clients over a long period of time and Bank has used its own internal data to develop such models. PD is assessed for pool of borrowers falling under each rating grade using statistical tools, which represents the average expected default probability within future 12 months horizons. While the ratings itself incorporate forward looking parameters to a certain extent, the models are structured in a way to produce average PD estimates in line with historical long-run averages including forward looking information.

- EAD – The exposure at default computed is the expected amount owed to the bank, expressed as an amount, at the time the client defaults, or is expected to default. The exposure can be distinguished between those amounts forming part of (i) revolving (ii) non-revolving and (iii) off-balance sheet exposures to the bank, as special considerations have been taken in treating each case. For all non-revolving exposures, the amount outstanding as on reporting date has been treated as EAD. For all revolving exposure, EAD shall be the sum of the amount outstanding and likely amount that will be utilised by the borrower from the unavailed limit before the default. The off-balance sheet items are converted into credit exposure equivalent through credit conversion factor (or CCF) and accordingly, EAD is estimated.

- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD. The Bank has adopted different approaches for estimation of LGD depending on the portfolio. The Bank has used internal data reflecting Bank’s own loss experience for development of model, however wherever the Bank lacked internal loss experience, external loss benchmarks are adopted.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 Allowance for expected credit losses *(continued)*

(a) Measurement of ECL

Expected credit losses are a probability-weighted estimate of credit losses (ie the present value of all cash shortfalls) over the expected life of the financial instrument. A cash shortfall is the difference between the cash flows that are due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive. Because expected credit losses consider the amount and timing of payments, a credit loss arises even if the entity expects to be paid in full but later than when contractually due.

For a financial asset that is credit-impaired at the reporting date, but that is not a purchased or originated credit-impaired financial asset, the Bank measures the expected credit losses as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Any adjustment is recognised in profit or loss as an impairment gain or loss.

However, for unfunded exposures, ECL is measured as follows:

- undrawn loan commitments: a credit loss is the present value of the difference between (a) the contractual cash flows that are due to the Bank if the holder of the loan commitment draws down the loan; and (b) the cash flows that the Bank expects to receive if the loan is drawn down; and

- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover. For a financial guarantee contract, the Bank is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, cash shortfalls are the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Bank expects to receive from the holder, the debtor or any other party. If the asset is fully guaranteed, the estimation of cash shortfalls for a financial guarantee contract would be consistent with the estimations of cash shortfalls for the asset subject to the guarantee. The guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset.

(b) Restructured financial assets

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

- If the expected restructuring will not result in de-recognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in de-recognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its de-recognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of de-recognition to the reporting date using the original effective interest rate of the existing financial asset.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 Allowance for expected credit losses *(continued)*

(c) Credit-impaired financial assets

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

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

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

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

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

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

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

(d) Forward-looking information

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

(e) Macroeconomic factors

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 Allowance for expected credit losses *(continued)*

(f) Assessment of significant increase in credit risk

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

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

(g) Definition of default

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

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 Allowance for expected credit losses *(continued)*

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

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

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

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

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

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

(i) Write-off

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

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

3.4 Cash and cash equivalents

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.5 Due from banks

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

3.6 Property and equipment

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

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

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

	Years
Buildings	7 – 25
Furniture and fixtures	3 – 7
Motor vehicles	3 – 5
Computer equipment	4

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other income' in the statement of comprehensive income .

Repairs and renewals are charged to the statement of comprehensive income when the expense is incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the statement of comprehensive income as an expense as incurred.

3.7 Collateral pending sale

The Bank occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of the net realisable value of the related loans and advances before de-recognition and the current fair value of such assets. Gains or losses on disposal and unrealised losses on revaluation are recognised in the statement of comprehensive income .

3.8 Intangible assets

Computer software costs that are directly associated with identifiable and unique software products controlled by the Bank and have probable economic benefit exceeding the costs beyond one year are recognised as an intangible asset. Computer software costs recognised as an asset are amortised using the straight-line method over the estimated useful life of 5-10 years.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.9 Deposits

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

3.10 Income tax

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

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

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

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

3.11 Fiduciary assets

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

3.12 Acceptances

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

3.13 Sale and repurchase agreements

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

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

3.14 Derivative financial instruments and hedging activities

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

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);

- hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.14 Derivative financial instruments and hedging activities *(continued)*

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

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);

- hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

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

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

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

3.15 Leases

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

3.16 Employee benefits

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.17 Financial guarantees contracts

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

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

3.18 Borrowings

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

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

3.19 Dividend on ordinary shares

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

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

3.20 Directors' remuneration

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

3.21 Revenue and expense recognition

I. Interest income and expense

Interest income and expense is recognised in the statement of comprehensive income using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the gross carrying amount or the amortised cost of the financial asset or liability. The calculation of effective interest rate includes transaction costs and fees paid/ received that are an integral part of effective interest rate. Transaction costs includes incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for loss allowance.

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.21 Revenue and expense recognition *(continued)*

I. Interest income and expense *(continued)*

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

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

(ii) Interest on debt investment securities on an effective interest rate basis.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their Amortised Cost (AC), net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

If the credit risk on the financial asset classified in Stage 3 subsequently improves so that the asset is no longer credit-impaired and the improvement can be related objectively to an event occurring after the asset had been determined as credit-impaired (ie the asset becomes cured), the asset is reclassified from stage 3 and the interest revenue is calculated by applying the EIR to the gross carrying amount. The additional interest income, which was previously not recognised in profit or loss due to the asset being in stage 3 but it is now expected to be received following the asset's curing, is recognised as a reversal of impairment.

II. Fees and commission income

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income is recognised over time on a straight-line basis as the services are rendered in cases when the customer simultaneously receives and consumes the benefits provided by the Bank's performance or at a point in time when the Bank satisfies performance obligation, usually upon execution of the underlying transaction. Other fees and commission income include account servicing fees, credit related fees, administration fees and other management fees, sales commission, placement fees, advisory fees and syndication fees.

Fees and commission income is measured based on the consideration specified in the contract with the customers. The products and services of the Bank covered under IFRS 15 along with its nature, timing of satisfaction of performance obligations and significant payment terms are as follows:

Transaction services

The services include opening, closing and maintenance of deposit accounts, cheque issuance, clearing, deposit and payments transactions, remittances, safe deposit lockers. It also include card and e-channel services like interchange and merchant services generated from card issuance and usage. Transaction-based fees are charged to the customer's account when the transaction takes place.

The Bank recognises revenue on completion of service or proportionate completion basis or satisfaction of performance obligation as per the terms of contract.

Trade services

The services cover issuance of letter of credit or guarantee, negotiations and other trade transactions.
Trade services fees are charged to the customer's account when the services are provided or over the period of contract in line with the terms and conditions of contract.

Income is recognised on service completion basis or time proportionate basis over the period of contract.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.21 Revenue and expense recognition *(continued)*

II. Fees and commission income (continued)

Syndication and other loan related services

The services include processing for credit, setting up credit limits, documentation, security and agency services and prepayment and closure of credit facilities. Syndication and other loan related services charges are charged to the customer's account when the services are provided or over the period of contract in line with the terms and conditions of contract.

The Bank recognises revenue on completion of service basis or on time proportion basis.

Advisory and asset management services

Advisory services include advising for fund raising (rights issue, IPOs, bond issues etc). Advisory fees are charged to the customer's account on milestone completion basis or over the period of contract in line with the terms and conditions of contract.

3.22 Dividends

Dividend income is recognised in the statement of comprehensive income in 'Other income', when the Bank's right to receive income is established.

3.23 Provisions

A provision is recognised if, as a result of past event, the Bank has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligations. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability.

3.24 Segment reporting

Segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately. The Bank currently operates only in the Sultanate of Oman. The Bank's segments are corporate, retail banking, Treasury and Investment and Islamic Banking.

3.25 Earnings per share

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

3.26 Perpetual Tier 1 capital securities

Perpetual Tier 1 Capital Securities of the Bank are recognised under equity and the corresponding distribution on those instruments are accounted as a debit to retained earnings. The Tier 1 securities constitute direct, unconditional, subordinated and unsecured instruments issued by the Bank that are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 securities do not have a fixed redemption or final maturity date and is redeemable by the Bank at its sole discretion on the first call date or thereafter on any interest payment date.

4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgments made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 31 December 2021.

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

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

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

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

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

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

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

4.2 Taxes

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

Refer to note 24 for disclosures related to income taxes.

4.3 Modification of financial assets

When financial assets are contractually modified (e.g. renegotiated), the Bank assesses whether the modification is substantial and should result in de-recognition of the original asset and recognition of a new asset at fair value. This assessment is based primarily on qualitative factors, described in the relevant accounting policy and it requires significant judgment. In particular, the Bank applies judgment in deciding whether credit impaired renegotiated loans should be derecognized and whether the new recognized loans should be considered as credit impaired on initial recognition. The de-recognition assessment depends on whether the risks and rewards, that is, the variability of expected (rather than contractual) cash flows, change as a result of such modifications. Management determined that risks and rewards did not change as a result of modifying such loans and therefore in substantially all such modifications, the loans were neither derecognized nor reclassified out of the credit-impaired stage.

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

4.4 Classification of the Equity Tier 1 instrument under IAS 32

The Bank has issued Perpetual Tier 1 Securities listed on the Muscat Stock Exchange (2021: Euronext Dublin and Muscat Stock Exchange), which have been classified as equity in accordance with IAS 32: Financial Instruments – Classification. The key features of the instruments are as follows:

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

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

4.5 Determination of lease term under IFRS 16

In determining the lease term, the Bank considers all facts and circumstances. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The Bank considers the nature and enforceability of extension clause in the lease agreement, the value of leasehold improvements, penalties on termination, costs and business disruption required to replace the leased premises as factors to determine the lease term. Lease agreements for premises occupied by the Bank may contain an extension option, where the Bank has not considered extension options after analysing the above factors.

Lease term is reassessed if an option is actually exercised (or not exercised) or the Bank becomes obliged to exercise (or not exercise) it. The assessment is only revised if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the Bank. During the financial year, the Bank has not revised its assessment of lease term as no significant events or changes occurred.

5. Cash and balances with the Central Bank of Oman

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

Balances with CBO includes capital deposit of RO 0.5 million (2021: RO 0.5 million). This is not available for day-to-day operations of the Bank and cannot be withdrawn without the Central Bank of Oman's approval. During the year, the average minimum balance to be kept with Central Banks as statutory reserves was RO 86.720 million (2021: RO 88.970 million).

6. Loans, advances and financing to banks

at amortised cost

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

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

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

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

(a) Conventional Banking

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

(b) Islamic Banking Window Financing

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

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

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

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

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

The reserve interest disclosed above is the amount of interest accrued on impaired loans which is not recognised in the statement of comprehensive income as per CBO norms. As of 31 December 2022, loans, and advances on which contractual interest is not being accrued or has not been recognised amounted to RO 214.08 million (2021: RO 179.65 million). Contractual interest reserved and recovery thereof is shown under net interest income and income from Islamic financing in the statement of comprehensive income.

Proposals for waivers / write-offs are not formula driven and are decided on a case by case basis after weighing all pros and cons. The rationale is invariably documented. In all cases, the Bank aims to recover the maximum value through enforcement of collaterals / guarantees of guarantors. The Bank may write-off financial assets that are still subject to enforcement activity when the Bank seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery. In 2022, the Bank has written off RO 1.65 million (2021- RO 10.51 million) of provisions which includes RO 0.87 million (2021 - RO 6.43 million) of principal amount and RO 0.78 million (2021 – RO 4.08 million) of reserved interest as technical write off. As of 31 December 2022, the receivables amount written off still subject to enforcement activity amount to RO 79.31 million (2021: RO 80.09 million).

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

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

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

i. Comparison of provision held as per IFRS 9 and required as per CBO norms

Disclosure requirements containing the risk classification –wise gross and net amount outstanding, provision required as per CBO norms, allowance made as per IFRS 9, interest recognized as per IFRS 9 and reserve interest required as per CBO are given below based on CBO circular BM 1149.

In accordance with CBO circular BM 1149 Banks should continue to maintain and update the risk classification (i.e. standard, special mention, substandard, etc.) of accounts as per the extant CBO norms, including those on restructuring of loans accounts for regulatory reporting purposes.

At 31 December 2022

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)
	Stage 1	2,642,217	37,850	12,483	25,367	2,604,367	2,629,734	-
Standard	Stage 2	417,967	5,166	32,121	(26,956)	412,802	385,846	-
	Stage 3	-	-	-	-	-	-	-
Subtotal		3,060,184	43,016	44,604	(1,588)	3,017,168	3,015,580	-
	Stage 1	14,812	151	228	(77)	14,661	14,584	-
Special Mention	Stage 2	357,577	4,951	30,042	(25,091)	352,626	327,535	-
	Stage 3	-	-	-	-	-	-	-
Subtotal		372,389	5,102	30,270	(25,168)	367,287	342,119	-
	Stage 1	-	-	-	-	-	-	-
Substandard	Stage 2	-	-	-	-	-	-	-
	Stage 3	8,552	2,111	3,044	(933)	6,193	5,508	248
Subtotal		8,552	2,111	3,044	(933)	6,193	5,508	248
	Stage 1	-	-	-	-	-	-	-
Doubtful	Stage 2	-	-	-	-	-	-	-
	Stage 3	17,694	5,454	6,444	(990)	11,210	11,250	1,030
Subtotal		17,694	5,454	6,444	(990)	11,210	11,250	1,030
	Stage 1	-	-	-	-	-	-	-
Loss	Stage 2	-	-	-	-	-	-	-
	Stage 3	187,833	130,050	91,439	38,611	18,695	96,394	39,088
Subtotal		187,833	130,050	91,439	38,611	18,695	96,394	39,088
Total loans and advances		3,646,652	185,733	175,801	9,932	3,420,553	3,470,851	40,366
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	1,755,388	179	3,013	-2,834	1,755,209	1,752,375	-
	Stage 2	305,182	-	3,945	-3,945	305,182	301,237	-
	Stage 3	3,056	-	1,252	-1,252	3,056	1,804	-
Subtotal		2,063,626	179	8,210	-8,031	2,063,447	2,055,416	-
	Stage 1	4,412,417	38,180	15,724	22,456	4,374,237	4,396,693	-
Total (31 December 2022)	Stage 2	1,080,726	10,116	66,108	-55,992	1,070,610	1,014,618	-
	Stage 3	217,135	137,615	102,179	35,436	39,154	114,956	40,366
	Total	5,710,278	185,911	184,011	1,900	5,484,001	5,526,267	40,366

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

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

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

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

At 31 December 2021

RO'000

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

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

(d) Restructured Loans

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Restructuring policies and practices are based on indicators or criteria which, in the judgment of the Directors, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans.

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

(d) Restructured Loans *(continued)*

At 31 December 2022

RO'000

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Carrying Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Carrying Amount as per CBO norms*	Net Carrying Amount as per IFRS 9	Interest recognised in P&L as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Classified as performing	Stage 1	128,096	1,288	3,248	(1,959)	126,808	124,848	-	-
	Stage 2	434,264	2,450	41,473	(39,022)	431,814	392,792	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		562,360	3,738	44,720	(40,982)	558,622	517,640	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	7,431	3,451	3,476	(25)	2,723	3,955	-	1,257
Sub total		7,431	3,451	3,476	(25)	2,723	3,955	-	1,257
Total (31 December 2022)	Stage 1	128,096	1,288	3,248	(1,959)	126,808	124,848	-	-
	Stage 2	434,264	2,450	41,473	(39,022)	431,814	392,792	-	-
	Stage 3	7,431	3,451	3,476	(25)	2,723	3,955	-	1,257
	Total	569,791	7,189	48,196	(41,007)	561,345	521,595	-	1,257

* Net of provision and reserve interest as per CBO norms

At 31 December 2021

RO'000

Asset Classification as per CBO Norms 31 December 2021	Asset Classification as per IFRS 9	Gross Carrying Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required, and provision held	Net Carrying Amount as per CBO norms*	Net Carrying Amount as per IFRS 9	Interest recognised in P&L	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7) = (3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Classified as performing	Stage 1	57,314	565	475	90	56,749	56,839	-	-
	Stage 2	145,761	7,437	13,490	(6,053)	138,324	132,271	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		203,075	8,002	13,965	(5,963)	195,073	189,110	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	7,113	4,248	3,906	342	1,650	3,207	-	1,215
Sub total		7,113	4,248	3,906	342	1,650	3,207	-	1,215
Total (31 December 2021)	Stage 1	57,314	565	475	90	56,749	56,839	-	-
	Stage 2	145,761	7,437	13,490	(6,053)	138,324	132,271	-	-
	Stage 3	7,113	4,248	3,906	342	1,650	3,207	-	1,215
	Total	210,188	12,250	17,871	(5,621)	196,723	192,317	-	1,215

* Net of provision and reserve interest as per CBO norms

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

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

i. Allowance for expected credit losses charge and provisions held

At 31 December 2022

	As per CBO Norms RO'000	As per IFRS 9 RO'000	Difference RO'000
Provisions required as per CBO – BM 977/ held as per IFRS 9 (Note 1)	**185,912**	**184,011**	**1,901**
Gross NPL ratio	**5.87%**	**5.87%**	**0.00%**
Net NPL ratio	**0.99%**	**2.00%**	**-1.01%**

Gross NPL (Non-performing Loans) are 5.87% and Net NPL is 2.00% based on funded non-performing exposure over funded exposure.
Note 1: Excluding Interest Reserve of RO 40.37 million.

At 31 December 2021

	As per CBO Norms RO'000	As per IFRS 9 RO'000	Difference RO'000
Provisions required as per CBO – BM 977/ held as per IFRS 9 (Note 1)	161,176	150,533	10,643
Gross NPL ratio	5.11%	5.11%	0.00%
Net NPL ratio	1.06%	1.91%	-0.85%

Note 1: Excluding Interest Reserve of RO 30.12 million.

Gross NPL (Non-performing Loans) are 5.11% and Net NPL is 1.91% based on funded non-performing exposure over funded exposure.

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

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

ii. Special impairment reserve

During 2022 (2021 – Nil), no amount of special reserves was transferred from retained earnings to the special impairment reserve because CBO has suspended the two-track approach for the financial year 2021 and 2022.

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

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

iii. Special impairment reserve *(continued)*

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

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

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

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

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

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

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

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

	RO'000
Opening Balance – 1 January 2021	12,184
Net charge for the year after tax	-
Closing Balance as at 31 December 2021	12,184

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

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

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

The following table discloses the stage-wise gross exposure, allowance for expected credit losses and net exposure of only those financial assets that are tested for allowance for expected credit losses under IFRS 9 as at 31 December 2022:

				RO'000
Gross exposure	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Central Bank balances	**137,376**	**-**	**-**	**137,376**
Cash held by a custodian	**5,316**	**-**	**-**	**5,316**
Due from Banks	**148,457**	**-**	**-**	**148,457**
Sovereign	**398,445**	**-**	**-**	**398,445**
Investment Securities at amortized cost	**9,647**	**-**	**-**	**9,647**
Investment Securities at FVOCI	**46,702**	**-**	**-**	**46,702**
Loans and advances	**2,657,029**	**775,544**	**214,079**	**3,646,652**
Acceptance	**34,225**	**5,771**	**-**	**39,996**
Total funded gross exposure	**3,437,197**	**781,315**	**214,079**	**4,432,591**
Letters of credit/guarantee	**559,104**	**100,588**	**3,056**	**662,748**
Loan commitment / unutilized limits	**416,116**	**198,823**	**-**	**614,939**
Total non-funded gross exposure	**975,220**	**299,411**	**3,056**	**1,277,687**
Total gross exposure	**4,412,417**	**1,080,726**	**217,135**	**5,710,278**
Allowance for expected credit losses				
Central Bank balances	**-**	**-**	**-**	**-**
Cash held by a custodian	**-**	**-**	**-**	**-**
Due from Banks	**104**	**-**	**-**	**104**
Sovereign	**-**	**-**	**-**	**-**
Investment Securities at amortized cost	**-**	**-**	**-**	**-**
Investment Securities at FVOCI	**64**	**-**	**-**	**64**
Loans and advances	**12,711**	**62,163**	**100,927**	**175,801**
Acceptance	**13**	**6**	**-**	**19**
Total funded impairment	**12,892**	**62,169**	**100,927**	**175,988**
Letters of credit/guarantee	**1,670**	**3,266**	**1,252**	**6,188**
Loan commitment/unutilized limits	**1,162**	**673**	**-**	**1,835**
Total non-funded impairment	**2,832**	**3,939**	**1,252**	**8,023**
Total impairment	**15,724**	**66,108**	**102,179**	**184,011**
Net exposure				
Central Bank balances	**137,376**	**-**	**-**	**137,376**
Cash held by a custodian	**5,316**	**-**	**-**	**5,316**
Due from Banks	**148,353**	**-**	**-**	**148,353**
Sovereign	**398,445**	**-**	**-**	**398,445**
Investment Securities at amortized Cost	**9,647**	**-**	**-**	**9,647**
Investment Securities at FVOCI	**46,638**	**-**	**-**	**46,638**
Loans and advances	**2,644,318**	**713,381**	**113,152**	**3,470,851**
Acceptance	**34,212**	**5,765**	**-**	**39,977**
Total funded net exposure	**3,424,305**	**719,146**	**113,152**	**4,256,603**
Letter of credit/guarantee	**557,434**	**97,322**	**1,804**	**656,560**
Loan commitment/unutilized limits	**414,954**	**198,150**	**-**	**613,104**
Total net non-funded exposure	**972,388**	**295,472**	**1,804**	**1,269,664**
Total net exposure	**4,396,693**	**1,014,618**	**114,956**	**5,526,267**

Gross exposure of loans and advances of RO 214.08 million under stage 3 includes reserved interest of RO 40.37 million.

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

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

The following table discloses the stage-wise gross exposure, allowance for expected credit losses and net exposure of only those financial assets that are tested for allowance for expected credit losses under IFRS 9 as at 31 December 2021:

RO'000

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

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

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

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

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

	Stage 1	Stage 2	Stage 3	RO'000 Total
Opening Balance – as of 1 January 2022				
Due from banks	**1,150**	**-**	**-**	**1,150**
Loans and advances to customers	**20,015**	**34,931**	**82,535**	**137,481**
Investment securities at FVOCI (Debt)	**247**	**-**	**-**	**247**
Loan commitments and financial guarantees	**3,534**	**4,054**	**-**	**7,588**
Acceptances	**899**	**16**	**-**	**915**
Unutilised	**1,670**	**1,140**	**-**	**2,810**
Interest Accrued	**131**	**212**	**-**	**343**
Total	**27,645**	**40,353**	**82,535**	**150,533**
Net transfer between stages				
Due from banks	**(204)**	**204**	**-**	**-**
Loans and advances to customers	**1,426**	**(21,587)**	**20,161**	**-**
Loan commitments and financial guarantees	**(13)**	**13**	**-**	**-**
Unutilised	**29**	**(29)**	**-**	**-**
Total	**1,238**	**(21,399)**	**20,161**	**-**
Charge for the Year (net of recoveries)				
Due from banks	**(842)**	**(204)**	**-**	**(1,046)**
Loans and advances to customers	**(8,861)**	**48,607**	**(903)**	**38,843**
Investment securities at FVOCI (Debt)	**(183)**	**-**	**-**	**(183)**
Loan commitments and financial guarantees	**(1,851)**	**(801)**	**1,252**	**(1,400)**
Acceptances	**(886)**	**(10)**	**-**	**(896)**
Unutilised	**(537)**	**(438)**	**-**	**(975)**
Total net of recovery	**(13,160)**	**47,154**	**349**	**34,343**
Written-off			**(866)**	**(866)**
Closing Balance – as at 31 December 2022				
- Due from banks	**104**	**-**	**-**	**104**
- Loans and advances to customers	**12,711**	**62,163**	**100,927**	**175,801**
- Investment securities at FVOCI (Debt)	**64**	**-**	**-**	**64**
- Loan commitments and financial guarantees	**1,670**	**3,266**	**1,252**	**6,188**
- Acceptances	**13**	**6**	**-**	**19**
- Unutilised	**1,162**	**673**	**-**	**1,835**
Total expected credit loss	**15,724**	**66,108**	**102,179**	**184,011**

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

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

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

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

				RO'000
	Stage 1	Stage 2	Stage 3	Total
Opening Balance – as of 1 January 2021				
- Due from banks	454	-	-	454
- Loans and advances to customers	17,626	33,714	68,228	119,568
- Investment securities at FVOCI (Debt)	238	-	-	238
- Loan commitments and financial guarantees	2,598	5,739	-	8,337
- Acceptances	341	15	-	356
- Unutilised	2,001	958	-	2,959
- Interest accrued	111	289	-	400
Total	23,369	40,715	68,228	132,312
Net transfer between stages				
- Loans and advances to customers	386	(11,351)	10,965	-
- Loan commitments and financial guarantees	24	(24)	-	-
-Unutilised	39	(39)	-	-
-Interest Accrued	-	-	-	-
Total	448	(11,413)	10,965	-
Charge for the Year (net of recoveries)				
- Due from banks	697	-	-	697
- Loans and advances to customers	2,003	12,568	9,771	24,342
- Investment securities at FVOCI (Debt)	9	-	-	9
- Letter of credit and financial guarantees	912	(1,661)	-	(749)
- Acceptances	558	1	-	559
- Unutilised	(371)	221	-	(150)
- Interest accrued	20	(77)	-	(57)
Total	3,828	11,052	9,771	24,651
Written-off loans and advances to customers	-	-	(6,429)	(6,429)
Closing Balance – as at 31 December 2021				
- Due from banks	1,150	-	-	1,150
- Loans and advances to customers	20,015	34,931	82,535	137,481
- Investment securities at FVOCI (Debt)	247	-	-	247
- Loan commitments and financial guarantees	3,534	4,054	-	7,588
- Acceptances	899	16	-	915
- Loan commitment/unutilised limits	1,669	1,140	-	2,809
- Interest accrued	131	212	-	343
Total expected credit loss	27,645	40,353	82,535	150,533

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

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

2022:

Due from Bank
ECL Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2022	**1,150**	**-**	**-**	**1,150**
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	**-**	**-**	**-**	**-**
Net Movements during the year	**(1,046)**	-	-	**(1,046)**
Net Movement	**(1,046)**	**-**	**-**	**(1,046)**
Closing balance – 31 December 2022	**104**	**-**	**-**	**104**

Exposure Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2022	**126,248**	**-**	**-**	**126,248**
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	**-**	**-**	**-**	**-**
Net Movements during the year	**22,209**	-	-	**22,209**
Net Movement	**22,209**	**-**	**-**	**22,209**
Closing balance – 31 December 2022	**148,457**	**-**	**-**	**148,457**

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

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

Loans and Advances
ECL Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2022	**20,015**	**34,931**	**82,535**	**137,481**
Reclassification	**131**	**212**	**-**	**343**
Transfer between stages				
From Stage 1 to Stage 2	**1,588**	**(1,246)**	**-**	**342**
From Stage 2 to Stage 1	**(161)**	**161**	**-**	**-**
From Stage 2 to Stage 3	**(1)**	**(20,502)**	**20,161**	**(342)**
Net Changes in Stage	**1,426**	**(21,587)**	**20,161**	**-**
Net Movement during the year	**(8,861)**	**48,607**	**(903)**	**38,843**
Net Movement	**(8,861)**	**48,607**	**(903)**	**38,843**
Write off	**-**	**-**	**(866)**	**(866)**
Closing balance – 31 December 2022	**12,711**	**62,163**	**100,927**	**175,801**

Exposure Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2022	**2,608,026**	**726,143**	**179,653**	**3,513,822**
Transfer between stages				
From Stage 1 to Stage 2	**20,471**	**(20,471)**	**-**	**-**
From Stage 2 to Stage 1	**(29,876)**	**29,876**	**-**	**-**
From Stage 2 to Stage 3	**(231)**	**(868)**	**1,099**	**-**
Net Changes in Stage	**(9,636)**	**8,537**	**1,099**	**-**
Net Movement during the year	**58,639**	**40,864**	**33,327**	**132,830**
Net Movement	**58,639**	**40,864**	**33,327**	**132,830**
Closing balance – 31 December 2022	**2,657,029**	**775,544**	**214,079**	**3,646,652**

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

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

Investment securities
ECL Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2022	**247**	**-**	**-**	**247**
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	-	-	-	-
Net Movement during the year	**(183)**	-	-	**(183)**
Net Movement	**(183)**	**-**	**-**	**(183)**
Closing balance – 31 December 2022	**64**	**-**	**-**	**64**

Exposure Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2022	**37,109**	**-**	**-**	**37,109**
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	-	-	-	-
Net Movement during the year	**19,240**	-	-	**19,240**
Net Movement	**19,240**	**-**	**-**	**19,240**
Closing balance – 31 December 2022	**56,349**	**-**	**-**	**56,349**

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

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

Acceptance
ECL Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2022	**899**	**16**	**-**	**915**
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	-	-	-	-
Net Movement during the year	**(886)**	**(10)**	**-**	**(896)**
Net Movement	**(886)**	**(10)**	**-**	**(896)**
Closing balance – 31 December 2022	**13**	**6**	**-**	**19**

Exposure Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2022	**175,018**	**6,080**	**-**	**181,098**
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	-	-	-	-
Net Movement during the year	**(140,793)**	**(309)**	**-**	**(141,102)**
Net Movement	**(140,793)**	**(309)**	**-**	**(141,102)**
Closing balance – 31 December 2022	**34,225**	**5,771**	**-**	**39,996**

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

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

Letter of Credit/Guarantee
ECL Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2022	**3,534**	**4,054**	**-**	**7,588**
Transfer between stages				
From Stage 1 to Stage 2	**(12)**	**12**	**-**	**-**
From Stage 2 to Stage 1	**(1)**	**1**	**-**	**-**
From Stage 2 to Stage 3	**-**	**-**	**-**	**-**
Net Changes in Stage	**(13)**	**13**	**-**	**-**
Net Movement during the year	**(1,851)**	**(801)**	**1,252**	**(1,400)**
Net Movement	**(1,851)**	**(801)**	**1,252**	**(1,400)**
Closing balance – 31 December 2022	**1,670**	**3,266**	**1,252**	**6,188**

Exposure Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2022	**463,445**	**98,632**	**7,148**	**569,225**
Transfer between stages				
From Stage 1 to Stage 2	**(284)**	**284**	**-**	**-**
From Stage 2 to Stage 1	**(222)**	**222**	**-**	**-**
From Stage 2 to Stage 3	**-**	**-**	**-**	**-**
Net Changes in Stage	**(506)**	**506**	**-**	**-**
Net Movement during the year	**96,165**	**1,450**	**(4,092)**	**93,523**
Net Movement	**96,165**	**1,450**	**(4,092)**	**93,523**
Closing balance – 31 December 2022	**559,104**	**100,588**	**3,056**	**662,748**

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

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

Loan commitment / unutilised limits
ECL Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2022	**1,669**	**1,140**	**-**	**2,809**
Transfer between stages				
From Stage 1 to Stage 2	**19**	**(19)**	**-**	**-**
From Stage 2 to Stage 1	**11**	**(11)**	**-**	**-**
From Stage 2 to Stage 3	**-**	**-**	**-**	**-**
Net Changes in Stage	**30**	**(30)**	**-**	**-**
Net Movement during the year	**(537)**	**(438)**	**-**	**(975)**
Net Movement	**(537)**	**(438)**	**-**	**(975)**
Closing balance – 31 December 2022	**1,162**	**672**	**-**	**1,834**

Exposure Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2022	**427,530**	**195,875**	**-**	**623,405**
Transfer between stages				
From Stage 1 to Stage 2	**(3,265)**	**3,265**	**-**	**-**
From Stage 2 to Stage 1	**2,394**	**(2,394)**	**-**	**-**
From Stage 2 to Stage 3	**-**	**-**	**-**	**-**
Net Changes in Stage	**(871)**	**871**	**-**	**-**
Net Movement during the year	**(10,543)**	**2,077**	**-**	**(8,466)**
Net Movement	**(10,543)**	**2,077**	**-**	**(8,466)**
Closing balance – 31 December 2022	**416,116**	**198,823**	**-**	**614,939**

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

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

Cash held by a custodian
Exposure Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2022	-	-		-
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	-	-	-	-
Net Movement during the year	5,316	-	-	5,716
Net Movement	5,316	-	-	5,716
Closing balance – 31 December 2022	5,316	-	-	5,716

Sovereign
Exposure Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2022	404,041	-	-	404,041
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	-	-	-	-
Net Movement during the year	(5,596)	-	-	(5,596)
Net Movement	(5,596)	-	-	(5,596)
Closing balance – 31 December 2022	398,445	-	-	398,445

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

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

2021:

Due from Bank
ECL Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2021	454	-	-	454
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	-	-	-	-
Net Movement during the year	697	-	-	697
Net Movement	697	-	-	697
Closing balance – 31 December 2021	1,150	-	-	1,150

Exposure Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2021	121,976	-	-	121,976
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	-	-	-	-
Net Movement during the year	4,272	-	-	4,272
Net Movement	4,272	-	-	4,272
Closing balance – 31 December 2021	126,248	-	-	126,248

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

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

Loans and Advances
ECL Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2021	17,626	33,714	68,228	119,568
Transfer between stages				
From Stage 1 to Stage 2	(1,080)	1,080	-	-
From Stage 2 to Stage 1	1,466	(1,466)	-	-
From Stage 2 to Stage 3	-	(10,965)	10,965	-
Net Changes in Stage	386	(11,351)	10,965	-
Net Movement during the year	2,003	12,568	9,771	24,342
Net Movement	2,003	12,568	9,771	24,342
Write off	-	-	(6,429)	(6,429)
Closing balance – 31 December 2021	20,015	34,931	82,535	137,481

Exposure Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2021	2,592,730	662,478	154,567	3,409,775
Transfer between stages				
From Stage 1 to Stage 2	(148,728)	148,728	-	-
From Stage 2 to Stage 1	112,264	(112,264)	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	(36,464)	36,464	-	-
Net Movement during the year	51,760	27,201	25,086	104,047
Net Movement	51,760	27,201	25,086	104,047
Closing balance – 31 December 2021	2,608,026	726,143	179,653	3,513,822

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

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

Investment
ECL Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2021	238	-	-	238
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	-	-	-	-
Net Movement during the year	9	-	-	9
Net Movement	9	-	-	9
Closing balance – 31 December 2021	247	-	-	247

Exposure Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2021	56,959	-	-	56,959
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	-	-	-	-
Net Movement during the year	(19,850)	-	-	(19,850)
Net Movement	(19,850)	-	-	(19,850)
Closing balance – 31 December 2021	37,109	-	-	37,109

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

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

Acceptance
ECL Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2021	341	15	-	356
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	-	-	-	-
Net Movement during the year	558	1	-	559
Net Movement	558	1	-	559
Closing balance – 31 December 2021	899	16	-	915

Exposure Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2021	97,636	6,496	-	104,132
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	-	-	-	-
Net Movement during the year	77,382	(416)	-	76,966
Net Movement	77,382	(416)	-	76,966
Closing balance – 31 December 2021	175,018	6,080	-	181,098

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

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

Letter of Credit/Guarantees
ECL Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2021	2,598	5,739	-	8,337
Transfer between stages				
From Stage 1 to Stage 2	(87)	87	-	-
From Stage 2 to Stage 1	111	(111)	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	24	(24)	-	-
Net Movement during the year	912	(1,661)	-	(749)
Net Movement	912	(1,661)	-	(749)
Closing balance – 31 December 2021	3,534	4,054	-	7,588

Exposure Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2021	557,480	102,058	1,953	661,491
Transfer between stages				
From Stage 1 to Stage 2	(13,865)	13,865	-	-
From Stage 2 to Stage 1	6,892	(6,892)	-	-
From Stage 2 to Stage 3	-	(5,195)	5,195	-
Net Changes in Stage	(6,973)	1,778	5,195	-
Net Movement during the year	(87,062)	(5,204)	-	(92,266)
Net Movement	(87,062)	(5,204)	-	(92,266)
Closing balance – 31 December 2021	463,445	98,632	7,148	569,225

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

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

Loan commitment / unutilised limits
ECL Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2021	2,001	958	-	2,959
Transfer between stages				
From Stage 1 to Stage 2	(83)	83	-	-
From Stage 2 to Stage 1	122	(122)	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	39	(39)	-	-
Net Movement during the year	(371)	221	-	(150)
Net Movement	(371)	221	-	(150)
Closing balance – 31 December 2021	1,669	1,140	-	2,809

Exposure Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2021	565,571	178,349	-	743,920
Transfer between stages				
From Stage 1 to Stage 2	(26,073)	26,073	-	-
From Stage 2 to Stage 1	24,461	(24,461)	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	(1,612)	1,612	-	-
Net Movement during the year	(136,429)	15,914	-	(120,515)
Net Movement	(136,429)	15,914	-	(120,515)
Closing balance – 31 December 2021	427,530	195,875	-	623,405

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

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

Accrued Interest / Profit
ECL Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2021	111	289	-	400
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	-	-	-	-
Net Movement during the year	20	(77)	-	(57)
Net Movement	20	(77)	-	(57)
Closing balance – 31 December 2021	131	212	-	343

Exposure Movement

	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2021	31,717	9,753	656	42,126
Transfer between stages				
From Stage 1 to Stage 2	(3,210)	3,210	-	-
From Stage 2 to Stage 1	709	(53)	(656)	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	(2,501)	3,157	(656)	-
Net Movement during the year	3,244	(140)	54	3,158
Net Movement	3,244	(140)	54	3,158
Closing balance – 31 December 2021	32,460	12,770	54	45,284

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

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

Sovereign Exposure Movement	Stage 1	Stage 2	Stage 3	*RO'000* Total
Opening Balance – 1 January 2021	393,700	-	-	393,700
Transfer between stages				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	-	-	-	-
From Stage 2 to Stage 3	-	-	-	-
Net Changes in Stage	-	-	-	-
Net Movement during the year	10,341	-	-	10,341
Net Movement	10,341	-	-	10,341
Closing balance – 31 December 2021	404,041	-	-	404,041

(h). Reconciliation of financial assets and liabilities

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

31 December 22	**Notes**	**Designated as at FVTPL**	**FVOCI – equity instruments**	**FVOCI – debt instruments**	**Amortised cost**	**Total carrying amount**
Cash and balances with CBO	***5***	**-**	**-**	**-**	**176,617**	**176,617**
Loans and advances to banks	***6***	**-**	**-**	**-**	**148,353**	**148,353**
Loans and advances to customers	***7***	**-**	**-**	**-**	**3,430,486**	**3,430,486**
Investment securities	***8***	**717**	**13,963**	**141,464**	**313,278**	**469,422**
Other assets	***11***	**4,730**	**-**	**-**	**60,771**	**65,501**
		5,447	**13,963**	**141,464**	**4,129,505**	**4,290,379**
Due to banks	***11***	**-**	**-**	**-**	**572,842**	**572,842**
Deposits from customers	***12***	**-**	**-**	**-**	**2,891,819**	**2,891,819**
Subordinated liabilities	***13***	**-**	**-**	**-**	**-**	**-**
Other liabilities	***14***	**3,970**	**-**	**-**	**117,992**	**121,962**
		3,970	**-**	**-**	**3,582,653**	**3,586,623**

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

(h) Reconciliation of financial assets and liabilities *(continued)*

Other assets include RO 4.730 million of positive fair value of derivatives financial instruments mandatorily measured at FVPTL and other liabilities includes negative fair value derivatives financial instruments of RO 3.970 million.

31 December 21	Notes	Designated as at FVTPL	FVOCI – debt instruments	FVOCI – equity instruments	Amortised cost	Total carrying amount
Cash and balances with CBO	*5*	-	-	-	251,479	251,479
Loans and advances to banks	*6*	-	-	-	125,098	125,098
Loans and advances to customers	*7*	-	-	-	3,346,223	3,346,223
Investment securities	*8*	2,823	2,490	116,753	324,150	446,216
Other assets	*11*	6,601	-	-	238,925	245,526
		9,424	2,490	116,753	4,285,875	4,414,542
Due to banks	*11*	-	-	-	460,889	460,889
Deposits from customers	*12*	-	-	-	2,975,639	2,975,639
Subordinated liabilities	*13*	-	-	-	35,000	35,000
Other liabilities	*14*	5,053	-	-	254,264	259,317
		5,053	-	-	3,725,792	3,730,845

Other assets include RO 6.601 million of positive fair value of derivatives financial instruments mandatorily measured at FVPTL and other liabilities includes negative fair value derivatives financial instruments of RO 5.053 million.

8. Investment securities

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

	2022 RO'000	2021 RO'000
Investment securities measured as at FVTPL	**717**	2,823
Investment securities measured at FVOCI	**155,427**	119,243
Debt investments measured at amortised cost	**313,278**	324,150
	469,422	446,216

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

8. Investment securities *(continued)*

8. 1 Categories of investments by measurement

31 December 2022	Designated at FVTPL RO'000	FVOCI RO'000	Amortized cost RO'000	Total RO'000
Quoted Equities:				
Other services sector	-	518	-	518
Unit funds	-	-	-	-
Financial services sector	-	11,284	-	11,284
Industrial sector	-	1,482	-	1,482
	-	13,284	-	13,284
Unquoted Equities:				
Local securities	-	691	-	691
Unit funds	717	-	-	717
	717	691	-	1,408
Gross Equity investments	717	13,975	-	14,692
Quoted Debt:				
Government Bonds and Sukuk	-	94,814	303,631	398,445
Foreign Bonds	-	383	-	383
Local Bonds and Sukuks	-	46,319	9,647	55,966
Treasury Bills	-		-	-
Gross debt investments	-	141,516	313,278	454,794
Total Investment Securities	717	155,491	313,278	469,486
Less: Impairment losses on investments	-	(64)	-	(64)
	717	155,427	313,278	469,422

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

The movements in investment securities are summarised as follows:

	FVOCI Debt instruments RO 000's	FVOCI Equity investment RO 000's	Amortised cost RO 000's	FVTPL RO 000's	Total RO 000's
At 1 January 2022	116,753	2,490	324,150	2,823	446,216
Additions	22,073	11,807	47,648	5	81,533
Disposals and redemption	(4,627)	-	(60,874)	(1,996)	(67,498)
Gain /(loss) from change in fair value	377	(406)	-	(115)	(144)
Amortisation of discount and premium	(51)	-	(520)	-	(571)
Movement in Interest Accrued	6,991	84	2,874		9,949
Total	141,516	13,975	313,278	717	469,486
Less: Impairment losses on investments*	(52)	(12)	-	-	(64)
At 31 December 2022	141,464	13,963	313,278	717	469,422

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

8. Investment’s securities *(continued)*

8. 1 Categories of investments by measurement *(continued)*

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

The Bank has designated certain investments in equity instruments at FVOCI as these are investments that the bank plans to hold for long-term for strategic reasons.

The movements in investment securities are summarised as follows:

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

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

9. Intangible asset

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

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

10 Property and equipment

31 December 2022	**Freehold Land RO'000**	**Buildings RO'000**	**Furniture and Fixtures RO'000**	**Motor Vehicles RO'000**	**Computer Equipment RO'000**	**Capital work-in-progress RO'000**	**Right use of Asset RO'000**	**Total RO'000**
Cost								
1 January 2022	**140**	**1,463**	**18,349**	**1,300**	**16,478**	**1,226**	**2,870**	**41,826**
Additions	**-**	**-**	**1,195**	**50**	**2,205**	**62**	**138**	**3,650**
Disposals	**-**	**-**	**-**	**(355)**	**-**	**-**	**-**	**(355)**
31 December 2022	**140**	**1,463**	**19,544**	**995**	**18,683**	**1,288**	**3,008**	**45,121**
Depreciation								
1 January 2022	**-**	**1,358**	**15,624**	**1,277**	**13,716**	**-**	**2,054**	**34,029**
Charge for the year	**-**	**105**	**1,232**	**27**	**1,716**	**-**	**513**	**3,593**
Disposals	**-**	**-**	**-**	**(355)**	**-**	**-**	**-**	**(355)**
31 December 2022	**-**	**1,463**	**16,856**	**949**	**15,432**	**-**	**2,567**	**37,267**
Carrying value 31 December 2022	**140**	**-**	**2,688**	**46**	**3,251**	**1,288**	**441**	**7,854**

10. Property and equipment *(continued)*

31 December 2021	Freehold Land RO'000	Buildings RO'000	Furniture and Fixtures RO'000	Motor Vehicles RO'000	Computer Equipment RO'000	Capital work-in-progress RO'000	Right use of Asset RO'000	Total RO'000
Cost								
1 January 2021	140	1,573	18,069	1,326	15,150	1,126	2,933	40,317
Additions	-	-	280	9	1,328	100	39	1,756
Disposals	-	(110)	-	(35)	-	-	(102)	(247)
31 December 2021	140	1,463	18,349	1,300	16,478	1,226	2,870	41,826
Depreciation								
1 January 2021	-	1,410	14,310	1,252	12,227	-	1,476	30,675
Charge for the year	-	58	1,314	60	1,489	-	655	3,576
Disposals	-	(110)	-	(35)	-	-	(77)	(222)
31 December 2021	-	1,358	15,624	1,277	13,716	-	2,054	34,029
Carrying value 31 December 2021	140	105	2,725	23	2,762	1,226	816	7,797

11. Other assets

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

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

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

12. Due to banks

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

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

At 31 December 2022, interbank borrowing with two banks individually exceeded 20% of the due to bank outstanding balance (2021 – two bank, 20%). The Bank has not had any defaults of principal, interest, or other breaches during the year on its borrowed funds.

13. Deposits from customers – Conventional Banking

Conventional Banking

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

Islamic Banking

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

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

14. Other liabilities

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

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

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

14 (a) Employee benefit obligations

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

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

15 Subordinated loans

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

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

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

16 (a) Share capital

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

At 31 December 2022, the issued and paid up share capital comprise 2,996,351,436 (2021: 2,996,351,436 ordinary shares of RO 0.100 each).

Shareholders:

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

	2022 No. of shares	2022 %	2021 No. of shares	2021 %
Dhofar International Development and Investment Company SAOG	**730,570,498**	**24.38%**	730,570,498	24.38%
Eng. Abdul Hafidh Salim Rajab Al Ojaili and his related Companies	**713,971,362**	**23.83%**	702,766,215	23.45%
Civil Service Employees Pension Fund	**317,814,101**	**10.61%**	316,992,297	10.58%
Others	**1,233,995,475**	**41.18%**	1,246,022,426	41.58%
Total	**2,996,351,436**	**100.00%**	2,996,351,436	100.00%

The Bank's Islamic Banking Window, "Maisarah" Islamic Banking Services has an allocated capital of RO 70 million in respect of Islamic Banking Window from the core paid up capital of the Bank as of 31 December 2022 (2021 : RO 70 million)

16 (b) Perpetual Tier 1 Capital Securities

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

Tier 1 USD Securities

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

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

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

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

Tier 1 RO Securities

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

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

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

(b) In December 2018, the Bank issued Perpetual Tier 1 RO Capital Securities (the "Tier 1 RO Securities"), amounting to OMR 40,000,000, denominated in Riyal Omani. This Tier 1 RO Securities is listed on Muscat Stock Exchange.

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

The Tier 1 RO Securities bear interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 7.50%. Thereafter the interest rate will be reset at five-year intervals. Interest will be payable semi-annually in arrears and treated as deduction from equity.

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

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

17 Share premium

i. In 2018, the Bank issued 361,842,105 ordinary shares by way of rights issue, a share premium of RO 0.050 per share, resulting in an increase of share capital and share premium by RO 36.18 million and RO 18.09 million, respectively.

ii. In 2017, the Bank issued 216,216,216 shares by way of rights issue at a premium of RO 0.083 resulting in increase of share capital and share premium by RO 21.62 million and RO 17.95 million, respectively.

iii. In 2016, the Bank issued 200,000,000 shares by way of rights issue at a premium of RO. 0.098 resulting in increase of share capital and share premium by RO 20 million and RO 19.60 million, respectively.

iv. In 2011, the shareholders of the Bank in the annual general meeting approved the issuance of 20.2% bonus shares amounting to RO 18.49 million (184,878,143 shares of par value RO 0.100 each) from the share premium account.

v. In 2008, the Bank issued 176,921,306 shares by way of rights issue at a premium of RO 0.300 resulting in increase of share capital and share premium by RO 17.69 million and RO 53.08 million, respectively.

vi. In 2003, pursuant to the "merger agreement", the Bank has issued 6,681,818 shares of RO 1 each to erstwhile shareholders of Majan International Bank at a premium of RO 5.4 million. This is available for distribution.

18 Reserves

(a) Legal reserve

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

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

(b) Subordinated loans reserve

	2022 RO'000	2021 RO'000
1 January	**28,000**	21,000
Appropriation for the year:		
Subordinated loan reserve	**7000**	7,000
Transfer to retained earnings (refer (i) below)	**(35,000)**	-
31 December	**-**	28,000

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

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

(c) Investment revaluation reserve

The investment revaluation reserve comprises of the cumulative net change in the fair value of equity securities measured at FVOCI and the cumulative net change in the fair value of debt securities measured at FVOCI until the assets are derecognised or reclassified.

The movement in the investment revaluation reserve is analysed below:

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

18 Reserves *(continued)*

(d) Special reserve

During 2021, CBO has approved to distribute RO 500K from the special reserve to retained earnings for utilization of corporate social responsibility donation in relation to Cyclone Shaheen.

During 2020, CBO has approved to distribute RO 1 million from the special reserve to retained earnings for utilization of corporate social responsibility donation in relation to COVID-19.

During 2013, the Bank recognised in statement of comprehensive income , recovery from a legal case of RO 26.1 million, out of which, the Bank allocated RO 18.49 million (equivalent amount that was used from share premium account for issuance of bonus shares, and which was approved by the Shareholders in the annual general meeting held on 28 March 2012) to a special reserve to strengthen its capital. Prior approval of CBO is required for any distribution from this 'special reserve account'.

(e) Special reserve for restructured loans

In accordance with Central Bank of Oman circular BSD/2018/BKUP/Bank and FLC's/467 dated 20 June 2018, the banks are required to create a special reserve of 15% for all restructured financing after the date of circular. The amount is computed as an appropriation from net profit and is not eligible to be considered for the purpose of regulatory capital and dividend distribution. This requirement to create the special reserve at 15% on restructured financing has been dispensed on immediate effect based on Central Bank of Oman circular BSD/CB/FLC/2019/15 dated 18 November 2018.

(f) Special Impairment reserve – net of tax

CBO circular BM 1149 requires the Bank to create a reserve for the difference between provisions under CBO norms and IFRS 9 when provisions, under CBO norms are higher than IFRS 9 provisions. There is no transfer made during the year due to suspension of two track approach by CBO.

(g) Special investment revaluation reserve

From 1 January 2018, the Bank classified its portfolio of equity investments as FVOCI (elected). Certain investments were previously impaired, with the allowance for expected credit losses of RO 0.71 million charged to statement of comprehensive income . A one off adjustment was recorded on 1 January 2018 to retained earnings to account this as part of transition adjustments of the Bank under IFRS 9. This reserve will be released to retained earnings on disposal of investments.

19 Retained earnings

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

20 Net assets per share

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

	2022 **RO'000**	2021 RO'000
Net assets (RO)	**561,577,000**	543,019,000
Number of shares outstanding at the end of the year	**2,996,351,436**	2,996,351,436
Net assets per share (RO)	**0.187**	0.181

21 Interest income / Income from Islamic financing and Investments

	2022	2021
Conventional Banking	**RO'000**	RO'000
Loans and advances	**158,049**	149,964
Due from banks	**6,808**	5,199
Investments	**19,950**	17,969
Total	**184,807**	173,132

	2022	2021
Islamic Banking	**RO'000**	RO'000
Islamic financing receivables	**31,729**	28,946
Islamic due from banks	**67**	73
Investments	**4,666**	4,569
Total	**36,462**	33,588

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

	2022	2021
Conventional Banking	**RO'000**	RO'000
Customers' deposits	**(64,743)**	(78,193)
Subordinated liabilities / mandatory convertible bonds	**(1,905)**	(2,188)
Bank borrowings	**(17,498)**	(9,992)
Total	**(84,146)**	(90,373)

Islamic Banking		
Customer Deposits	**(13,794)**	(13,380)
Islamic bank borrowings	**(913)**	(544)
Total	**(14,707)**	(13,924)

(a) **Other operating income**

	2022 RO'000	2021 RO'000
Foreign exchange	**2,435**	5,088
Investment income *22 (b)*	**716**	2,197
Miscellaneous income	**2,693**	1,291
	5,844	8,576

(b) Investment income by measurement category

Dividend income	**265**	126
Income from perpetual securities	**438**	-
Gain on disposals of investments – FVOCI	**-**	2,025
Gain on disposals of investments – FVTPL	**13**	46
	716	2,197

23 Staff and administrative costs

(a) Staff costs

	2022 RO'000	2021 RO'000
Salaries and allowances	**(33,085)**	(33,398)
Other personnel costs	**(5,028)**	(8,388)
Social insurance contribution	**(2,624)**	(2,544)
Non-Omani employee's terminal benefit	**(291)**	(471)
	(41,028)	(44,801)

On 31 December 2022, the Bank had 1,509 employees (2021: 1,481 employees).

(b) Administrative costs

	2022 RO'000	2021 RO'000
Occupancy costs	**(3,098)**	(3,416)
Operating and administration cost	**(13,681)**	(15,858)
Others	**(4,818)**	(1,178)
	(21,597)	(20,452)
Total staff and administrative cost	**(62,625)**	(65,253)

24 Income tax

(a) Income tax expense:

	2022 RO'000	2021 RO'000
Current tax		
Current year charge	**10,600**	2,486
Prior years	**(1,863)**	(75)
	8,737	2,411
Deferred tax		
Current year	**(4,533)**	1,976
Prior years	**1,827**	(55)
	(2,706)	1,921
Tax expense for the year	**6,031**	4,332

Interest on Additional Tier 1 Securities is reflected in the statement of changes in equity for the years ended 31 December 2015 to 31 December 2022. The Tax Authority ("TA") has completed the assessment for the years 2015 to 2017 wherein the TA has disallowed interest on Additional Tier 1 Securities. The Bank would pursue the matter further by filing an Objection with the TA. However, on a conservative basis, the Bank has created a current tax provision against the disallowance of the interest on Additional Tier 1 Securities.

The tax rate applicable to the Bank is 15% (2021: 15%). For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. After giving effect to these adjustments, the average effective tax rate is estimated to be 15% (2021: 14.71%).

24 Income tax *(continued)*

(b) The reconciliation of taxation on the accounting profit before tax for the year at RO 40.20 million (2021: RO 29.45 million) and the taxation charge in the financial statements is as follows:

	2022 **RO'000**	2021 RO'000
Profit before tax	**40,204**	29,455
Income tax as per rates mentioned above	**6,031**	4,418
Tax exempt revenue	**50**	82
Non-deductible expenses	**(14)**	(38)
Current tax Prior years	**(1,863)**	(75)
Deferred tax - prior years	**1,827**	(55)
Tax expense for the year	**6,031**	4,332

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

(c) The deferred tax asset/liability has been recognised at the effective tax rate of 15% (2021 - 15%) Deferred tax asset / (liability) in the statement of financial position and the deferred tax credit / (charge) in the statement of comprehensive income relates to the tax effect of provisions, Allowance for expected credit losses on financial instruments, change in fair value of FVOCI investment and derivatives, accelerated depreciation and expenses disallowed which give rise to deferred tax asset are as follows:

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

	Opening *RO '000*	Recognised in SCI	2021 *RO '000*	Recognised in SOCE
Particulars				
Property and equipment	(728)	2	(726)	-
Provision for legal claim	180	196	376	-
Right of Use Asset and lease liability	(119)	67	(52)	-
Allowance for expected credit losses on financial instruments	5,977	(2,192)	3,785	-
Investment revaluation (Non listed)	121	-	121	-
Fair value derivatives	(96)	-	(96)	-
Investment carried at fair value through profit and loss account	5	7	12	-
Net deferred tax asset	5,340	(1,920)	3,420	-

24 Income tax *(continued)*

***(d)* Status of previous year returns:**

The tax assessments of the Bank up to and including the Tax Year 2020 has been assessed and finalized by the TA. The Bank has filed a grievance with tax grievance committee for disallowance of Interest on Additional Tier 1 Securities for the Tax Years 2015 to 2017. The Bank is in the process of filing the Objection for disallowance of Interest on Additional Tier 1 Securities for the Tax Years 2018 to 2020. The tax assessment of the Bank for the Tax Year 2021 is yet to be taken up by the TA.

***(e)* Tax liabilities**

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

	2022 RO'000	2021 RO'000
At 1 January	**9,422**	17,804
Charge for the year	**8,737**	2,411
Payments during the year	**(4,527)**	(10,793)
At 31 December	**13,632**	9,422

25 Earnings per share (basic and diluted)

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

	2022	2021
Profit for the period (RO)	**34,173,371**	25,122,850
Less: Additional Tier 1 Coupon	**(9,375,600)**	(9,376,000)
Profit for the period attributable to equity holders of the Bank	**24,797,771**	15,746,850
Weighted average number of shares outstanding during the period	**2,996,351,436**	2,996,351,436
Earnings per share basic and diluted (RO)	**0.008**	0.005

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

26 Related parties' transactions

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

	2022 RO'000	2021 RO'000
Loans, advances and financing		
Shareholders holding 20% or more interest in the Bank and their related entities	**52,250**	53,728
Other related parties	**68,798**	63,788
	121,048	117,516
Subordinated loans		
Directors	**-**	15,000
Other related parties	**-**	14,000
	-	29,000
Deposits and other accounts		
Shareholders holding 20% or more interest in the Bank and their related entities	**58,452**	54,117
Other related parties	**306,127**	287,294
	364,579	341,411
Contingent liabilities and commitments		
Shareholders holding 20% or more interest in the Bank and their related entities	**3,983**	3,100
Other related parties	**5,678**	16,950
	9,661	20,050

Interest Income earned from Loans and advances to Related Parties amounts to RO 7.28 million (2021: RO 6.09 million) of which RO 1.28 million (2021: RO 2.67 million) pertains to Directors, shareholders (holding 20% or more interest in the Bank).

Interest Expense incurred on Deposits from Related parties amounts to RO 7.30 million (2021: RO 14.93 million) of which RO 3.88 million (2021: RO 7.61 million) pertains to Directors, shareholders (holding 10% or more interest in the Bank), RO 1.71 million (2021: RO 1.13 million) pertains to Directors, shareholders (holding 20% or more interest in the Bank).

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

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

26 Related parties' transactions (*continued)*

	2022 RO'000	2021 RO'000
Remuneration paid to Directors		
Chairman		
– remuneration paid	**36**	36
– sitting fees paid	**10**	10
Other Directors		
– remuneration paid	**264**	264
– sitting fees paid	**73**	74
	383	384
Other transactions		
Rental payment to related parties	**541**	539
Insurance	**1,847**	1,970
Other transactions	**-**	101
Remuneration and fees paid to Sharia' Board of Islamic Banking Window	**46**	53
Key management compensation		
Salaries and other short-term benefits	**1,695**	1,745

Loans to related parties carry interest at rates ranging between 2% and 7% (2021: 2% and 7%). Deposits from related parties attract interest at rates ranging between 0.5% and 4.4% (2021: 0% and 4.85%).

27 Single borrower and senior members

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

(a) Single borrower

	2022 RO'000	2021 RO'000
Single borrower		
Total direct exposure	**462,627**	483,367
Number of members	**2**	2

(b) Senior members

	2022 RO'000	2021 RO'000
Total exposure:		
Direct	**124,974**	123,432
Indirect	**9,661**	20,050
	134,635	143,482
Number of members	**41**	41

28 Contingent liabilities and commitments

(a) Credit related contingent items

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

	2022 RO'000	2021 RO'000
Letters of credit	**88,961**	68,983
Guarantees and performance bonds	**573,787**	500,242
	662,748	569,225

At 31 December 2022, letters of credit, guarantees and other commitments amounting to RO 293.72 (2021: RO 168.18 million) are counter guaranteed by other banks.

At 31 December 2022, the Irrevocable unutilised limits towards the loans, advances and financing to customer amount to RO 614.94 million (2021: 623.41 million).

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

(b) Capital and investment commitments

	2022 RO'000	2021 RO'000
Contractual commitments for property and equipment/computer software	**3,001**	4,927

(c) Legal proceedings

There were a number of legal proceedings outstanding against the Bank at 31 December 2022. Directors have made an assessment of these cases and made appropriate provisions. The recognised provision reflects the directors' best estimate of the most likely outcome. In cases where no provisions have been made, professional advice indicates that it is unlikely that any significant loss will arise.

29 Disaggregation of net fees and commission income

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

29 Disaggregation of net fees and commission income *(continued)*

	Retail banking	Corporate banking	Treasury and investment banking	Total
31 December 2021	RO'000	RO'000	RO'000	RO'000
Fee Income				
Transactional services	7,461	21	-	7,482
Trade services	-	3,784	57	3,841
Syndication and other financing related services	782	4,448	1,244	6,474
Advisory and asset management services	-	109	-	109
	8,243	8,362	1,301	17,906
Fee Expense				
Transactional Services	(1,409)	-	-	(1,409)
Syndication and Other Financing related services	-	-	(1,050)	(1,050)
Fee Expense	(1,409)	-	(1,050)	(2,459)
Net fee and commission income	6,834	8,362	251	15,447

30 Derivative financial instruments

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

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

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

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

RO 000's

				Notional amounts by term to maturity		
31 December 2022	**Positive fair value**	**Negative Fair Value**	**Notional amount total**	**within 3 months**	**4-12 months**	**> 12 months**
Derivatives:						
Interest rate swaps	**-**	**3,853**	**56,888**	**-**	**-**	**56,888**
IRS customer	**3,853**	**-**	**56,888**	**-**	**-**	**56,888**
Forward purchase contracts	**-**	**117**	**804,160**	**316,849**	**355,112**	**152,199**
Forward sales contracts	**877**	**-**	**803,198**	**316,787**	**334,167**	**152,224**
Total	**4,730**	**3,970**	**1,721,134**	**633,636**	**689,279**	**418,199**

30 Derivative financial instruments *(Continued)*

31 December 2021	Positive fair value	Negative Fair Value	Notional amount total	Notional amounts by term to maturity within 3 months	4-12 months	> 12 months (RO 000's)
Derivatives:						
Interest rate swaps	-	4,310	63,133	-	2,272	60,861
IRS customer	4,310	-	63,133	-	2,272	60,861
Forward purchase contracts	-	743	1,479,094	777,403	581,154	120,537
Forward sales contracts	2,291	-	1,474,966	774,822	581,154	119,350
Total	6,601	5,053	3,080,326	1,552,225	1,166,852	361,609

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

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

	Assets **31-Dec-2022 RO’000**	Assets 31-Dec-2021 RO’000	Liabilities **31-Dec-2022 RO’000**	Liabilities 31-Dec-2021 RO’000
Expected cash flows	760	1,547	760	1,547

31 Fair value information

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

Fair value measurements recognised in the statement of financial position

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

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

31 Fair value information *(Continued)*

At 31 December 2022	**Level 1 RO'000**	**Level 2 RO'000**	**Level 3 RO'000**	**Total RO'000**	**Cost RO'000**
Financial assets					
Investments at FVOCI	**134,843**	**19,957**	**691**	**155,491**	**158,651**
Investments at FVTPL	**-**	**-**	**717**	**717**	**758**
Derivative financial instruments					
Forward foreign exchange contracts	**-**	**877**	**-**	**877**	**-**
IRS customer	**-**	**3,853**	**-**	**3,853**	**-**
Total	**133,581**	**24,687**	**1,408**	**159,676**	**159,409**
Financial liabilities					
Derivative financial instruments					
Forward foreign exchange contracts	**-**	**117**	**-**	**117**	**-**
Interest rate swaps	**-**	**3,853**	**-**	**3,853**	**-**
Total	**-**	**3,970**	**-**	**3,970**	**-**

At 31 December 2021	Level 1 RO '000	Level 2 RO '000	Level 3 RO '000	Total RO '000	Cost RO '000
Financial assets					
Investments at FVOCI	118,973	-	517	119,490	122,967
Investments at FVTPL	1,174	-	1,649	2,823	3,155
Derivative financial instruments					
Forward foreign exchange contracts	-	2,291	-	2,291	-
IRS customer	-	4,310	-	4,310	-
Total	120,147	6,601	2,166	128,914	126,122
Financial liabilities					
Derivative financial instruments					
Forward foreign exchange contracts	-	4,310	-	4,310	-
Interest rate swaps	-	743	-	743	-
Total	-	5,053	-	5,053	-

The impact of change in estimates used in measurement of fair value of level 3 securities is not material to the financial statements. The following table demonstrates the movement of the Bank's level 3 investments:

Level 3 movement – 31 December 2022

	FVTPL RO 000's	**FVOCI RO 000's**	**Total RO 000's**
At 1 January	**1,649**	**517**	**2,166**
Total gains	**44**	**174**	**218**
Purchases	**5**	**-**	**5**
Sales	**(981)**	**-**	**(981)**
Transfer from level 3	**-**	**-**	**-**
At 31 December	**717**	**691**	**1,408**

Level 3 movement – 31 December 2021

	FVTPL RO 000's	FVOCI RO 000's	Total RO 000's
At 1 January	1,697	573	2,270
Total gains	127	52	179
Purchases	5	-	5
Sales	(288)	-	(288)
Transfer from level 3	-	-	-
At 31 December	1,541	625	2,166

31 Fair value information *(Continued)*

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index process and expected price volatilities and correlations.

Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Transfer between level 1 and level 2

There were no transfers between level 1 and level 2 of the fair value hierarchy during the year.

32 Financial risk management

The important types of financial risks to which the Bank is exposed are credit risk, liquidity risk and market risk. The Risk Management Division of the Bank is an independent and dedicated unit reporting directly to the Board Risk Committee ("BRC"). The division's primary responsibility is to assess, monitor and recommend strategies for control of credit, market and operational risk. The absence of any direct or indirect reporting lines and permanent membership in all the Bank's committees are among the factors which reflect the independence of the Risk Management Divisions (RMD) working and the key role it plays within the Bank.

The risk management framework is pivoted on a host of committees involving the executive management and the Board of Directors ("the Board") for approval and reporting purposes. The Board has the overall authority for approval of strategies and policies, which it exercises through its various sub-committees. The Board Risk Committee is responsible for reviewing and recommending to the full Board for approval of all risk policies and procedures. BRC also reviews the risk profile of the Bank as presented to it by the RMD and appraises the full Board in its periodic meeting.

A. Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations arising principally from the loans, advances and Islamic financing, amounts due from banks and investment in debt securities. The Bank has an independent credit risk management function which identifies, assesses and manages the credit risk at an individual or entity level. All the Corporate credit proposals are assessed independently by RMD before they are considered by the appropriate approving authorities. The Bank has defined various levels of authorities for credit approval with Board Executive Committee being the final credit approving authority of the Bank and mainly responsible for approving all credit proposals beyond the authority level set for the management. This committee is also the final authority for approving investments beyond the set authority of the management. The Management Credit Committee ("MCC") is the credit decision making body at the management level which is empowered to consider all credit related issues up to certain limit.

32 Financial risk management *(continued)*

A. Credit Risk *(continued)*

The Bank has established robust credit risk management policies and procedures and a risk grading system for analysing the risk associated with credit. This facilitates the approving authorities in making their credit decision. In addition, RMD assists/ reviews grading of obligors, conducts regular macro analysis of the credit portfolio and monitors credit concentration limits.

Maximum counterparty/Bank exposures are limited to 15% of the Bank's capital base as stipulated by CBO and where a higher limit is required for projects of national importance, prior CBO approval is obtained. Individual country limits using internal ratings have also been set up to ensure portfolio diversification in terms of sovereign risk ratings and geographical exposure. These limits are approved by the Board Risk Committee. Retail lending is strictly in accordance with the CBO.

Impact of COVID-19

The impact of coronavirus pandemic has subsided to certain extent and is relatively stable now. The number of Covid cases has declined considerably and the levels remain far below those of prior surges. However, the disruption to business and economic activities throughout various geographies around the globe continues. The pandemic has slowed down trade and economic activities with large economies still facing supply disruption and rise in energy cost. The Ukraine- Russia war has further added to the uncertainties around economic challenges faced by various countries Accordingly, the fiscal and monetary authorities, both domestic and international, have announced various support measures across the globe to counter possible adverse implications.

The Government of Oman and Central Bank of Oman have taken slew of measures to control the pandemic and improve the economic conditions over the last 3 years. This include providing necessary support to affected borrowers particularly Small and Medium Enterprises (SME), wherein CBO allowed deferment of loan instalments/ interest/ profit for affected borrowers and the availability of the deferment, without adversely affecting the risk classification of such loans. All effected borrowers (Corporate, SME and Retail) who have availed/ are availing the loan deferment could be rescheduled/ restructured as per CBO circular till 31 October 2022. The restructuring/ rescheduling implemented include rescheduling of repayments, recovery of interest/ profit accrued during deferment period (without charging interest on interest/ profit on profit on that portion) granting of reasonable grace period, extending suitable tenor etc. based on proper assessment of the current and future cash flows/ income streams of the borrower. Banks need to maintain adequate level of provisioning against each restructured account.

The Bank has also undertaken other initiatives to manage the potential business disruption on its operations and financial performance. This entails reviewing counterparties and collateral protection and taking appropriate customer credit rating actions and initiating restructuring of loans, wherever required. The set-up of robust digital technology supported in maintaining customer service and experience during these trying times. The assessment of Significant Increase in Credit risk (SICR) and the measurement of ECLs are based on reasonable and supportable information that is available. In assessing forecast conditions, consideration have been given both to the effects of COVID (including various variants of virus) and the government support measures being undertaken.

In line with the CBO guidelines, The Bank has considered restructuring of all eligible accounts whose cash flows have been impacted by the COVID-19 situation and backed by specific requests from them. For such cases, every review includes an assessment on whether the strain on cash flows observed are on account of the COVID impact or otherwise and in case these are identified to be otherwise, the accounts are suitably staged. The accounting impact of these changes in terms of the credit facilities has been assessed and were treated as per the requirements of IFRS 9. As at 31 December 2022, The Bank has restructured loans amounting to OMR 544.2 million, constituting 13.8% of the Gross loans and Advances. The Bank has also considered ECL to address significant increase in credit risk in certain accounts based on its judgment and experience.

The Bank has given specific consideration to the relevant impact of COVID on the qualitative and quantitative factors when determining the significant increase in credit risk and assessing the indicators of impairment for the exposures in potentially affected sectors. This has resulted in staging downgrade of certain exposures and recognition of additional ECL provisions and allowance for expected credit losses as disclosed in note 7 to the financial statements. Further, the monitoring of overdue and SICR have been enhanced by reviewing all exceptional reports and undertaking quarterly reviews in respect of accounts in risk grade of 5 to 8. Additional exposures are undertaken on selective basis duly supported by the cash flows that can be firmly established and the requirements are considered with proper monitoring mechanism.

32 Financial risk management *(continued)*

A. Credit Risk *(continued)*

The Bank estimates its expected credit losses (ECLs) considering the macroeconomic indicators and ECLs were estimated based on a range of forecasts for economic conditions as at that date and considering that the situation is fast evolving, the Bank has considered the impact of higher volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECL determination. The macro-economic variables for estimation of forward looking factor in ECL were identified based on their level and direction of association with asset quality ratio of Oman Banking sector. The forward-looking factor (called as Cyclicality Index) used is determined from the observed historical macro-economic factors. The cyclicality index is used to forecast expected point-in-time probability of defaults for all the portfolio for which ECL is estimated and correlation is observed between the Cyclicality index and macro-economic factors. The forward-looking macro-economic factors were revised in first half of year 2022, in line with the revision of projections by the IMF. The revision made in the macro-economic indicators during last year is provided as under:

	Real GDP growth (%)		Oil revenue (%GDP)	
	As at 31 December 2021	**As at 31 December 2022**	**As at 31 December 2021**	**As at 31 December 2022**
Present	(4.30%)	12.70%	23.80%	25.97%
Year 1	1.80%	5.60%	30.29%	33.35%
Year 2	7.40%	2.70%	33.13%	28.77%
Year 3	2.70%	2.50%	32.94%	26.35%

The ECL has been calculated as probability weighted figure for three scenarios i.e. Base case, Upside and Downside with 50%, 25% and 25% weightings respectively. No change has been considered in the weightage. Real GDP growth projections have improved, as considered in Oman budget 2022 for 2021 and for the next three years projection is provided by IMF.

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

The total expected credit loss as at 31 December 2022 stood at OMR 184.012 Mn as compared to OMR 150.53 Mn as at 31 December 2021. The total ECL has increased by OMR 33.482 Mn, which is 22.24% more than the last year position. Out of OMR 184.012 Mn, Bank is maintaining ECL of OMR 133.949 Mn (2021: OMR 92.24 Mn) in Corporate portfolio, OMR 3.490 Mn (2021: OMR 8.19 Mn) in SME portfolio and OMR 45.433 Mn (2021: 43.94 Mn) in Retail portfolio. Since, the models may not always capture all the stressed events, it is therefore prudent to incur additional ECL based on the management experience and current uncertain situation in the economy. Accordingly, Bank has considered account specific post model adjustments of OMR 3.7 Mn (31 December 2021- RO 14 million).

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

32 Financial risk management *(continued)*

A. Credit Risk *(continued)*

Sensitivity of ECL to future economic conditions

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

2022

Amount RO 000's

Scenarios	**ECL for**				**Total**
	Loans and advances (RO 000's)	**Islamic financing receivables (RO 000's)**	**Investment securities carried at amortised cost (RO 000's)**	**Other Portfolio (RO 000's)**	**(RO 000's)**
Scenarios currently used by Bank	161,360	14,441	64	8,146	184,011
100% Base case scenario	162,478	13,654	273.84	811	177,217
100% Downside scenario	180,329	16,399	322.34	1,479	198,529

2021

Amount RO 000's

Scenarios	ECL for				Total
	Loans and advances (RO 000's)	Islamic financing receivables (RO 000's)	Investment securities carried at amortised cost (RO 000's)	Other Portfolio (RO 000's)	(RO 000's)
Scenarios currently used by Bank	126,879	10,602	247	12,805	150,533
100% Base case scenario	133,016	10,154	255	9,961	153,386
100% Downside scenario	150,753	12,585	397	14,191	177,926

The above table reveals that in case of 100% downside scenario, the ECL may increase by OMR 14.516 million (2021: 27.39 million) from the current position.

Accounting for modification loss

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

As of 31st December 2021, the bank had a deferred portfolio of RO 670 million out of which RO 544 million is restructured as of 31st December 2022 and the stagewise details are as follows:

Classification/Stage As per IFRS-9	**Restructured (RO 000's)**	**ECL (RO 000's)**
Stage 1	**111,554**	**2,906**
Stage 2	**432,663**	**31,484**
Total	**544,217**	**34,390**

The restructured accounts under process, pertaining to those who availed deferment as at 31st December 2022, amounts to RO 9.677 million.

32 Financial risk management *(continued)*

A. Credit Risk *(continued)*

Impact on the Capital Adequacy

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

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

The Tier II capital has improved by 0.49% (2021: 0.28%) due to application of above prudential filter.

1. Credit Exposure

The following table sets out the Credit Exposure to customers of the Bank:

(i) Geographical concentrations

	Assets			**Liabilities**		
	Gross loans and financing to banks	**Gross Loans, advances and financing to customers**	**Investment Securities**	**Deposits from customers**	**Due to banks**	**Contingent liabilities**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
31 December 2022						
Sultanate of Oman	**109,957**	**3,645,956**	**469,289**	**2,883,749**	**57,331**	**471,417**
Other GCC countries	**9,625**	**-**	**197**	**7,171**	**350,418**	**83,913**
Europe and North America	**28,875**	**696**	**-**	**711**	**27,492**	**85,541**
Africa and Asia	**-**	**-**	**-**	**188**	**137,601**	**21,877**
	148,457	**3,646,652**	**469,486**	**2,891,819**	**572,842**	**662,748**
31 December 2021						
Sultanate of Oman	42,725	3,513,571	444,894	2,975,312	30,074	470,933
Other GCC countries	42,980	-	717	175	413,490	47,235
Europe and North America	6,081	251	-	-	9,625	29,827
Africa and Asia	34,462	-	852	152	7,700	21,230
	126,248	3,513,822	446,463	2,975,639	460,889	569,225

Loan commitment of RO 614.94 million as at 31 December 2022 (31 December 2021: RO 623.41 million) arises from the customers in the Sultanate of Oman.

32 Financial risk management *(continued)*

A. Credit Risk *(continued)*

(ii) Customer concentrations

	Gross loans and financing to banks RO'000	Gross Loans, advances and financing to customers RO'000	Investment Securities RO'000	Deposits from customers RO'000	Due to banks RO'000	Contingent liabilities RO'000
31 December 2022						
Personal	**-**	**1,272,216**	**-**	**736,352**	**-**	**-**
Corporate	**148,457**	**1,757,432**	**61,394**	**1,054,981**	**572,842**	**662,446**
Government	**-**	**617,004**	**408,092**	**1,100,486**	**-**	**302**
	148,457	**3,646,652**	**469,486**	**2,891,819**	**572,842**	**662,748**
31 December 2021						
Personal	-	1,260,349	-	801,147	-	1,674
Corporate	126,248	1,804,372	41,505	1,055,394	460,889	567,308
Government	-	449,101	404,958	1,119,098	-	243
	126,248	3,513,822	446,463	2,975,639	460,889	569,225

Loan commitment of RO 614.94 million as at 31 December 2022 (31 December 2021: RO 623.41 million) substantially arises from the corporate customers.

(iii) Economic sector concentrations

	Gross loans, advances and financing to customers RO'000	Deposits from customers RO'000	Contingent Liabilities RO'000	Loan Commitment RO'000
31 December 2022				
Personal	**1,272,216**	**1,296,562**	**1,343**	**-**
International trade	**135,825**	**46,275**	**32,045**	**34,457**
Construction	**457,910**	**73,650**	**210,681**	**87,466**
Manufacturing	**224,979**	**155,132**	**38,589**	**67,495**
Wholesale and retail trade	**109,618**	**11,155**	**26,107**	**31,152**
Communication and utilities	**107,674**	**83,677**	**8,715**	**35,693**
Financial services	**220,544**	**100,287**	**235,323**	**68,044**
Government	**134,755**	**740,172**	**-**	**44,699**
Other services	**553,838**	**138,128**	**45,341**	**159,382**
Others	**429,293**	**246,781**	**64,604**	**86,551**
	3,646,652	**2,891,819**	**662,748**	**614,939**

32 Financial risk management *(continued)*

32 Financial risk management *(continued)*

A. Credit Risk *(continued)*

(iii) Economic sector concentrations (continued)

	Gross loans, advances and financing to customers RO'000	Deposits from customers RO'000	Contingent Liabilities RO'000	Loan Commitment
31 December 2021				
Personal	1,260,394	1,249,051	1,674	10,989
International trade	129,017	187,012	32,167	1,244
Construction	443,719	96,187	222,583	269,178
Manufacturing	285,761	77,770	28,105	120,326
Wholesale and retail trade	116,434	20,580	18,083	82,797
Communication and utilities	257,618	88,252	22,081	42,420
Financial services	189,264	43,611	211,645	26,129
Government	147,324	843,181	1,277	26,803
Other services	371,629	190,556	20,364	40,798
Others	312,662	179,439	11,246	2,726
	3,513,822	2,975,639	569,225	623,410

(iv) Gross credit exposure

	Total gross exposure		**Monthly average gross exposure**	
	2022 RO'000	2021 RO'000	**2022 RO'000**	2021 RO'000
Overdrafts	**123,550**	113,544	**119,878**	121,263
Loans	**2,820,805**	2,769,153	**2,729,681**	2,752,245
Loans against trust receipts	**97,069**	91,730	**95,687**	91,520
Bills discounted	**31,063**	29,160	**32,843**	36,011
Advance against credit cards	**8,669**	8,144	**8,272**	8,126
Islamic Banking Window financing	**565,496**	502,091	**536,316**	496,289
Total	**3,646,652**	3,513,822	**3,522,677**	3,505,454

(v) Geographical distribution of funded exposures:

	Sultanate of Oman RO'000	**Other countries RO'000**	**Total RO'000**
31 December 2022			
Overdrafts	**123,550**	**-**	**123,550**
Loans	**2,820,805**	**-**	**2,820,805**
Loans against trust receipts	**96,643**	**426**	**97,069**
Advance against credit cards	**8,669**	**-**	**8,669**
Bills discounted and advances against receivables	**30,793**	**270**	**31,063**
Islamic Banking Window financing	**565,496**	**-**	**565,496**
	3,645,956	**696**	**3,646,652**

32 Financial risk management *(continued)*

A. Credit Risk *(continued)*

	Sultanate of Oman RO'000	Other countries RO'000	Total RO'000
31 December 2021			
Overdrafts	113,544	-	113,544
Loans	2,769,153	-	2,769,153
Loans against trust receipts	91,730	-	91,730
Advance against credit cards	8,144	-	8,144
Bills discounted and advances against receivables	28,909	251	29,160
Islamic Banking Window financing	502,091	-	502,091
	3,513,571	251	3,513,822

(vi) Industry type distribution of exposures by major types of credit exposures:

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

32 Financial risk management *(continued)*

A. Credit Risk *(continued)*

(vi) Industry type distribution of exposures by major types of credit exposures: (continued)

	Overdrafts RO'000	Loans including Islamic financing RO'000	Bills discounted RO'000	Others RO'000	Total RO'000	Contingent liabilities RO'000	Loan commitments RO'000
31 December 2021							
Import trade	8,418	95,700	-	16,798	120,916	26,763	-
Export trade	221	7,872	-	7	8,100	5,404	1,472
Wholesale/retail trade	4,463	109,284	-	2,687	116,434	18,083	83,538
Mining and quarrying	1,435	105,060	-	12	106,507	676	33,580
Construction	43,883	342,719	-	57,116	443,718	222,583	269,080
Manufacturing	18,271	233,847	880	32,762	285,760	28,105	86,687
Electricity, gas and water	1,099	196,113	-	416	197,628	17,197	41,227
Transport and Communication	1,264	58,207	-	518	59,989	4,884	1,178
Financial institutions	2,314	186,079	871	-	189,264	211,645	26,119
Services	20,083	347,660	122	3,763	371,628	20,364	40,783
Personal loans	1,425	1,075,613	-	7,805	1,084,843	1,674	10,228
Agriculture and allied Activities	3,812	1,097	-	4,828	9,737	5,649	1,590
Government	-	322,858	-	18	322,876	1,277	26,794
Non-resident lending	-	-	-	16,798	16,798	-	-
Others	6,856	189,134	-	429	196,419	4,921	1,135
	113,544	3,271,243	1,873	143,957	3,513,822	569,225	623,410

(vii) Maximum exposure to credit risk (net of impairment) without consideration of collateral held:

	2022 RO'000	2021 RO'000
Cash held by custodian and Central Bank balances	**142,692**	191,511
Due from Banks	**148,353**	125,098
Sovereign	**398,445**	404,041
Investment Securities at amortized Cost	**9,647**	917
Investment Securities at FVOCI	**46,638**	35,945
Loans and advances	**3,470,851**	3,376,341
Other receivables	**20,794**	12,543
Accrued Interest	**-**	44,941
Acceptances	**39,996**	180,183
Total funded net exposure	**4,277,416**	4,371,520
Off-balance sheet items		
Loan commitments / unutilised limits	**613,104**	620,596
Letter of credit/guarantee	**656,560**	561,637
	5,581,005	5,583,737

As at 31 December 2022, the Bank has total gross impaired loans of RO 214.08 million (2021: RO 179.65 million) which includes interest reserved of RO 40.37 (2021: RO 30.12) million against principal outstanding of RO 173.71 (2021: RO 149.53) million expected credit losses of RO 102.52 million (2021: RO 82.54 million) million have been carried.

32 Financial risk management *(continued)*

A. Credit Risk *(continued)*

(viii) Credit Quality Analysis

The financial assets have been segregated into various portfolios like exposure to Banks, Sovereign, Wholesale Banking and Retail customers. Exposure to Retail customer includes personal loans, housing loans and credit cards. Exposure to Wholesale Banking customer includes exposure other than retail and bank exposure.

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

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

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

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

	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
31 December 2021				
Exposure				
Banks	539,930	390	-	540,320
Sovereigns	404,041	-	-	404,041
Wholesale banking	2,302,494	1,026,136	126,457	3,455,087
Retail banking	1,211,798	12,974	60,398	1,285,170
Investments	37,109	-	-	37,109
Total	4,495,372	1,039,500	186,855	5,721,727
Provision for expected credit losses	27,645	40,353	82,535	150,533

32 Financial risk management *(continued)*

A. Credit Risk *(continued)*

(ix) Inputs, assumptions and techniques used for estimating impairment

a. Significant increase in credit risk (SICR)

The assessment of SICR since origination of a financial asset considers borrower-specific quantitative and qualitative information without consideration of collateral, and the impact of forward-looking information. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap.

For retail exposures, significant increase in credit risk is more objective and is estimated at account level. The assessment is done using days past due information as well change in the rating grade of the borrower. The process of identifying the significant increase in credit risk has been automated and based on the days past due or deterioration in the rating grade of the borrower significant increase in credit risk is assessed. For non-retail exposures, the Bank uses both quantitative and qualitative criteria. Under quantitative criteria, Bank uses the days past due parameter or change in the rating grade to assess significant increase in credit risk. Under qualitative criteria, Bank uses various criteria like change in value or quality of collateral, modification of terms including extension of moratorium, deferment of payment, waiver of covenants (restructure), frequent change in senior management, deferment / delay in commencement of commercial operations etc. to assess the significant increase in credit risk.

Incorporation of forward looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. The Bank formulates three economic scenarios: a base case, which is the median scenario assigned a 50% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 25% probability of occurring. External information considered includes economic data and forecasts published by monetary authorities and selected private-sector forecasters. A comprehensive review is performed at least annually on the design of the scenarios by the Bank's senior management.

b. Economic variable assumptions

The Bank uses the macroeconomic forecast to convert the Through the Cycle (TTC) PD into Point in Time (PIT) PD. Real GDP growth rate and Oil Revenue to GDP are considered for establishing the relationship with historical non-performing loans (NPLs) data of the banking system, as they were observed to be more statistically significant parameters reflecting the state of economy. The forecast of macro-economic indicators are considered for next 3 years with time lag of 1 year. The macroeconomic indicators used as at 31 December 2022 including the projections used is presented as under:

31 December 2022

Real GDP growth (%)	Present	12.70%	**Oil revenue (%GDP)**	Present	25.97%
	Year 1 Projection	5.60%		Year 1 Projection	33.35%
	Year 2 Projection	2.70%		Year 2 Projection	28.77%
	Year 3 Projection	2.50%		Year 3 Projection	26.35%

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

31 December 2021

Real GDP growth (%)	Present	-4.30%	**Oil revenue (%GDP)**	Present	23.80%
	Year 1 Projection	1.80%		Year 1 Projection	30.29%
	Year 2 Projection	7.40%		Year 2 Projection	33.13%
	Year 3 Projection	2.70%		Year 3 Projection	32.94%

32 Financial risk management *(continued)*

(ix) Inputs, assumptions and techniques used for estimating impairment *(continued)*

b. Economic variable assumptions *(continued)*

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

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

The following tables shows estimate of the ECL on non-impaired financial assets (Stages 1 and 2) under IFRS 9 as at 31 December 2021, with 100% probability of happening each scenario.

Sensitivity of ECL estimates on non-impaired loans (excluding ECL on unutilised loans and interest receivables)	**ECL (RO million)**	**Impact on ECL due to Sensitivity (RO million)**
Scenario weighted ECL under IFRS 9 (Actual Estimate)**	68	-
Sensitivity:		
ECL if only Upside case happens - 100% probability	39	(29)
ECL if only Base case happens - 100% probability	70	2
ECL if only Downside case happens - 100% probability	95	27

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

c. Sensitivity analysis

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

Retail portfolios

(i) GDP, given the significant impact it has on mortgage collateral valuations; and

(ii) Oil price index, given its impact on secured and unsecured borrowers' ability to meet their contractual repayments.

Wholesale portfolios

(i) GDP, given the significant impact on companies' performance and collateral valuations; and

(ii) Oil Price Index, given its impact on companies' likelihood of default.

32 Financial risk management *(continued)*

Loss Allowance

The following table presents the ECL for non-performing loans i.e. Exposure under Stage 3.

	No. of borrowers	Exposure RO'000	Reserved interest RO'000	Net Exposure RO'000	ECL RO'000	% of ECL RO'000
31 December 2022						
Wholesale banking	**786**	**150,874**	**26,450**	**124,424**	**65,564**	**52.69%**
Retail banking	**3,420**	**63,205**	**13,916**	**49,289**	**36,615**	**74.29%**
Total	**4,206**	**214,079**	**40,366**	**173,713**	**102,179**	**58.82%**
31 December 2021						
Wholesale banking	750	126,457	17,981	108,426	49,667	45.81%
Retail banking	7,005	60,398	12,136	48,258	32,868	68.11%
Total	7,755	186,855	30,117	156,684	82,535	52.68%

The Banks seeks to recover amounts it is legally owed in full, but which has been partially written off and in 2022 the bank recovered RO 1.078 million (2021: RO 136.74)

(x) Credit Quality

Credit risk grading

The Bank uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The Bank has adopted a risk rating framework having eight performing loan grades (including special mention) and three non-performing loan grades. The Bank's internal Risk Rating (RR) risk rates a customer and to associate a default probability to each rating grade. The ratings assist studying the distribution of borrowers, grade wise exposures, transition of credit risk ratings over time, grade wise defaults, Non-Performing Loans (NPL) etc. Risk appetite is also set in terms of how much exposure the Bank expects in various grade bands. The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade.

'High Grade' exposures includes the risk rate of 1-3 which includes the exposures with good to excellent business credit quality, good to exceptional capacity for timely fulfilment of the financial obligation and negligible or low probability of default and/or low levels of expected loss.

'Standard Grade' exposures includes the risk rate of 4-5 which includes the exposures of acceptable to fair credit quality, satisfactory capacity for timely fulfilment of the financial obligation. These exposures carry average to marginally acceptable risk.

'Satisfactory Grade' exposures includes the risk rate of 6-8 which includes the exposures with comparatively weak or less acceptable credit quality. The exposures carry high risk, caution and special mention category. Projected repayment capacity is strained and prospects may deteriorate at some future date. These reflect either weak operating environment or operations reflect weakness.

'Non-performing' exposures have been assessed as impaired and includes the risk rate of 9 to 11. These also include retail accounts that are delinquent by more than 90 days, unless individually they have been assessed as not impaired; and renegotiated loans that have met the requirements to be disclosed as impaired and have not yet met the criteria to be returned to the unimpaired portfolio.

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(x) Credit Quality *(continued)*

An analysis of credit quality of gross exposures as at 31 December 2022 and changes in gross exposure balances from 1 January 2022 to 31 December 2022 is set out in the following tables by class of financial assets

31 December 2022:

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Due from banks at Amortised cost				
High Grade	63,108	-	-	63,108
Standard Grade	30,074	-	-	30,074
Satisfactory Grade	55,365	-	-	55,365
Total	148,457	-	-	148,457

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Corporate Loans and advances / Islamic financing receivables at Amortised cost				
High Grade	350,200	35,082	-	385,282
Standard Grade	1,073,244	323,702	-	1,396,946
Satisfactory Grade	44,448	397,066	-	441,514
Non-performing	-	-	150,694	150,694
Total	1,467,892	755,850	150,694	2,374,436

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Retail Loans and advances / Islamic financing receivables at Amortised cost*				
High Grade	1,056,193	-	-	1,056,193
Standard Grade	115,225	2,376	-	117,601
Satisfactory Grade	17,719	17,318	-	35,037
Non-performing	-	-	63,385	63,385
Total	1,189,137	19,694	63,385	1,272,216

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

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Cash held by a custodian				
High Grade	5,316	-	-	5,316
Standard Grade	-	-	-	-
Satisfactory Grade	-	-	-	-
Non-performing	-	-	-	-
Total	5,316	-	-	5,316

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(x) Credit Quality *(continued)*

31 December 2022

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Investment in FVTPL	**717**	**-**	**-**	**717**
High Grade	-	-	-	-
Standard Grade	-	-	-	-
Satisfactory Grade	-	-	-	-
Non-performing	-	-	-	-
Total	**717**	**-**	**-**	**717**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Investment securities at FVOCI				
High Grade	155,427	-	-	155,427
Standard Grade	-	-	-	-
Satisfactory Grade	-	-	-	-
Total	**155,427**	**-**	**-**	**155,427**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Debt investment securities at Amortised cost				
High Grade	313,278	-	-	313,278
Standard Grade	-	-	-	-
Satisfactory Grade	-	-	-	-
Total	**313,278**	**-**	**-**	**313,278**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Acceptances at Amortised cost				
High Grade	28,640	177	-	28,817
Standard Grade	5,511	3,901	-	9,412
Satisfactory Grade	74	1,693	-	1,767
Total	**34,225**	**5,771**	**-**	**39,996**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Loan commitments				
High Grade	131,355	53,984	-	185,339
Standard Grade	281,101	99,030	-	380,131
Satisfactory Grade	3,660	45,809	-	49,469
Total	**416,116**	**198,823**	**-**	**614,939**

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Letter of credit and guarantees*				
High Grade	236,725	4,417		241,142
Standard Grade	301,736	57,621		359,357
Satisfactory Grade	20,643	38,550		59,193
Non-performing	-	-	3,056	3,056
Total	**559,104**	**100,588**	**3,056**	**662,748**

* includes Corporate & SME , Retail and Banks

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(x) Credit Quality *(continued)*

31 December 2021

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Debt investment securities at Amortised cost				
High Grade	324,150	-	-	324,150
Standard Grade	-	-	-	-
Satisfactory Grade	-	-	-	-
Total	324,150	-	-	324,150

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Acceptances at Amortised cost				
High Grade	53,286	133	-	53,419
Standard Grade	121,173	1,578	-	122,751
Satisfactory Grade	559	4,369	-	4,928
Total	175,018	6,080	-	181,098

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Loan commitments				
High Grade	100,725	40,469	-	141,194
Standard Grade	294,634	74,552	-	369,186
Satisfactory Grade	32,171	80,854	-	113,025
Total	427,530	195,875	-	623,405

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Letter of credit and guarantees*				
High Grade	101,863	6,282	-	108,145
Standard Grade	235,937	31,964	-	267,901
Satisfactory Grade	125,645	60,386	-	186,031
Non-performing	-	-	7,148	7,148
Total	463,445	98,632	7,148	569,225

* includes Corporate & SME , Retail and Banks

	Stage 1 RO 000's	Stage 2 RO 000's	Stage 3 RO 000's	Total RO 000's
Accrued Interest/profit*				
High Grade	33,576	12,770	-	46,346
Standard Grade	-	-	-	-
Satisfactory Grade	-	-	-	-
Non-performing	-	-	54	54
Total	33,576	12,770	54	46,400

* includes Corporate & SME , Retail and Banks

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(xi) Distribution of impaired loans

The following table presents the distribution of impaired loans, past due and not past due loans by type of industry:

	Performing loans	Non-performing loans	Expected Credit Loss for Stage 1 & 2 Exposure	Expected Credit Loss for Stage 3 Exposure	Interest reserve	Expected Credit Loss during the year	Advances written off during the year
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
31 December 2022							
Import trade	**117,222**	**9,242**	**1,774**	**2,852**	**1,756**	**597**	**3**
Export trade	**9,196**	**165**	**148**	**51**	**15**	**102**	**-**
Wholesale/retail trade	**98,862**	**10,755**	**4,611**	**4,978**	**2,453**	**1,863**	**4**
Mining and quarrying	**89,283**	**4,751**	**706**	**2,152**	**342**	**(296)**	**-**
Construction	**352,721**	**105,190**	**8,798**	**49,135**	**18,147**	**12,196**	**-**
Manufacturing	**219,415**	**5,137**	**3,916**	**1,957**	**377**	**1,506**	**-**
Electricity, gas and water	**256,011**	**-**	**438**	**-**	**-**	**(604)**	**-**
Transport and communication	**107,356**	**318**	**704**	**161**	**97**	**(26)**	**-**
Financial institutions	**220,274**	**1**	**2,794**	**-**	**-**	**1,906**	**-**
Services	**367,750**	**1,893**	**14,787**	**734**	**672**	**5,743**	**14**
Personal loans	**1,200,941**	**71,268**	**8,815**	**38,522**	**15,164**	**3,397**	**-**
Agriculture and allied activities	**19,663**	**93**	**78**	**25**	**7**	**(33)**	**546**
Government	**134,755**	**-**	**17,040**	**-**	**-**	**7,625**	**65**
Non-resident lending	**696**	**-**	**-**	**-**	**-**	**-**	**-**
Others	**238,428**	**5,266**	**10,265**	**360**	**1,336**	**(711)**	**234**
	3,432,573	**214,079**	**74,874**	**100,927**	**40,366**	**33,265**	**866**

32 Financial risk management *(continued)*

B. Credit risk *(continued)*

(xi) Distribution of impaired loans (continued)

31 December 2021	Performing loans RO'000	Non-performing loans RO'000	Expected Credit Loss for Stage 1 & 2 Exposure RO'000	Expected Credit Loss for Stage 3 Exposure RO'000	Interest reserve RO'000	Expected Credit Loss during the year RO'000	Advances written off during the year RO'000
Import trade	112,921	7,996	1,781	2,248	1,065	1,364	91
Export trade	8,093	7	94	3	4		-
Wholesale/retail trade	106,860	9,575	3,558	4,168	1,662	663	266
Mining and quarrying	106,491	16	3,149	5	11	1	-
Construction	361,177	82,541	11,357	34,380	12,475	8,736	1,536
Manufacturing	281,947	3,814	3,045	1,322	144	1,201	443
Electricity, gas and water	197,629	-	1,042	-	-		-
Transport and communication	59,733	256	766	125	74	160	363
Financial institutions	189,264	-	888	-	-		-
Services	369,527	2,102	8,970	808	601	232	61
Personal loans	1,200,010	60,384	11,081	32,859	12,136	11,808	3,299
Agriculture and allied activities	18,211	11	131	5	6		-
Government	147,324	-	152	-	-		-
Non-resident lending	251	-	-	-	-		-
Others	174,731	12,951	8,932	3,655	1,939	486	370
	3,334,169	179,653	54,946	79,578	30,117	24,651	6,429

The following table presents the distribution of impaired loans and gross loans by geographical distribution:

	Exposure to Stage 1 & 2 RO'000	**Exposure to Stage 3 RO'000**	**Stage 1 & 2 ECL RO'000**	**Stage 3 ECL RO'000**	**Interest reserve RO'000**	**ECL during the year RO'000**	**Advances written off during the year RO'000**
31 December 2022							
Sultanate of Oman	**3,431,877**	**214,079**	**74,874**	**102,179**	**40,366**	**33,265**	**866**
Other countries	**696**	**-**	**-**	**-**	**-**	**-**	**-**
	3,432,573	**214,079**	**74,874**	**102,179**	**40,366**	**33,265**	**866**
31 December 2021							
Sultanate of Oman	3,333,918	179,653	54,946	79,578	30,117	24,651	6,429
Other countries	251	-	-	-	-	-	-
	3,334,169	179,653	54,946	79,578	30,117	24,651	6,429

32 Financial risk management *(continued)*

A. Credit risk *(continued)*

(xi) Distribution of impaired loans *(continued)*

Analysis of impairment and collateral

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

	2022 RO'000	2021 RO'000
Against individually impaired		
Property	**69,833**	71,038
Others	**440**	850
	70,323	71,888

The Bank has a financial asset of RO 88.70 million (2021: RO 68.75 million) of impaired assets against collateral or other security enhancements held.

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

B. Liquidity risk

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

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

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

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

32 Financial risk management *(continued)*

B. Liquidity risk *(continued)*

Maturity profile of assets and liabilities

	Due on demand and up to 30 days	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	176,117	-	-	-	500	176,617
Loan and advances to customer	156,232	424,390	144,228	718,245	1,987,391	3,430,486
Loans and advances to banks	108,166	40,187				148,353
Investments FVTPL	-	717	-	-	-	717
Investments FVOCI Debt Instrument	-	22,134	15,926	71,592	31,812	141,464
Investments FVOCI-Equity	-	-	-	-	13,963	13,963
Investments at amortized cost	3,867	36,014	10,014	186,798	76,585	313,278
Other assets	5,316	-	3,484	-	56,701	65,501
Total Assets Funded	449,698	523,442	173,652	976,635	2,166,952	4,290,379
Spot and Forward Purchases (notional value)	165,706	403,838	82,416	152,199	-	804,160
Total Assets Funded and Non Funded	615,404	927,280	256,068	1,128,834	2,166,952	5,094,539
Future Interest cash inflows	17,188	87,546	81,355	472,981	384,821	1,043,891
Due to banks	167,435	116,658	19,250	269,499	-	572,842
Deposits from customers	330,130	618,975	471,905	907,207	563,602	2,891,819
Other liabilities	67,636	524	524	5,247	61,663	135,594
Subordinated loans	-	-	-	-	-	-
Total liabilities	565,201	736,157	491,679	1,181,953	625,265	3,600,255
Spot and Forward Purchases (notional value)	177,087	393,567	80,320	152,224	-	803,198
Loan commitments	614,939	-	-	-	-	614,939
Letter of credit	88,961	-	-	-	-	88,961
Guarantees and performance bonds	573,787	-	-	-	-	573,787
Total Liabilities Funded and Non Funded	2,019,975	1,129,724	571,999	1,334,177	625,265	5,681,140
Future Interest cash outflows	4,119	49,829	38,888	114,248	96,118	303,202
Cumulative Liabilities	2,019,975	3,149,699	3,721,698	5,055,875	5,681,140	
Gap	2,002,787	1,042,178	490,644	861,196	240,444	
Cumulative Gap	2,002,787	3,044,965	3,535,609	4,396,805	4,637,249	

32 Financial risk management *(continued)*

B. Liquidity risk *(continued)*

Maturity profile of assets and liabilities

	Due on demand and up to 30 days RO'000	More than 1 month to 6 months RO'000	More than 6 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
31 December 2021						
Cash and balances with Central Bank of Oman	250,979	-	-	-	500	251,479
Loan and advances to customer	169,023	507,969	171,014	762,567	1,735,650	3,346,223
Loans and advances to banks	46,223	56,552	22,323	-	-	125,098
Investments FVTPL	-	-	-	-	2,823	2,823
Investments FVOCI Debt Instrument	-	-	10	89,628	27,115	116,753
Investments FVOCI-Equity	-	-			2,490	2,490
Investments at amortized cost	-	-	-	213,935	110,215	324,150
Other assets	46,399	-	181,098		18,290	245,787
Total Assets Funded	512,624	564,521	374,445	1,066,130	1,897,083	4,414,803
Spot and Forward Purchases (notional value)	472,119	731,465	154,973	120,537	-	1,479,094
Total Assets Funded and Non Funded	984,743	1,295,986	529,418	1,186,667	1,897,083	5,893,897
Future Interest cash inflows	15,439	70,126	70,623	415,065	331,237	902,490
Due to banks	119,009	201,355	9,625	130,900	-	460,889
Deposits from customers	274,992	679,501	554,497	861,068	605,581	2,975,639
Other liabilities	66,185	9,973	181,649	5,515	5,417	268,739
Subordinated loans	-	-	-	35,000	-	35,000
Total liabilities	460,186	890,829	745,771	1,032,483	610,998	3,740,267
Spot and Forward Purchases (notional value)	470,398	730,512	154,707	119,350	-	1,474,967
Loan commitments	623,405	-	-	-	-	623,405
Letter of credit	68,983	-	-	-	-	68,983
Guarantees and performance bonds	500,242	-	-	-	-	500,242
Total Liabilities Funded and Non Funded	2,123,214	1,621,341	900,478	1,151,833	610,998	6,407,864
Future Interest cash outflows	4,823	53,749	43,590	142,112	620,832	865,106
Cumulative Liabilities	2,123,214	3,744,555	4,645,033	5,796,866	6,407,864	
Gap	1,138,471	325,355	371,060	(34,834)	(1,286,085)	
Cumulative Gap	1,138,471	1,463,826	1,834,886	1,800,052	513,967	

32 Financial risk management *(continued)*

B. Liquidity risk *(continued)*

The Central Bank of Oman has issued guidelines on the implementation of Basel III liquidity framework which are Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The LCR is a short time ratio designed to increase resilience against a liquidity shortage of up to 30 days. As per CBO guidelines LCR should be minimum 100% on an ongoing basis to be maintained at all times by the Bank. The Bank is in compliance of the regulatory limit of LCR as at 31 December 2022, with LCR of 107.71% (2021: 123.54%).

The Net Stable Funding Ratio (NSFR) is a longer term structural ratio designed to address liquidity mismatches and reduce funding risk over a one-year horizon. It is effective January 2018, with a minimum ratio of 100% as per the regulatory guidance. The Bank is meeting the regulatory limit of NSFR as at 31 December 2022, with a NSFR of 107.95% (2021: 109.24%).

C. Market risk

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

I. Currency risk

The Bank is exposed to currency risk through its transactions in foreign currencies. The major foreign currency to which the Bank is exposed is the US Dollar. Rial Omani is effectively pegged to US Dollar. The Bank finances a significant portion of its financial assets in the same currencies as the relevant measurement currencies to mitigate its foreign currency risk.

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

Foreign currency exposures

	2022	2021
	RO'000	RO'000
Net assets denominated in US Dollars	**47,815**	36,562
Net assets denominated in UAE Dirham (AED)	**1,934**	750
Net assets denominated in other foreign currencies	**3,363**	1,235
	53,112	38,547

II. Interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities are reset at different times. Risk management activities are aimed at optimising net interest income, given market interest rate levels, consistent with the Bank's business strategies. The Bank manages mismatches by following policy guidelines and reduces risk by matching the repricing of assets and liabilities. Details relating to re-pricing mismatches and the interest rate risk thereon are placed to the ALCO in its regular meetings and also to the Board Risk Committee. Impact on earnings due to interest rate risk in the banking book is as follows:

32 Financial risk management *(continued)*

C. Market risk *(continued)*

II. **Interest rate risk** *(continued)*

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

	+ or – 1%		+ or – 2%	
	2022 RO'000	2021 RO'000	**2022 RO'000**	2021 RO'000
Omani Rials	**4,419**	5,513	**8,839**	11,027
US Dollars	**4,179**	3,855	**8,357**	7,711
Others currencies	**214**	26	**428**	52
	8,812	9,394	**17,624**	18,790

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

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

	+ or – 1%		+ or – 2%	
	2022 RO'000	2021 RO'000	**2022 RO'000**	2021 RO'000
Impact on Equity in absolute terms	**47,003**	42,273	**94,006**	84,545

Effect of IBOR reform

Reform and replacement of various inter-bank offered rates ('IBORs') has become a priority for regulators. Many IBOR rates stopped being published, while certain USD LIBOR rates would stop being published by 30 June 2023. The table below discloses amounts of non-derivative financial assets and liabilities and derivative contracts at 31 December 2022 those are linked with LIBOR. The table below discloses the exposures which are maturing before 30 June 2023 and after 30 June 2023. Exposures of the Bank are linked with three month LIBOR or 6 month LIBOR which will cease to publish on 30 June 2023.

For new contracts being entered, the Bank is working with its customers and other counterparties, such as international financial institutions to perform a transition of legacy IBOR-based financial instruments to alternative benchmark interest rates and develop new financial products for its customers. The Bank is also enhancing its IT systems and internal processes to ensure smooth transition from IBOR to alternative benchmark interest rates.

Outstanding as at 31 December 2022 ***RO'000***	**Non-derivative financial assets**	**Non-derivative financial liabilities**	**Derivatives nominal amount**
Maturities before 30 June 2023			
USD one month LIBOR	-	-	-
USD three month LIBOR	-	-	-
USD six month LIBOR	-	**3,411**	-
Total	-	**3,411**	-
Maturities after 30 June 2023			
USD one month LIBOR	-	-	-
USD three month LIBOR	**331,632**	**19,250**	**113,777**
USD six month LIBOR	**126,106**	-	-
Total	**454,738**	**19,250**	**113,777**

32 Financial risk management *(continued)*

C. Market risk *(continued)*

II. **Interest rate risk** *(continued)*

Effect of IBOR reform *(continued)*

Outstanding as at 31 December 2021 ***RO'000***	**Non-derivative financial assets**	**Non-derivative financial liabilities**	**Derivatives nominal amount**
Maturities before 30 June 2023			
USD one month LIBOR	-	-	1,750
USD three month LIBOR	129,027	317,625	-
USD six month LIBOR	51,810	-	-
Total	180,837	317,625	1,750
Maturities after 30 June 2023			
USD one month LIBOR	5,834	-	-
USD three month LIBOR	285,682	-	124,517
USD six month LIBOR	159,232	15,400	-
Total	450,748	15,400	124,517

Interest rate sensitivity gap

Sensitivity to interest rates arises from mismatches in the period to repricing of assets and that of the corresponding liability. The Bank manages these mismatches by following policy guidelines and reduces risk by matching the repricing of assets and liabilities.

	Effective average interest rate	**Due on demand and within 30 days**	**Due within 1 to 6 months**	**Due within 7 to 12 months**	**Due within 1 to 5 years**	**Due after 5 years**	**Non-interest bearing**	**Total**
31 December 2022	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Cash and balances with Central Bank of Oman	**0.10%**	**-**	**-**	**-**	**-**	**-**	**176,617**	**176,617**
Investments - FVTPL	**-**	**-**	**-**	**-**	**-**	**-**	**717**	**717**
Investment – FVOCI Equity	**-**	**-**	**-**	**-**	**-**	**-**	**13,975**	**13,975**
Investment FVOCI – Debt Instrument	**6.17%**	**-**	**22,082**	**15,926**	**71,592**	**31,852**	**-**	**141,452**
Investments at amortized cost	**4.50%**	**3,867**	**36,014**	**10,014**	**186,798**	**76,585**	**-**	**313,278**
Loans, advances and financing to banks	**2.39%**	**58,050**	**40,187**	**-**	**-**	**-**	**50,116**	**148,353**
Loans, advances and financing to customers	**5.87%**	**156,232**	**424,390**	**144,228**	**718,245**	**1,987,391**	**-**	**3,430,486**
Other assets	**-**	**-**	**-**	**3,484**	**-**	**58,381**	**3,636**	**65,501**
Total Assets		**218,149**	**522,673**	**173,652**	**976,635**	**2,154,209**	**245,061**	**4,290,379**
Due to banks	**5.52%**	**260,307**	**312,352**	**-**	**-**	**-**	**183**	**572,842**
Deposits from customers	**2.75%**	**218,123**	**423,839**	**725,955**	**670,842**	**518,130**	**334,930**	**2,891,819**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**135,594**	**135,594**
Subordinated loan	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total liabilities		**478,430**	**736,191**	**725,955**	**670,842**	**518,130**	**470,707**	**3,600,255**
On-balance sheet gap		**(260,281)**	**(213,518)**	**(552,303)**	**305,793**	**1,636,079**	**(225,646)**	
Cumulative interest sensitivity gap		**(260,281)**	**(473,799)**	**(1,026,102)**	**(720,309)**	**915,770**	**690,124**	

32 Financial risk management *(continued)*

C. Market risk *(continued)*

II. **Interest rate risk** *(continued)*

Interest rate sensitivity gap *(continued)*

	Effective average interest rate %	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non-interest bearing RO'000	Total RO'000
31 December 2021								
Cash and balances with Central Bank of Oman	0.1%						251,479	251,479
Investments - FVTPL		-	-	-	-	-	2,823	2,823
Investment – FVOCI Equity							2,490	2,490
Investment FVOCI – Debt Instrument	6.5%		10		89,628	27,115	-	116,753
Investments at amortized cost	4.8%				213,935	110,215	-	324,150
Loans, advances and financing to banks	2.7%	19,250	70,024	10,000	-	-	25,824	125,098
Loans, advances and financing to customers	5.4%	499,163	1,229,318	391,657	421,249	804,836	-	3,346,223
Other assets		-	-	181,098	-	-	64,689	245,787
Total assets		518,413	1,299,352	582,755	724,812	942,166	347,305	4,414,803
Due to banks	2.3%	147,610	287,980	9,625	15,400		274	460,889
Deposits from customers	3.2%	148,475	455,108	887,977	553,278	509,364	421,437	2,975,639
Other liabilities		-	-	181,098	-	-	87,641	268,739
Subordinated loan	6.2%	-	-	35,000	-	-	-	35,000
Total liabilities		296,085	743,088	1,113,700	568,678	509,364	509,352	3,740,267
On-balance sheet gap		222,327	556,264	-530,945	156,134	432,802	(162,047)	
Cumulative interest sensitivity gap		222,327	778,591	247,646	403,780	836,582	674,535	

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

I. Investment Price risk

Bank is exposed to the volatility in the prices of the securities held under equity and debt portfolio. Equity and debt investments held are for strategic/long term rather than for trading purposes and hence, the Bank does not hold trading positions in equity and debt investments. However the Bank's portfolio is marked to market on regular basis and the difference in the book value and market value are adjusted against investment revaluation reserve in shareholder's equity and for impaired investments.

Further, Bank also conducts stress testing and sensitivity analysis to take an informed decision on equity and debt risk exposure.

If there is adverse impact of 5% on equity investment portfolio, the value of the portfolio may decrease by RO 0.338 million (2021: decrease by RO 0.098 million).

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

The financial statements include holdings in unlisted shares and bonds which are measured at fair value. Fair value is estimated using either Net Asset Value (NAV) provided by the fund managers or book value per share of the investee company. If the estimation were 5% lower / higher while all other variables were held constant, the carrying amount of the unlisted shares and bonds would decrease / increase by RO 1.827 million (2021: decrease / increase by RO 2.007 million).

32 Financial risk management *(continued)*

D. Operational risk

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

The Bank has detailed policies and procedures that are regularly updated to ensure that a sound internal control environment exists. Board Risk Committee (BRC), a sub-committee of the Board, drives the implementation of the risk management framework, approved by the Board, at the apex level. The BRC ensure that the risk policies developed clearly spell out the quantitative prudential limits on various segments of the Bank's operations and also ensures implementation of Central Bank of Oman's guidelines on Risk Management/Basel II/Basel III and internationally accepted best practices in the area of risk management including Operational risk management. Management Risk Committee (MRC), comprising of Senior Management of the Bank, precedes RMC in reviewing, evaluating and monitoring of operational risk. Business Units are responsible for management of operational risks within their respective scope of duties. In the financial year 2022, the Bank's operational risks were well controlled and losses from operational risks were kept at low level. Trained and competent staff oversees the various operational functions of the Bank.

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

Business Continuity Planning (BCP)

Business Continuity Management is the implementation and management of preventative measures, planning and preparation to ensure the Bank can continue to operate following an incident, significant unplanned event or major operational disruption. The Bank ensures that its systems and procedures are resilient to ensure business continuity through potential situations of failure. Bank has adopted Business Continuity / Disaster Recovery Plan with a view to continue business operations and critical customers services at all times both at Conventional and Maisarah entity. The plan addresses employee health and safety, potential disruptions from the unanticipated loss of services or infrastructure and resumption of business operations in the face of an emergency or disaster. Business Impact Analysis, Business Continuity/ Disaster Recovery testing, Awareness Programs etc. are conducted in tune with the regulatory guidelines for meeting any unforeseen circumstances. The key initiatives on the business continuity readiness included the following:

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

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

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

32. Financial risk management *(continued)*

D. Operational risk *(continued)*

The Risk Control and Self-Assessment (RCSA) framework enables the Bank to identify the operational weaknesses in the process and procedures by conducting self-assessment workshops. A team of experts in various departments assess the operational weaknesses in various processes and its likely impact. RMD in association with business units has been able to complete the RCSA exercise for all the departments and branches of the conventional banking. During RCSA exercise, processes in various departments were reviewed from operational risk point of view and wherever high risk events were identified, the extant controls were reviewed.

The Key Risk Indicator (KRI) framework enables the Bank to identify and monitor the key risks. KRIs of all the departments have been identified and are being monitored on a monthly basis. Loss Data Management framework lays down the procedure to identify, record and report the internal and external loss events. The data on operational loss is collated on a regular basis and is presented to the Management and Board level committees.

Operational Risk Unit (ORU) in RMD is responsible for implementation, development and coordination of all the operational risk activities of the Bank, while working towards achievement of stated goals and objectives. Risk Management Division (RMD) conducts regular training programs for staff at various levels to inculcate ‘risk awareness’ and to spread the general ‘risk management culture’ in the Bank. Professional training in diversified forms is also imparted to improve the employees’ risk management skills.

- As part of creating awareness, specific as well as comprehensive awareness programme are also conducted to imbibe the importance of BCP amongst staff.

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

Internal Capital Adequacy Assessment Process (ICAAP):

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

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

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

In October 2022, the additional Perpetual securities (AT1) of USD 300 Million were replaced with OMR 115.5 million Perpetual securities listed in the Muscat Stock Exchange.

33. Capital risk management

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders within acceptable risk return framework. The Bank's overall strategy remains unchanged from prior year. As per CBO guidelines, the Bank needs to maintain capital adequacy ratio (CAR) at a minimum of 12.25% (including the capital conservation buffer) as at 31 December 2022. CBO reduced the CAR from 13.5% (including the capital conservation buffer) with effect from 1 January 2019, however amid COVID-19 situation, Capital Conservation Buffer (CCB) was lowered by 50% from 2.5% to 1.25% with effective from 18 March 2020, bringing the overall CAR requirement to 12.25%.

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

Capital adequacy

The ratio of equity to risk weighted assets, as formulated by the Basel II and Basel III, for the year ended 31 December 2022 is 17.61% (2021: 17.74 %).

	31-Dec-22	31-Dec-21
	RO'000	RO'000
Common Equity Tier (CET) I/ TIER I CAPITAL		
Paid up capital	**299,635**	299,635
Legal reserve	**67,955**	64,538
Share premium	**95,656**	95,656
Special reserve	**16,988**	16,988
Subordinated bonds and loan reserve	**-**	28,000
Retained earnings	**57,111**	22,930
CET I/Tier I Capital	**537,345**	527,747
Additional Tier I regulatory adjustments:		
Deferred tax assets	**(6,127)**	(3,420)
Special revaluation reserve investment IFRS 9		-
Negative investment revaluation reserve	**(6,615)**	(5,627)
Total CET 1 capital	**524,603**	518,700
Additional Tier I capital (AT1)	**155,500**	155,500
Total Tier 1 Capital (T1=CET1+AT1)	**680,103**	674,200
TIER II CAPITAL		
Investment revaluation reserve	**1,006**	649
General provision	**34,226**	39,108
Subordinated loan	**-**	-
Total Tier II capital	**35,232**	39,757
Total eligible capital	**715,335**	713,957
Risk weighted assets		
Banking book	**3,744,350**	3,719,641
Trading book	**70,428**	64,345
Operational risk	**248,375**	240,038
Total	**4,063,153**	4,024,024
Total Tier 1 Capital (T1=CET1+AT1)	**680,103**	674,200
Tier II capital	**35,232**	39,757
Total regulatory capital	**715,335**	713,957
Common Equity Tier 1 ratio	**12.91%**	12.89%
Tier I capital ratio	**16.74%**	16.75%
Total capital ratio	**17.61%**	17.74%

The Bank has complied with all externally imposed capital requirements as at 31 December 2022 and 31 December 2021.

34 Segmental information

The Bank is organised into four main business segments:

1) Retail banking – incorporating, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages;
2) Corporate banking – incorporating direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products;
3) Treasury and investments;
4) Islamic Banking

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

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

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

31 December 2022	**Retail banking**	**Corporate banking**	**Treasury and investments**	**Islamic Banking**	**Intersegment**	**Total**
	RO’000	**RO’000**	**RO’000**	**RO’000**	**RO’000**	**RO’000**
Segment operating revenues	**34,404**	**58,729**	**10,047**	**-**	**(1,224)**	**101,956**
Net income from Islamic financing	**-**	**-**	**-**	**20,472**		**20,472**
Other revenues	**6,807**	**6,746**	**4,610**	**2,561**	**-**	**20,724**
Segment operating revenues	**41,211**	**65,475**	**14,657**	**23,033**	**(1,224)**	**143,152**
Operating expenses including depreciation	**(32,017)**	**(21,276)**	**(4,952)**	**(11,439)**	**-**	**(69,684)**
Net Impairment loses on financial assets	**(1,989)**	**(30,052)**	**2,028**	**(3,251)**	**-**	**(33,264)**
Profit from operations after provision	**7,205**	**14,147**	**11,733**	**8,343**	**(1,224)**	**40,204**
Tax expenses	**(1,081)**	**(2,122)**	**(1,576)**	**(1,252)**	**-**	**(6,031)**
Profit for the period	**6,124**	**12,025**	**10,157**	**7,091**	**(1,224)**	**34,173**
Segment assets	**1,157,346**	**2,178,926**	**653,805**	**690,354**	**(146,745)**	**4,533,686**
Less: Impairment allowance	**(58,337)**	**(142,380)**	**(108)**	**(15,529)**		**(216,354)**
Total segment assets	**1,099,009**	**2,036,546**	**653,697**	**674,825**	**(146,745)**	**4,317,332**
Segment Liabilities	**611,219**	**1,827,704**	**651,102**	**648,952**	**(146,745)**	**3,592,232**
Add: Impairment allowance	**1**	**6,925**	**720**	**377**		**8,023**
Total segment Liabilities	**611,220**	**1,834,629**	**651,822**	**649,329**	**(146,745)**	**3,600,255**

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

34 Segmental information *(continued)*

At 31 December 2021	Retail banking RO'000	Corporate banking RO'000	Treasury and investments RO'000	Total RO'000
Segment operating revenues	68,591	106,791	31,338	206,720
Other revenues (net of commission expense)	7,151	9,596	7,276	24,023
Total	75,742	116,387	38,614	230,743
Interest, Islamic Window Deposit expenses	(28,764)	(57,450)	(18,083)	(104,297)
Net operating income	46,978	58,937	20,531	126,446
Segment cost				
Operating expenses including depreciation	(35,035)	(31,576)	(5,729)	(72,340)
Impairment for loans and investment net recoveries from allowance for loans impairment	(4,834)	(18,331)	(1,486)	(24,651)
Profit from operations after provision	7,109	9,030	13,316	29,455
Income tax expenses	(1,046)	(1,328)	(1,958)	(4,332)
Net profit for the year	6,063	7,702	11,358	25,123
Segment assets	1,418,703	2,601,875	588,461	4,609,039
Less: Allowance for expected credit losses	(56,123)	(112,723)	(1,407)	(170,253)
Total segment assets	1,362,580	2,489,152	587,054	4,438,786
Segment liabilities	832,353	2,351,371	546,146	3,729,870
Add: Allowance for expected credit losses	3	8,796	1,598	10,397
Segment liabilities	832,356	2,360,167	547,744	3,740,267

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

35 Dividends – proposed and declared

Considering the market conditions and to preserve the capital through internally generated profits, the Board of Directors of Directors in their meeting held on 25 January 2023 proposed a total cash dividend of 5%, (5 (five) baizas per share, total of RO 14.982 million (2021: 2%; RO 5.993 million). This is subject to the Central Bank of Oman and shareholders' approval.

A resolution to approve these distributions will be presented to the shareholders at the Annual General Meeting to be held on 22nd March 2023

During the year, unclaimed dividend amounting to Nil (2021: Nil) was transferred to the Investor's Trust Fund account as per the guidelines issued by the Capital Market Authority of Oman.

36 Leases

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

(i) Amounts recognised in the statement of financial position

The balance sheet shows the following amounts relating to leases:

	2022	2021
	RO'000	RO'000
Right-of-use assets		
Leased Premises	**441**	816
Lease liabilities		
Current	**9**	-
Non-current	**348**	474
	357	474

Additions to the right-of-use assets during the 2022 financial year were RO 0.138 million (2021: RO 1.8 million).

(ii) Amounts recognised in the statement of comprehensive income

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

	2022	2021
	RO'000	RO'000
Depreciation charge of right-of-use assets		
Leased Premises	**513**	655
Interest expense	**26**	33
Expense relating to short-term leases	**205**	2,168

The total cash outflow for leases in 2022 was RO 0.260 million (2021: RO 0.199 million).

(iii) The following table shows the maturity analysis of lease liabilities:

	2022	2021
	RO'000	RO'000
More than 1 year	**367**	474

The Bank leases various offices, storage facilities, and retail space for its branches. Rental contracts are typically made for fixed periods of 1 to 5 years but may have extension options as described in (iv) below. Contracts may contain both lease and non-lease components. The Bank allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Bank is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments), less any lease incentives receivable. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

36 Leases (continued)

(iv) The Bank's leasing activities and how these are accounted for

To determine the incremental borrowing rate, the Bank:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Bank, which does not have recent third party financing, and
- makes adjustments specific to the lease, for example term, country, currency and security.

Each lease payment is allocated between principle and finance cost. The finance cost is charged to statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- any restoration costs.

The right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.
Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in statement of comprehensive income . Short-term leases are leases with a lease term of 12 months or less. The Bank does not have any Low-value assets as of the respective reporting date.

(v) Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Bank. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable by the Bank and by the respective lessor. Extension options are not included in the lease term because it is not reasonably certain that the leases will be extended or not terminated.

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

- For leases of premises, the following factors are normally the most relevant:
- If there are significant penalties to terminate (or not extend), the Bank is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Bank is typically reasonably certain to extend (or not terminate).
- Otherwise, the Bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Most extension options in premises leases have not been included in the lease liability, because the Bank could replace the assets without significant cost or business disruption. The lease term is reassessed if an option is actually exercised (or not exercised) or the Bank becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. During the financial year, the Bank did not revise the lease term as no significant events or changes occurred.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

Registered office and principal place of business:

Bank Dhofar
Central Business District
P.O. Box 1507, Ruwi
PC 112
Sultanate of Oman

Statement of financial position

At 31 December

	Note	**2022** *RO 000*	2021 *RO 000*
Assets			
Cash and balances with Central Bank of Oman	5	**14,380**	23,729
Due from banks and financial institutions	6	**13,817**	13,830
Murabaha and other receivables	7	**18,559**	28,930
Mudaraba financing	8	**9,396**	17,577
Diminishing Musharaka financing	9	**374,236**	337,795
Investments	10	**92,542**	79,962
Wakala	11	**75,774**	61,439
Ijarah Muntahia Bittamleek	12	**63,074**	44,902
Property and equipment	13	**651**	394
Intangibles	14	**475**	671
Other assets	15	**11,921**	67,911
Total assets		**674,825**	677,140
Liabilities, quasi equity and owners' equity			
Liabilities			
Current accounts	16	**35,455**	22,789
Qard Hasan from Head office	17	**39,405**	37,759
Other liabilities	18	**11,089**	54,192
Total liabilities		**85,949**	114,740
Quasi equity			
Wakala inter bank deposits	19	**54,250**	60,025
Wakala customer deposits	20	**382,597**	349,785
Equity of investment accountholders	21	**54,193**	64,481
Total quasi equity		**491,040**	474,291
Owners' equity			
Allocated share capital	22	**70,000**	70,000
Investment revaluation reserve		**(526)**	(1,911)
Retained earnings		**28,362**	20,020
Total owners' equity		**97,836**	88,109
Total liabilities, quasi equity and owners' equity		**674,825**	677,140
Contingent liabilities excluding financing and capital commitments	31(a)	**16,860**	20,194

The financial statements including notes and other information on pages 10 to 72 were approved by the Board of Directors on 25 January 2023 for issue in accordance with a resolution of Board of Directors and signed on their behalf by:

Chairman

Chief Islamic Banking Officer

Independent auditors report – Pages 1-4.

Statement of comprehensive income
For the year ended 31 December 2022

	Note	**2022** **RO 000**	2021 *RO 000*
Income			
Income from Islamic finances and receivables	24	**31,730**	28,946
Income or gains from investments	25	**5,104**	4,569
Income on Wakala placements		**67**	73
		36,901	33,588
Less:			
Return on equity of investment accountholders before Maisarah's share as Mudarib		**(988)**	(1,622)
Maisarah's share as Mudarib		**489**	418
Return on customer Wakala deposits	26	**(13,295)**	(12,176)
Return on inter bank Wakala deposit		**(2,197)**	(1,778)
		(15,991)	(15,158)
Maisarah's share in income from investment as a Mudarib and Rabul Maal		**20,910**	18,430
Revenue from banking services		**1,866**	1,391
Foreign exchange gain – net		**135**	108
Other revenues		**122**	207
Total revenue		**23,033**	20,136
Staff costs	27	**(5,957)**	(6,107)
General and administrative expenses	28	**(5,051)**	(2,271)
Depreciation and amortisation	13,14	**(431)**	(411)
Total expenses		**(11,439)**	(8,789)
Net impairment on financial instruments	29.3	**(3,252)**	(2,426)
Profit for the year		**8,342**	8,921
Other comprehensive income for the year			
Items that are or may not be reclassified to profit or loss			
Income from change in fair value of Debt instrument through equity	10	**1,385**	167
Other comprehensive income for the year		**1,385**	167
Total comprehensive income for the year		**9,727**	9,088

The attached notes on pages 10 to 72 form an integral part of these financial statements.
Independent auditors report – Pages 1-4.

Statement of changes in owners' equity
For the year ended 31 December 2022

	31 December 2022			
	Allocated share capital *RO 000*	**Investment revaluation reserve** *RO 000*	**Retained earnings** *RO 000*	**Total** *RO 000*
Balance at 31 December 2021	**70,000**	**(1,911)**	**20,020**	**88,109**
Total comprehensive income for the year				
Net profit for the year	**-**	**-**	**8,342**	**8,342**
Other comprehensive income for the year				
Fair value change on debt investments through equity	**-**	**1,385**	**-**	**1,385**
Total comprehensive income	**70,000**	**(526)**	**28,362**	**97,836**
Balance as at 31 December 2022	**70,000**	**(526)**	**28,362**	**97,836**

	31 December 2021			
	Allocated share capital *RO 000*	Investment revaluation reserve *RO 000*	Retained earnings *RO 000*	Total *RO 000*
Balance at 31 December 2020	70,000	(2,078)	11,099	79,021
Total comprehensive income for the year				
Net profit for the year	-	-	8,921	8,921
Other comprehensive income for the year				
Fair value change on debt investments through equity	-	167	-	167
Total comprehensive income	-	167	8,921	9,088
Balance as at 31 December 2021	70,000	(1,911)	20,020	88,109

The attached notes on pages 10 to 72 form an integral part of these financial statements.
Independent auditors report – Pages 1-4.

Statement of sources and uses of charity fund
For the year ended 31 December 2022

	2022	2021
	RO 000	*RO 000*
Sources of charity funds		
Undistributed charity funds at beginning of the year	**5**	7
Shari'a non-compliant income	**7**	5
Total sources of funds during the year	**12**	12
Uses of charity funds		
Distributed to charity organizations	**(5)**	(7)
Total uses of funds during the year	**(5)**	(7)
Undistributed charity funds at end of the year	**7**	5

The attached notes on pages 10 to 72 form an integral part of these financial statements.
Independent auditors report – Pages 1-4.

Statement of cash flows

For the year ended 31 December 2022

	2022 *RO 000*	2021 *RO 000*
Cash flows from operating activities		
Profit for the year	**8,342**	8,921
Adjustments for:		
Depreciation and amortisation	**431**	411
Depreciation on Ijarah assets	**(4,706)**	3,065
Gain on sale of property and equipment	**-**	(5)
Net impairment on financial instruments	**3,252**	2,426
Amortisation of premium on investment	**51**	50
Profit equalisation reserve and Investment risk reserve	**12**	11
Operating profit before changes in operating assets and liabilities	**7,382**	14,879
Operating assets and liabilities:		
Murabaha and other receivables	**10,398**	(5,193)
Ijarah Muntahia Bittamleek assets	**(26,679)**	(1,874)
Proceeds from sale of Ijarah Muntahia Bittamleek assets	**13,202**	(3)
Diminishing Musharaka financing	**(40,197)**	384
Mudaraba financing	**8,382**	(4,488)
Wakala	**(14,623)**	(9,587)
Other asset	**9,832**	(5,610)
Other liabilities	**3,407**	2,243
Qard Hasan from Head Office (operational activities)	**1,945**	659
Net cash used in operating activities	**(26,951)**	(8,590)
Cash flows from investing activities		
Purchase of investments	**(11,194)**	-
Purchase of property and equipment	**(352)**	(137)
Acquisition of intangibles	**(267)**	(356)
Net cash used in investing activities	**(11,813)**	(493)
Cash flows from financing activities		
Current account	**12,666**	(1,710)
Due to banks	**(5,775)**	(40,775)
Customer Wakala deposit	**32,812**	54,478
Unrestricted investment accountholders	**(10,300)**	10,987
Net cash generated from financing activities	**29,403**	22,980
(Decrease) / Increase in cash and cash equivalents	**(9,361)**	13,897
Cash and cash equivalents at the beginning of the year	**37,560**	23,663
Cash and cash equivalents at the end of the year	**28,199**	37,560
Cash and cash equivalents at the end of the year comprise:		
Cash and balances with CBO	**14,380**	23,729
Due from banks and financial institutions	**13,819**	13,831
	28,199	37,560

During the year ended 31 December 2022, there were no principal non-cash transactions.

The attached notes on pages 10 to 72 form an integral part of these financial statements.
Independent auditors report – Pages 1-4.

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

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Maisarah Islamic Banking Services (“Maisarah”) was established in the Sultanate of Oman as window of Bank Dhofar SAOG (“the Bank”). Maisarah’s operations commenced on 3 March 2013 and it currently operates through 10 (2021: 10) branches in the Sultanate under the license issued by the Central Bank of Oman on 27 February 2013.

The principal activities of Maisarah are taking Shari’a compliant demand, saving and time deposit accounts, providing Murabaha finance, Ijarah financing and other Shari’a compliant forms of financing as well as managing investor’s money on the basis of Mudaraba or agency for a fee, providing commercial banking services and other investment activities.

Maisarah’s activities are regulated by the Central Bank of Oman (“CBO”) and supervised by Shari’a Supervisory Board (“SSB”) comprising of five members.

The window is not a separate legal entity. The assets and liabilities presented within the window remain the assets and liabilities of the Bank and are not legally separable from the Bank’s other assets and liabilities. As such legally, the assets of the window may be available to the other claims of the Bank. The separate financial statements of Islamic Banking Window have been prepared to comply with the requirements of Articles 1.5.1.2 to 1.5.1.4 of Title 2 'General Obligations and Governance' of Islamic Banking Regulatory Framework (IBRF) issued by CBO.

2 BASIS OF PREPARATION

2.1 Statement of compliance

In accordance with the requirements of Section 1.2 of Title 3 of the IBRF issued by CBO, the financial statements of Maisarah Islamic Banking Services are prepared in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organization for Financial Institutions ("AAOIFI") as modified by CBO for impairment of financing and other receivables, and investments (refer note 3.10); the Shari'a rules and principles as determined by the SSB of Maisarah; and the applicable laws and regulations issued by the CBO.

Maisarah complies with the requirements of AAOIFI, for matters for which no AAOIFI standards exist, Maisarah uses the relevant International Financial Reporting Standards (“IFRS”) or International Accounting Standards (“IAS”) as issued by International Accounting Standards Board (“IASB”) provided the application does not lead to a conflict with the principles of Shari’a.

These financial statements pertain to the Maisarah operations only and do not include financial results of the Bank. Statement of changes in restricted investment amount, statement of sources of funds in Zakah and statement of sources and uses of funds in Qard Fund have not been presented as these are not applicable / relevant to Maisarah’s operations. Complete set of financial statements of the Bank is presented separately.

2.2 Basis of measurement

The financial statements are prepared on a historical cost basis, except for certain investments carried at fair value through equity.

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

2 BASIS OF PREPARATION *(continued)*

2.3 Functional and presentation currency

Items included in Maisarah's financial statements are presented and measured using Rials Omani ("RO") which is the currency of the primary economic environment in which Maisarah operates. All financial information presented in Rial Omani has been rounded to the nearest thousands, unless mentioned otherwise.

2.4 Use of estimates and judgements

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

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

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

2.5 Change in accounting policy

Except for the changes resulting from the adoption of below standard(s) from 1 January 2022, the accounting policies applied in these financial statements are the same as those applied in the last financial statements.

2.5.1 FAS 38 Wa'ad, Khiyar and Tahawwut

Maisarah has adopted FAS 38 Wa'ad, Khiyar and Tahawwut effective from the financial periods beginning on January 2022. Upon the adoption of the standard there is no significant impact on Maisarah' financial statements. The objective of this standard is to prescribe the accounting and reporting principles for recognition, measurement and disclosures in relation to Shari'a compliant Wa'ad (promise), Khiyar (option) and Tahawwut (hedging) arrangements for Islamic financial institutions. This standard applies to accounting and financial reporting for all transactions involving Wa'ad, Khiyar or Tahawwut arrangements carried out under Shari'a principles and rules.

2.6 New standards, interpretations and amendments

For the year ended 31 December 2022, Maisarah has adopted all the new and revised amendments in standards issued by the AAOIFI that are relevant to its operations and effective for periods beginning on 1 January 2022.

Standards issued and effective from 1 January 2022

The Islamic window has applied the following standard(s) and amendment(s) for the first time for its annual reporting period commencing from 1 January 2022:

- FAS 38 – Wa'ad, Khiyar and Tahawwut

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

2 BASIS OF PREPARATION *(continued)*

2.6 New standards, interpretations and amendments *(continued)*

Standards issued but not effective from 1 January 2022

FAS 1 General Presentation and Disclosures in the Financial Statements

AAOIFI has issued FAS 1 General Presentation and Disclosures in the Financial Statements in 2021. The objective of this standard is to ensure the requirement of Islamic financial institution to publish periodic financial statements to satisfy the common information needs of the users, as described in the conceptual framework. This standard sets out the overall requirements for presentation of financial statements, the minimum requirements for the contents of the financial statements and a recommended structure of financial statements that facilitate faithful presentation in line with Sharia' principles and rules and comparability with the institution's financial statements of previous periods, and the financial statements of other institutions. This standard applies to the financial statements of the institutions desirous to prepare information for Shari'a compliant products and services to meet the information needs of the users of such statements. The standard will be effective from the financial periods beginning on or after 1 January 2023 with earlier adoption being permitted. Based on the initial review, Management believes that there is no significant impact on Maisarah's financial statements.

FAS 39 Zakah

AAOIFI has issued FAS 39 Zakah in 2021. The objective of this standard is to establish the principles of financial reporting related to Zakah attributable to different stakeholders of an Islamic financial institution. This standard applies to an institution with regard to the recognition, presentation and disclosure of Zakah attributable to relevant stakeholders. The standard will be effective from the financial periods beginning on or after 1 January 2023 with earlier adoption being permitted. Based on the initial review, Management believes that there is no significant impact on Maisarah's financial statements.

FAS 40 Financial Reporting for Islamic Finance Windows

AAOIFI has issued FAS 40 Financial Reporting for Islamic Finance Windows in 2021. The objective of this standard is to establish financial reporting requirements for Islamic financial services offered by conventional financial institutions (in form of Islamic finance windows). This standard applies to all conventional financial institutions providing Islamic financial services through an Islamic finance window. The standard will be effective from the financial periods beginning on or after 1 January 2024 with earlier adoption being permitted. Based on the initial review, Management believes that there is no significant impact on Maisarah's financial statements.

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

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set below have been consistently applied in dealing with items that are considered material in relation to Maisarah's financial statements to the period presented.

3.1 Foreign currency translations

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in statement of profit or loss.

3.2 Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, balances with Central Bank of Oman, due from banks and highly liquid financial assets with original maturities of up to three months, which are subject to insignificant risk of changes in their fair value, and are used by the Maisarah in management of its short term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.3 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable or religious right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously in accordance with Shari'a principles and guidelines.

Income and expenses are presented on a net basis only for permitted transactions.

3.4 Murabaha and other receivables

Murabaha and Musawama receivables are stated net of deferred profits, any amounts written off and provision for expected credit losses, if any.

In these transactions, the Bank purchases the goods and after taking the possession, sells them to the customer on cost plus profit basis. Unlike Murabaha, it is not necessary to disclosure the profit element to the customer in Musawama.

Murabaha and Musawama receivables are sales on spot / deferred payment terms. The Bank arranges a transaction by buying goods (which represents the object of underlying contract) and then sells these goods to Customer (beneficiary) after computing a margin of profit over cost. The sale price (cost plus the profit margin) is paid in instalments by the Customer over the agreed period. (Promise made in the Murabaha to the purchase orderer is not obligatory upon the customer or the Bank considers promise made in the Murabaha to the purchase orderer as obligatory).

Credit card receivable is based on the Islamic financial principle of profit-free Qard Hasan whereby the customer is required to repay the disbursed amount without any profit. In addition, the customer will be charged a monthly fees which could be waived off at the discretion of bank. Other receivable also include travel and education finance which is based on the Islamic financial principle of Service Ijarah where by the Bank purchases the service from service providers and then leases that service to the customer for an agreed service charge.

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.5 Mudaraba

Mudaraba is stated at the fair value of consideration given less any expected credit losses.

Mudaraba is a partnership in profit whereby one party provides capital (Rab al-maal) and the other party provides labour (Mudarib).

In case Mudaraba capital is lost or damaged without misconduct or negligence on the part of Mudarib, then such losses are deducted from Mudaraba capital and are treated as loss to the Bank. In case of termination or liquidation, unpaid portion by Mudarib is recognised as receivable due from Mudarib.

3.6 Diminishing Musharaka

Diminishing Musharaka is a contract, based on *Shirkat-ul-Mulk,* between the Bank and a customer for joint ownership of a fixed asset (e.g. house, land, plant or machinery). The Bank divides its share in the fixed asset into units and gradually transfers the ownership of these units to a customer (at carrying value). The use of Bank's share to the customer is based on an Ijarah agreement. Diminishing Musharaka is stated at the fair value of the consideration given, less any expected credit losses.

3.7 Wakala

Wakala is a contract where the Muwakil will enter into the Wakala agreement with the Wakil and establish a contractual and commercial relations between the parties by providing Wakala capital (Ras al Mal) to be utilized in customer's core business. The Wakil provides specialist work using its skill to manage the business. Maisarah enters into the Wakala agreement with the customer both as a principal and as an agent.

3.7.1 Investment Agency as a Principal

Investments made by Maisarah under investment agency instrument are accounted for under the Wakala venture approach based on the premise that the assets change frequently and hence the objective is not actually to hold a single asset through an agent and rather the intention is to maintain a revenue stream through series of investments.

Maisarah initially recognizes the investment made as an investment in Wakala venture at cost, at the time when it is made available to the agent for investment. In case the where the investment is made available to the agent, but the contract is yet to be initiated, such amount is represented as an Advance against investment in Wakala venture.

The investment in a Wakala venture is measured at the end of a financial period at carrying amount and is adjusted to include the investor's share in the profit or loss of the Wakala venture, net of any agent's remuneration payable as of that date. At the end of each period end, impairment in the value of investment in Wakala venture is determined in accordance with impairment policy under 3.10.

3.7.2 Investment Agency as an Agent

Deposits obtained from customers under the investment agency arrangement are recognized under on-balance sheet approach whereby, since the agent (Maisarah) controls the related assets and hence records the assets and related income and expenditure in the books of account.

Maisarah recognizes the deposits obtained under the investment agency arrangement as a quasi-equity instrument for accounting purpose, as the investment agency instrument is subordinated to all liabilities of the agent, but the same is neither perpetual nor convertible to ordinary share capital of the agent.

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.8 Ijarah Muntahia Bittamleek assets

Ijarah Muntahia Bittamleek assets are initially recorded at cost. Ijarah Muntahia Bittamleek is a lease whereby the legal title of the leased asset passes to the lessee at the end of the Ijarah (lease term), provided that all Ijarah instalments are settled.

Depreciation is calculated as per Equal Monthly Instalment (EMI) method as per the terms agreed with customer.

3.9 Wa’ad

Wa’ad is a unilateral undertaking (constructive obligation) assumed by a party to the arrangement. The unilateral promise is understood to be binding in Shari’a on the individual who makes it unless a legitimate excuse under Shari’a arises and prevents its fulfilment.

Ancillary Wa’ad is a Wa’ad arrangement, where the customer, as a promisor, enters into the Wa’ad arrangement, which is ancillary to the core contracts of Murabaha, Ijarah and Diminishing Musharaka. Product Wa’ad is a Wa’ad arrangement, which is used as a stand-alone Shari’a compliant arrangement in itself. An arrangement where the Bank enters into a foreign exchange forward promise with customers, give rise is recognised as product Wa’ad.

3.10 Investments

Investments comprise of equity-type, debt-type (including monetary and non-monetary), and other investment instruments classified as fair value through equity, fair value through income statement, or at amortised cost.

All investments are initially recognised at the fair value plus transaction costs, except for investments at fair value through statement of income. Transaction costs relating to investment at fair value through income statement are charged to the income statement when incurred.

Fair value through equity

Investments which are held with the objective of both collecting the expected cashflow and selling the investment and represent a non-monetary debt-type instrument are measured at investment at fair value through equity.

Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value with unrealised gains or losses recognised proportionately in owner’s equity and equity of investment account holders until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in the owner’s equity or equity of investment account holders is recognised in the statement of income. Where a reliable measure of fair value for equity instruments is not available, these are measured at cost. Investments carried at fair value through equity are tested for impairment at each reporting period in accordance with impairment policy under 3.10.

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.10 Investments *(continued)*

Fair value through income

Investments are measured at investment at fair value through income if it is not measured at fair value through equity or at amortised cost.

Subsequent to acquisition, investments designated at fair value through statement of income are re-measured at fair value with the resultant re-measurement gains or losses recognised in the statement of income taking into consideration the split between the portion related to owners' equity and the portion related to the equity of profit and loss taking stakeholders, including investment accountholders. All other income and expenses arising from these investments are also recognised in the statement of income.

Amortised cost

Investments which are held with the objective of both collecting the expected cashflow till maturity of the instrument and represent a debt-type instrument are measured at amortised cost.

Subsequent to acquisition, investment carried at amortised cost are re-measured at the end of each reporting period. All gains or losses arising from the amortisation process and those arising from de-recognition or impairment of the investment, are recognised in the statement of income. Investments carried at amortised cost are tested for impairment at each reporting period in accordance with impairment policy under 3.10.

Fair value is determined for each investment individually in accordance with the valuation policies set out below:

- For quoted investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the statement of financial position date.

- For unquoted investments, fair value is determined by reference to recent significant buy or sell transaction with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.

- For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Islamic window using current profit rates. For investments with similar terms and risk characteristics.

- Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost, less impairment loss, if any.

3.11 Impairment

Maisarah has adopted FAS 30 Impairment and credit losses and onerous commitments for the purpose of recognizing impairment allowance. Since all financing, investments and receivables from customers are subject to credit risk, therefore, Maisarah has applied the credit loss approach for determining and measuring the estimated credit loss under different stages of credit risk.

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.11 Impairment *(continued)*

The Islamic window recognises impairment provision for Expected Credit Loss (ECL) on the following financial instruments:

- balances with Central Bank of Oman
- due from banks
- financial assets that are debt-type instruments;
- financing receivables;
- financial guarantee contracts issued
- financing commitments issued; and
- other assets (acceptances and accrued profit).

No ECL is recognised on equity investments.

The Islamic window measures impairment provision at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

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

The Islamic window considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Islamic window does not apply the low credit risk exemption to any other financial instruments.

12-month ECL is the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as ‘Stage 1 financial instruments’.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as ‘Stage 2 financial instruments’.

Impairment provision is measured using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

- Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.

- Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.11 Investments *(continued)*

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD)

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information.

Details of these statistical parameters / inputs are as follows:

- PD – The probability of default is an estimate of the likelihood of default over a given time horizon.

- EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date.

- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

Measurement of ECL

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

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Maisarah expects to receive); and

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

However, for unfunded exposures, ECL is measured as follows:

- undrawn financing commitments: at the present value of the difference between the contractual cash flows that are due to the Maisarah if the commitment is drawn down and the cash flows that the Islamic window expects to receive; and

- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Maisarah expects to recover.

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.11 Impairment *(continued)*

Credit impaired financial assets

At each reporting date, Maisarah assesses whether financial assets carried at amortised cost and debt securities carried at fair value through equity are credit-impaired.

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

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

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

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

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

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

Forward-looking information

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.11 Impairment *(continued)*

Macroeconomic factors

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

Assessment of significant increase in credit risk

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

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

Presentation of allowance for ECL in the statement of financial position

Allowance for ECL is presented in the statement of financial position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the financial assets;

- Debt instruments measured at fair value through equity: no provision is recognized in the Statement of Financial Position because the carrying value of these assets is their fair value. However, the provision determined is disclosed and recognised in the fair value reserve; and

- Off-balance sheet credit risks include undrawn financing commitments, letters of credit and letters of guarantee: as a provision in other liabilities.

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.11 Impairment *(continued)*

Definition of default

Maisarah considers a financial asset to be in default when:

- The counterparty is unlikely to pay its credit obligations to the Islamic window in full without recourse by the Islamic window to actions such as realising security held (if any); or

- The counterparty is past due more than 90 days on any material credit obligation to the Islamic window.

Credit facilities like overdrafts, line of credit etc. where no definite repayments are pre-determined are treated as past due if the outstanding balance remains continuously in excess of 10% of the sanctioned / authorized limit or in cases where the outstanding balance in the principal operating account is less than the sanctioned / authorized limit, but there are not enough credits in the account to cover the profit charged or unauthorized drawings have frequently been allowed.

In assessing whether a counterparty is in default, the Islamic window considers indicators that are:

- Qualitative – e.g. breaches of covenant;

- Quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Islamic window; and

- Based on data developed internally and obtained from external sources.

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

The Islamic window follows the definition of default as stipulated in CBO guidelines (BM 977 and subsequent guidelines issued by CBO).

For accounting of restructuring and modification losses, refer note 34.3.3.

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.12 Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment loss. Depreciation is calculated so as to write-off the cost of property and equipment, other than freehold land and capital work-in-progress, on straight line basis over their estimated useful lives from the date the asset is brought into use. The estimated useful lives are as follows:

	Years
Furniture, fixtures and equipment	3 - 7
Motor vehicles	3 - 5
Computer hardware	4

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to statement of profit or loss when the expense is incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognized in statement of profit or loss as an expense when incurred.

3.13 Intangibles

Intangible assets, including computer software and core banking system, are amortised over their estimated useful life of 4-10 years and carried net of accumulated amortisation and impairment losses.

3.14 Equity of investment accountholders

Equity of investment accountholders are carried at cost plus profit and related reserves less amounts settled.

Equity of investment accountholders' share of income is calculated based on the income generated from investment accounts after deducting Mudarib's share. Operating expenses are charged to shareholders' funds and not included in the calculation.

The basis applied by Maisarah in arriving at the equity of investment accountholders' share of income is total income from jointly financed Islamic assets less shareholders' income. Pre-agreed profit share generated from equity of investment accountholders is deducted as Mudarib's share after deducting profit equalisation reserve and the remaining amount is distributed to the equity of investment accountholders after deducting investment risk reserve.

3.15 Profit equalisation reserve

Maisarah appropriates certain amount in excess of the profit to be distributed to equity of investment accounts before taking into consideration the Mudarib share of income. This will be used to maintain a certain level of return on investment for equity of investment accountholders.

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.16 Investment risk reserve

Investment risk reserves are amounts appropriated out of the income of equity of investment accountholders, after allocating the Mudarib’s share, to cater against future losses for equity of investment accountholders.

3.17 Provisions

A provision is recognised in the statement of financial position when Maisarah has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated.

3.18 Earnings prohibited by Shari'a

All the funds mobilised and income earned by Maisarah is from Islamic sources. Maisarah is committed to avoid recognizing any income generated from non-Shari’a compliant sources. Accordingly, all non-Islamic income is credited to a charity account where Maisarah uses these funds for social welfare activities. It includes but not limited to cases/transactions classified by Shari’a as non-compliant income and approved by the SSB to be forfeited, interest paid by other banks on Nostro accounts, late payment fee received from the customer in financing and investment transaction.

3.19 Zakah

The responsibility of payment of Zakah is on individual shareholders and investment accountholders.

3.20 Joint and self-financed

Investments, financing and receivables that are jointly owned by Maisarah and the equity of investment accounts holders are classified under the caption "jointly financed" in the financial statements. Investments, financing and receivables that are financed solely by Maisarah are classified under "self-financed".

3.21 Funds for Maisarah

Maisarah functions with funds specifically available for Islamic Banking activities and there is no commingling of funds with conventional banking financial business.

3.22 Revenue recognition

3.22.1 Murabaha and Musawama receivables

Profit from Murabaha and Musawama receivables are recognised on time apportioned basis from the date of contract. Income related to non-performing accounts is excluded from statement of profit or loss.

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.22 Revenue recognition *(continued)*

3.22.2 Diminishing Musharaka (DM) Financing

Income from Diminishing Musharaka is recognised on time-apportioned basis over the lease term from the Bank's right to receive payment is established. The right to receive payment is established when a customer enters into an Ijarah agreement for acquiring Bank's ownership in the fixed asset. Income related to non-performing accounts is excluded from statement of profit or loss.

3.22.3 Mudaraba financing

Income on Murdaraba financing is recognised when the right to receive payment is established or on distribution by the Mudarib, whereas the losses are charged to statement of profit or loss on declaration by the Mudarib. Income related to non-performing accounts is excluded from statement of profit or loss.

3.22.4 Ijarah Muntahia Bittamleek

Income from Ijarah Muntahia Bittamleek assets is recognised on a time-apportioned basis over the lease term, net of depreciation of underlying asset. Income related to non-performing Ijarah Muntahia Bittamleek assets is excluded from statement of profit or loss.

3.22.5 Wakala financing

Revenues, expenses, gains and losses, arising from investment in Wakala venture as well as the respective, agent's remuneration (including both, fixed fee and variable remuneration) shall be recognised periodically, on a net basis.

3.22.6 Dividends

Dividends are recognised when the right to receive payment is established.

3.22.7 Fee and Commission income

Fee and commission income is recognised when earned.

3.22.8 Maisarah's share as a Mudarib

Maisarah's share as a Mudarib for managing equity of investment accountholders is accrued based on the terms and conditions of the related Mudaraba agreements.

3.22.9 Income allocation

Income from jointly financed activities is allocated proportionately between equity of investment accountholders in accordance to their pre-agreed assigned weightages and shareholders on the basis of the average balances outstanding during the year.

3.22.10 Profit suspension

Profit receivable which is doubtful of recovery is excluded from the profit recognised until it is received in cash.

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.23 Taxation

Maisarah is an Islamic banking window of Bank Dhofar SAOG, hence it is not taxable on a stand-alone basis as per the prevailing tax laws of Oman. Accordingly, no current tax and deferred tax has been accounted for in these financial statements.

Bank Dhofar SAOG is taxable on combined results i.e. including Maisarah's financial results, accordingly income tax is accounted for as per IFRS in the financial statements of Bank Dhofar SAOG. Currently, Bank Dhofar SAOG does not allocate income tax charge to Maisarah. The notional tax expense on Maisarah's result for the year at the statutory effective tax rate would amount to RO 1,251 thousand (2021: RO 1,338 thousand). Had the taxation been allocated, following would have been the impact:

	2022	2021
	RO 000	*RO 000*
Profit after tax	**7,091**	7,583
Retained earnings	**21,738**	14,647
Capital adequacy ratio	**15.59%**	14.21%

3.24 Employees' benefits

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

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

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

3.25 Shari'a supervisory board

All business activities, products, transactions, agreements, contracts and other relevant documents are subject to the supervision of the Shari'a Supervisory Board of Maisarah, which meets quarterly and consists of five prominent Shari'a scholars appointed by the Shareholders for a period of three years, namely:

Sr. No.	**Name**	**Title**
1	Sheikh Abdullah bin Ali bin Aslam Al Shihri	Chairman
2	Sheikh Azzan bin Nasser bin Farfoor Al Amri	Deputy Chairman
3	Sheikh Dr. Abdul Rub bin Salim bin Abdul Rub Al Yafai	Member
4	Sheikh Hilal bin Hassan bin Ali Al Lawati	Member
5	Dr. Amin Fateh	Member

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.26 Trade date accounting

All “regular way” purchases and sales of financial assets are recognised on the trade date, i.e. that date Maisarah commits to purchase or sell the assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or convention in the market place.

3.27 Segment reporting

A segment is a distinguishable component of Maisarah that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Maisarah currently operates only in the Sultanate of Oman. Maisarah’s primary format for reporting segmental information is business segments, based upon management and internal reporting structure which are regularly reviewed by the Bank's Chief Operating Decision Maker (CODM). Maisarah’s main business segments are retail banking, corporate banking, and treasury & investments.

3.28 Fiduciary assets

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

4 CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

(a) Classification of investment under Wakala as Wakala Venture

Investments made under Wakala can be classified under pass-through approach or Wakala venture approach. Maisarah has opted to apply Wakala venture approach based on the condition that the investment is made in a single asset (or pool of assets) where such assets are subject to frequent changes throughout the term of the contract.

(b) Significant increase in credit risk

ECL is measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL assets for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward-looking information.

(c) Establishing Groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

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

4 CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

(d) Models and assumptions used

The Bank uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgment is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

(e) Key sources of estimation uncertainty

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

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

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

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

- Fair value measurement and valuation process: In estimating the fair value of a financial asset, the Islamic window uses market-observable data to the extent it is available. Where such Level 1 inputs are not available the Islamic window uses valuation models to determine the fair value of its financial instruments.

(f) Useful life of property and equipment and Ijarah Muntahia Bittamleek

Depreciation is charged so as to write off the cost of assets over their estimated useful lives. The calculation of useful lives is based on management's assessment of various factors such as the operating cycles, the maintenance programs, and normal wear and tear using its best estimates.

(g) Taxation

Judgement applied by Maisarah in respect of taxation is covered under 3.23.

5 Cash and balances with Central Bank of Oman

	2022	2021
	RO 000	*RO 000*
Cash in hand	**2,432**	2,512
Balances with Central Bank of Oman	**11,948**	21,217
	14,380	23,729

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

6 Due from banks and financial institutions

	2022	2021
	RO 000	*RO 000*
Wakala placement – jointly financed	**11,550**	11,550
Current clearing account – self financed	**2,269**	2,281
	13,819	13,831
Less: Impairment allowance for ECL (note 29)	**(2)**	(1)
	13,817	13,830

At 31 December 2022, placement with one overseas bank individually represented 20% or more of the Islamic window's placements (2021: One bank represented 20% or more).

7 Murabaha and other receivables

Gross Murabaha receivables – jointly financed	**21,536**	32,122
Gross Ujrah receivables – jointly financed	**21**	19
	21,557	32,141
Less: Deferred income – jointly financed	**(3,556)**	(3,535)
	18,001	28,606
Credit card receivables – self financed	**822**	612
Less: Profit suspended	**(8)**	(5)
Less: Impairment allowance for ECL (note 29)	**(256)**	(283)
	18,559	28,930

Murabaha and other receivables past due but not impaired amounts to RO 920 thousand (2021: RO 3,616 thousand).

Deferred income at 1 January	**3,535**	3,661
Sales revenue during the year	**21,592**	29,464
Cost of sales during the year	**(20,142)**	(27,806)
Profit recognised in income	**(1,403)**	(1,512)
Profit waived off	**(23)**	(271)
Profit amortized during the year	**(1,426)**	(1,783)
Profit suspended	**(3)**	(1)
Deferred income at 31 December	**3,556**	3,535

8 Mudaraba financing

Mudaraba financing – jointly financed	**9,437**	17,819
Less: Impairment allowance for ECL (note 29)	**(41)**	(242)
	9,396	17,577

At reporting date, there were no Mudaraba financing cases which were past due but not impaired.

9 Diminishing Musharaka financing

Diminishing Musharaka – jointly financed	**387,597**	347,400
Less: Impairment allowance for ECL (note 29)	**(13,361)**	(9,605)
	374,236	337,795

Diminishing Musharaka past due but not impaired amounts to RO 69,267 thousand (2021: RO 22,623 thousand).

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

9 Diminishing Musharaka financing *(continued)*

Fair value of collaterals

Upon initial recognition of Diminishing Musharaka, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

10 Investments

	2022	2021
	RO 000	*RO 000*
Fair value through equity:		
i) Non-monetary debt type instruments		
Local listed Sukuk – jointly financed	**10,576**	9,586
International listed Sukuk – jointly financed	**9,019**	9,019
Sovereign Sukuk – jointly financed	**66,607**	61,507
	86,202	80,112
Less: Impairment provision for ECL (note 29)	**(47)**	(150)
Total debt type Sukuk – jointly financed	**86,155**	79,962
ii) Equity type instruments		
Local listed Sukuk – jointly financed	**6,206**	-
International listed Sukuk – jointly financed	**192**	-
	6,398	-
Less: Impairment provision for ECL (note 29)	**(11)**	-
Total equity type Sukuk – jointly financed	**6,387**	-
Total Sukuk – net of impairment	**92,542**	-

During the year movement in investments at fair value through equity:

	2022		
	Non-monetary debt type instruments	**Equity type instruments**	**Total**
	RO 000	***RO 000***	***RO 000***
At 1 January	**80,112**	**-**	**80,112**
Additions	**4,012**	**7,142**	**11,154**
Gain / (loss) from change in fair value	**2,129**	**(744)**	**1,385**
Amortisation of discount / premium - net	**(51)**	**-**	**(51)**
At 31 December	**86,202**	**6,398**	**92,600**

	2021		
	Non-monetary debt type instruments	**Equity type instruments**	**Total**
	RO 000	***RO 000***	***RO 000***
At 1 January	79,995	-	79,995
Additions	-	-	-
Gain / (loss) from change in fair value	167	-	167
Amortisation of discount / premium - net	(50)	-	(50)
At 31 December	80,112	-	80,112

During the year changes in equity for each level of valuations:

	2022	2021
	RO 000	*RO 000*
Gain on Level 1 investments	**395**	191
Gain / (loss) on Level 2 investments	**990**	(24)
Total gain on investments	**1,385**	167

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

11 Wakala

	2022	2021
	RO 000	*RO 000*
Wakala – jointly financed	**74,593**	59,608
Profit receivable on Wakala	**1,636**	1,998
Less: Profit suspended	**(2)**	(2)
Less: Impairment allowance for ECL (note 29)	**(453)**	(165)
	75,774	61,439

Wakala past due but not impaired amounts to RO 3,202 thousand (2021: RO 591 thousand).

12 Ijarah Muntahia Bittamleek

	2022	2021
Cost – jointly financed		
at 1 January	**56,601**	55,973
Additions	**26,679**	1,874
Disposals	**(7,220)**	(1,246)
at 31 December	**76,060**	56,601
Accumulated depreciation – jointly financed		
at 1 January	**(11,389)**	(9,573)
Charge for the year	**(4,706)**	(3,065)
Disposals	**3,430**	1,249
at 31 December	**(12,665)**	(11,389)
Net book value at 31 December	**63,395**	45,212
Less: Impairment allowance for ECL (note 29)	**(321)**	(310)
Net Ijarah Muntahia Bittamleek	**63,074**	44,902

Ijarah Muntahia Bittamleek past due but not impaired amounts to RO 1,796 thousand (2021: RO 2,753 thousand).

13 Property and equipment

	2022				
	Furniture, fixtures & equipment	**Motor vehicles**	**Computer hardware**	**Capital work in progress**	**Total**
	RO 000	***RO 000***	***RO 000***	***RO 000***	***RO 000***
Cost					
at 1 January	**1,474**	**81**	**390**	**51**	**1,996**
Additions	**1**	**-**	**-**	**351**	**352**
Disposals / Transfers	**129**	**-**	**67**	**(135)**	**61**
at 31 December	**1,604**	**81**	**457**	**267**	**2,409**
Accumulated depreciation					
at 1 January	**(1,190)**	**(76)**	**(336)**	**-**	**(1,602)**
Charge for the year	**(124)**	**(3)**	**(29)**	**-**	**(156)**
Disposal	**-**	**-**	**-**	**-**	**-**
at 31 December	**(1,314)**	**(79)**	**(365)**	**-**	**(1,758)**
Net book amount at 31 December	**290**	**2**	**92**	**267**	**651**

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

13 Property and equipment *(continued)*

	2021				
	Furniture, fixtures & equipment *RO 000*	Motor vehicles *RO 000*	Computer hardware *RO 000*	Capital work in progress *RO 000*	Total *RO 000*
Cost					
at 1 January	1,450	87	352	18	1,907
Additions	24	-	38	75	137
Disposals / Transfers	-	(6)	-	(42)	(48)
at 31 December	1,474	81	390	51	1,996
Accumulated depreciation					
at 1 January	(1,045)	(77)	(309)	-	(1,431)
Charge for the year	(145)	(5)	(27)	-	(177)
Disposal	-	6	-	-	6
at 31 December	(1,190)	(76)	(336)	-	(1,602)
Net book amount at 31 December	284	5	54	51	394

14 Intangibles

	2022	2021
	RO 000	*RO 000*
Cost		
at 1 January	**2,215**	1,817
Additions	**267**	356
Transfers	**(188)**	42
at 31 December	**2,294**	2,215
Accumulated amortisation		
at 1 January	**(1,544)**	(1,310)
Charge for the year	**(275)**	(234)
at 31 December	**(1,819)**	(1,544)
Net book amount at 31 December	**475**	671

15 Other assets

Ijarah rental receivables	**419**	98
Other profit receivables	**10,589**	21,152
Prepayments	**157**	329
Murabaha and Musawama inventory – Jointly financed (15.1)	**3**	14
Advances – Jointly financed	**892**	611
Others	**556**	184
Acceptances	**342**	46,381
	12,958	68,769
Less: Reserve for suspended profit (note 29)	**(1,028)**	(836)
Less: Impairment allowance for ECL on accrued profit (note 29)	**(9)**	(22)
Total	**11,921**	67,911

15.1 During 2021 and 2022, all Murabaha and Musawama inventories are held under the binding promise to purchase.

16 Current accounts

Qard hasan current accounts	**30,728**	15,951
Margin accounts	**4,727**	6,838
Total	**35,455**	22,789

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

17 Qard Hasan from Head Office

	2022	2021
	RO 000	*RO 000*
Qard Hasan from Head Office (17.1)	**35,000**	35,000
Current clearing account (17.2)	**4,405**	2,759
Total	**39,405**	37,759

17.1 This amount represents profit-free Qard Hasan facility obtained on real need basis from Head Office for a specific period as part of Maisarah's liquidity management.

17.2 This amount represents the vostro account of Maisarah opened with Head Office.

18 Other liabilities

Payables	**935**	670
Accrued expenses	**3,172**	2,305
Profit payables	**5,259**	3,706
Others	**997**	277
Charity payable	**7**	5
Acceptances	**342**	46,381
Impairment allowance for ECL on non-funded exposure (note 29)	**377**	848
Total	**11,089**	54,192

19 Wakala inter bank deposits

Wakala inter bank deposits	**54,250**	60,025
Total	**54,250**	60,025

At 31 December 2022, inter bank borrowings with Bank Dhofar SAOG and Sharjah Islamic Bank represented 20% or more of the Islamic window's due to banks (2021: inter bank borrowings with Bank Dhofar individually represented 20% or more).

20 Wakala customer deposits

Wakala customer call account	**118,662**	137,485
Wakala customer term deposits	**263,935**	212,300
Total	**382,597**	349,785

21 Equity of investment accountholders

Saving account	**54,143**	64,443
Profit equalisation reserve	**40**	30
Investment risk reserve	**10**	8
Total	**54,193**	64,481

There is no restricted investment at reporting date.

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

21 Equity of investment accountholders *(continued)*

Basis of distribution of the profit between owners' equity and equity of investment accountholders

The investment profits are distributed between owners' equity and equity of investment accountholders for the period ended 31 December 2022 and 2021 as follows:

	2022	2021
	%	%
Equity of investment accountholders share	**50%**	50%
Mudarib's share	**50%**	50%

The profit equalisation reserve is the amount Maisarah appropriates in excess of the profit to be distributed to equity of investment accountholders before allocating the Mudarib's share of income to maintain a certain level of return. Profit equalisation reserve will revert to owner's equity and equity of investment accountholders as per terms and condition of Mudaraba contract. Equity of investment accountholders funds are commingled with Maisarah's funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits. The administration expenses are only charged to Maisarah.

The investment risk reserve is deducted from investment accountholders share after allocating the Mudarib's share of income as per the approved policy in order to cater against future losses of equity of investment accountholders. Investment risk reserve will revert to the investment accountholders as per terms and conditions of Mudaraba contract.

21.1 Movement in profit equalisation reserve

	2022	2021
	RO 000	*RO 000*
Balance as at 1 January	**30**	22
Apportioned during the year	**10**	8
Balance as at 31 December	**40**	30

21.2 Movement in investment risk reserve

Balance as at 1 January	**8**	5
Apportioned during the year	**2**	3
Balance as at 31 December	**10**	8

22 Allocated share capital

During 2021 and 2022, there was no increase in the assigned capital of Maisarah.

23 Fiduciary assets

At reporting date, there were no funds under management with Maisarah.

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

24 Income from Islamic finances and receivables

	2022	2021
	RO 000	*RO 000*
Murabaha receivables	**1,402**	1,505
Mudaraba	**753**	943
Ijarah muntahia bittamleek – net (24.1)	**3,061**	2,495
Diminishing Musharaka	**22,259**	20,560
Revenue from Wakala	**4,254**	3,436
Musawama	**-**	6
Ujrah fees	**1**	1
Total	**31,730**	28,946

24.1 Depreciation on Ijarah Muntahia Bittamleek amounts to RO 4,706 thousand (2021: RO 3,065 thousand).

25 Income or gains / losses from investments

Investments at fair value through equity:		
Income on non-monetary debt type instrument	**4,666**	4,569
Income on equity-type instrument	**438**	-
Total	**5,104**	4,569

26 Return on customer Wakala deposits

Return allocated to Wakala depositors	**13,295**	12,175
Hiba for Wakala depositors	**-**	1
Total	**13,295**	12,176

27 Staff costs

Salaries and allowances	**5,052**	4,695
Other personnel cost	**861**	1,360
Non-Omani employee terminal benefits	**44**	52
Total	**5,957**	6,107

28 General and administrative expenses

Occupancy cost	**611**	686
Operating and administration cost (note 28.1)	**4,440**	1,585
Total	**5,051**	2,271

28.1 During 2022, an increase in cost is mainly due to the change in allocation of indirect cost. Had the same impact of change in accounting estimate for cost sharing by Head Office with Maisarah applied last year, the profit before tax for the year ended 2021 would have been RO 6.78 million.

Notes to the financial statements

For the year ended 31 December 2022

29 Allowance for expected credit losses

29.1 The following table contains an analysis of stage-wise risk exposures which are subject to ECL provision as at 31 December 2022 and 2021:

31 December 2022	**Stage 1** *RO 000*	**Stage 2** *RO 000*	**Stage 3** *RO 000*	**Total** *RO 000*
Gross exposure				
Balances with Central Bank of Oman	11,948	-	-	11,948
Due from banks and financial institutions	13,819	-	-	13,819
Murabaha and other receivables	17,305	990	528	18,823
Mudaraba financing	4,004	5,433	-	9,437
Diminishing Musharaka financing	261,199	120,343	6,055	387,597
Investments	92,600	-	-	92,600
Wakala financing	31,748	44,314	167	76,229
Ijarah Muntahia Bittamleek	62,925	279	191	63,395
Accrued profit	5,907	4,102	999	11,008
Acceptances	240	102	-	342
Total funded gross exposure	**501,695**	**175,563**	**7,940**	**685,198**
Letter of credit / guarantee	3,539	13,321	-	16,860
Financing commitment/unutilised limits	48,216	49,180	-	97,396
Total non-funded gross exposure	**51,755**	**62,501**	**-**	**114,256**
Total gross exposure	**553,450**	**238,064**	**7,940**	**799,454**
Allowance for ECL & profit suspended				
Balances with Central Bank of Oman	-	-	-	-
Due from banks and financial institutions	(2)	-	-	(2)
Murabaha and other receivables	(46)	(11)	(207)	(264)
Mudaraba financing	(9)	(32)	-	(41)
Diminishing Musharaka financing	(1,652)	(9,301)	(2,408)	(13,361)
Investments	(58)	-	-	(58)
Wakala	(37)	(371)	(47)	(455)
Ijarah Muntahia Bittamleek	(135)	(60)	(126)	(321)
Accrued profit	(4)	(5)	(1,028)	(1,037)
Acceptances	(1)	-	-	(1)
Total funded	**(1,944)**	**(9,780)**	**(3,816)**	**(15,540)**
Letter of credit / guarantee	(15)	(101)	-	(116)
Financing commitment / unutilised limits	(80)	(180)	-	(260)
Total non-funded	**(95)**	**(281)**	**-**	**(376)**
Total allowance and profit suspended	**(2,039)**	**(10,061)**	**(3,816)**	**(15,916)**
Net exposure				
Balances with Central Bank of Oman	11,948	-	-	11,948
Due from banks and financial institutions	13,817	-	-	13,817
Murabaha and other receivables	17,259	979	321	18,559
Mudaraba financing	3,995	5,401	-	9,396
Diminishing Musharaka financing	259,547	111,042	3,647	374,236
Investments	92,542	-	-	92,542
Wakala financing	31,711	43,943	120	75,774
Ijarah Muntahia Bittamleek	62,790	219	65	63,074
Accrued profit	5,903	4,097	(29)	9,971
Acceptances	239	102	-	341
Total funded net exposure	**499,751**	**165,783**	**4,124**	**669,658**
Letter of credit / guarantee	3,524	13,220	-	16,744
Financing Commitment / Unutilised limits	48,136	49,000	-	97,136
Total non-funded net exposure	**51,660**	**62,220**	**-**	**113,880**
Total net exposure	**551,411**	**228,003**	**4,124**	**783,538**

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For the year ended 31 December 2022

29 Allowance for expected credit losses *(continued)*

31 December 2021	**Stage 1** *RO 000*	**Stage 2** *RO 000*	**Stage 3** *RO 000*	**Total** *RO 000*
Gross exposure				
Balances with Central Bank of Oman	21,217	-	-	21,217
Due from banks and financial institutions	13,831	-	-	13,831
Murabaha and other receivables	20,750	8,357	111	29,218
Mudaraba financing	8,569	9,250	-	17,819
Diminishing Musharaka financing	260,057	82,997	4,346	347,400
Investments	80,112	-	-	80,112
Wakala financing	23,327	38,193	86	61,606
Ijarah Muntahia Bittamleek	44,754	334	124	45,212
Accrued profit	13,042	7,318	890	21,250
Acceptances	46,327	54	-	46,381
Total funded gross exposure	531,986	146,503	5,557	684,046
Letter of credit / guarantee	10,919	9,275	-	20,194
Financing commitment/unutilised limits	21,273	27,061	-	48,334
Total non-funded gross exposure	32,192	36,336	-	68,528
Total gross exposure	564,178	182,839	5,557	752,574
Allowance for ECL & profit suspended				
Balances with Central Bank of Oman	-	-	-	-
Due from banks and financial institutions	(1)	-	-	(1)
Murabaha and other receivables	(87)	(142)	(59)	(288)
Mudaraba financing	(72)	(170)	-	(242)
Diminishing Musharaka financing	(4,261)	(3,900)	(1,444)	(9,605)
Investments	(150)	-	-	(150)
Wakala financing	(47)	(94)	(26)	(167)
Ijarah Muntahia Bittamleek	(144)	(86)	(80)	(310)
Accrued profit	(9)	(13)	(836)	(858)
Acceptances	(390)	-	-	(390)
Total funded	(5,161)	(4,405)	(2,445)	(12,011)
Letter of credit / guarantee	(45)	(77)	-	(122)
Financing commitment / unutilised limits	(86)	(250)	-	(336)
Total non-funded	(131)	(327)	-	(458)
Total allowance and profit suspended	(5,292)	(4,732)	(2,445)	(12,469)
Net exposure				
Balances with Central Bank of Oman	21,217	-	-	21,217
Due from banks and financial institutions	13,830	-	-	13,830
Murabaha and other receivables	20,663	8,215	52	28,930
Mudaraba financing	8,497	9,080	-	17,577
Diminishing Musharaka financing	255,796	79,097	2,902	337,795
Investments	79,962	-	-	79,962
Wakala financing	23,280	38,099	60	61,439
Ijarah Muntahia Bittamleek	44,610	248	44	44,902
Accrued profit	13,033	7,305	54	20,392
Acceptances	45,937	54	-	45,991
Total funded net exposure	526,825	142,098	3,112	672,035
Letter of credit / guarantee	10,874	9,198	-	20,072
Financing Commitment / Unutilised limits	21,187	26,811	-	47,998
Total non-funded net exposure	32,061	36,009	-	68,070
Total net exposure	558,886	178,107	3,112	740,105

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For the year ended 31 December 2022

29 Allowance for expected credit losses *(continued)*

In accordance with CBO circular BM 1149 Banks should continue to maintain and update the risk classification (i.e. standard, special mention, substandard, etc.) of accounts as per the extant of CBO norms, including those on restructuring of accounts for regulatory reporting purposes.

29.2.1 Comparison of provisions held as per Credit Loss approach and required as per CBO norms

Disclosure requirements containing the risk classification-wise gross and net amount outstanding, provision required as per CBO norms, allowance made as per Credit Loss approach, and reserve profit required as per CBO are given below:

29 Allowance for expected credit losses *(continued)*

29.2.1 Comparison of provisions held as per Credit Loss (CL) approach and required as per CBO norms (continued)

		31 December 2022							
Asset Classification as per CBO Norms	**Asset Classification**	**Gross Amount**	**Provision required as per CBO Norms**	**Provision held as per CL**	**Difference between CBO provision required and provision held**	**Net Amount as per CBO norms***	**Net Amount as per CL**	**Profit recognized**	**Reserve profit as per CBO norms**
		RO 000	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6) = 4-5**	**(7) = 3-4-10**	**(8) = 3-5**	**(9)**	**(10)**
	Stage 1	362,369	3,813	1,651	2,162	358,556	360,718	-	-
Standard	Stage 2	151,515	1,487	8,406	(6,919)	150,028	143,109	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**513,884**	**5,300**	**10,057**	**(4,757)**	**508,584**	**503,827**	**-**	**-**
	Stage 1	14,812	151	228	(77)	14,661	14,584	-	-
Special Mention	Stage 2	19,844	200	1,369	(1,169)	19,644	18,475	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**34,656**	**351**	**1,597**	**(1,246)**	**34,305**	**33,059**	**-**	**-**
	Stage 1	-	-	-	-	-	-	-	-
Substandard	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	1,468	366	419	(53)	1,102	1,049	-	-
Subtotal		**1,468**	**366**	**419**	**(53)**	**1,102**	**1,049**	**-**	**-**
	Stage 1	-	-	-	-	-	-	-	-
Doubtful	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	1,690	512	627	(115)	1,178	1,063	-	-
Subtotal		**1,690**	**512**	**627**	**(115)**	**1,178**	**1,063**	**-**	**-**
	Stage 1	-	-	-	-	-	-	-	-
Loss	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	3,783	1,368	1,742	(374)	2,405	2,041	-	10
Subtotal		**3,783**	**1,368**	**1,742**	**(374)**	**2,405**	**2,041**	**-**	**10**
	Stage 1	176,269	-	160	(160)	176,269	176,109	-	-
Other items	Stage 2	66,705	-	286	(286)	66,705	66,419	-	-
	Stage 3	999	-	1,028	(1,028)	(29)	(29)	-	1,028
Subtotal		**243,973**	**-**	**1,474**	**(1,474)**	**242,945**	**242,499**	**-**	**1,028**
	Stage 1	**553,450**	**3,964**	**2,039**	**1,925**	**549,486**	**551,411**	**-**	**-**
Total	**Stage 2**	**238,064**	**1,687**	**10,061**	**(8,374)**	**236,377**	**228,003**	**-**	**-**
	Stage 3	**7,940**	**2,246**	**3,816**	**(1,570)**	**4,656**	**4,124**	**-**	**1,038**
	Total	**799,454**	**7,897**	**15,916**	**(8,019)**	**790,519**	**783,538**	**-**	**1,038**

Notes to the financial statements
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29 Allowance for expected credit losses *(continued)*

29.2.1 Comparison of provisions held as per Credit Loss (CL) approach and required as per CBO norms (continued)

		31 December 2021							
Asset Classification as per CBO Norms	Asset Classification	Gross Amount	Provision required as per CBO Norms	Provision held as per CL	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per CL	Profit recognized	Reserve profit as per CBO norms
		RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000	RO 000
(1)	(2)	(3)	(4)	(5)	(6) = 4-5	(7) = 3-4-10	(8) = 3-5	(9)	(10)
	Stage 1	357,457	3,716	4,611	(895)	353,741	352,846	-	-
Standard	Stage 2	101,618	1,010	2,079	(1,069)	100,608	99,539	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		459,075	4,726	6,690	(1,964)	454,349	452,385	-	-
	Stage 1	-	-	-	-	-	-	-	-
Special Mention	Stage 2	37,513	379	2,313	(1,934)	37,134	35,200	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		37,513	379	2,313	(1,934)	37,134	35,200	-	-
	Stage 1	-	-	-	-	-	-	-	-
Substandard	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	163	41	65	(24)	122	98	-	-
Subtotal		163	41	65	(24)	122	98	-	-
	Stage 1	-	-	-	-	-	-	-	-
Doubtful	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	869	220	270	(50)	649	599	-	-
Subtotal		869	220	270	(50)	649	599	-	-
	Stage 1	-	-	-	-	-	-	-	-
Loss	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	3,635	1,259	1,274	(15)	2,369	2,361	-	7
Subtotal		3,635	1,259	1,274	(15)	2,369	2,361	-	7
	Stage 1	206,721	-	681	(681)	206,721	206,040	-	-
Other items	Stage 2	43,708	-	340	(340)	43,708	43,368	-	-
	Stage 3	890	-	836	(836)	54	54	-	836
Subtotal		251,319	-	1,857	(1,857)	250,483	249,462	-	836
	Stage 1	564,178	3,716	5,292	(1,576)	560,462	558,886	-	-
Total	**Stage 2**	182,839	1,389	4,732	(3,343)	181,450	178,107	-	-
	Stage 3	5,557	1,520	2,445	(925)	3,194	3,112	-	843
	Total	752,574	6,625	12,469	(5,844)	745,106	740,105	-	843

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29 Allowance for expected credit losses *(continued)*

29.2.1 Comparison of provisions held as per Credit Loss (CL) and required as per CBO norms (continued)

Other items disclosed above includes exposure which are not subjected to provision under BM 977 and related instructions. This represents outstanding and respective provisions held against letter of credit and guarantee, financing commitments / unutilised limits, investments at fair value through equity and other assets.

29.2.2 Restructured financing

		31 December 2022							
Asset Classification as per CBO Norms	**Asset Classification**	**Gross Amount**	**Provision required as per CBO Norms**	**Provision held as per CL**	**Difference between CBO provision required and provision held**	**Net Amount as per CBO norms***	**Net Amount as per CL**	**Profit recognized**	**Reserve profit as per CBO norms**
		RO 000	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6) = 4-5**	**(7) = 3-4-10**	**(8) = 3-5**	**(9)**	**(10)**
Classified as performing	Stage 1	65,423	663	1,133	(470)	64,760	64,290	-	-
	Stage 2	87,370	863	6,396	(5,533)	86,507	80,974	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**152,793**	**1,526**	**7,529**	**(6,003)**	**151,268**	**145,264**	**-**	**-**
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	1,994	498	911	(413)	1,287	1,083	-	209
Subtotal		**1,994**	**498**	**911**	**(413)**	**1,287**	**1,083**	**-**	**209**
Total	**Stage 1**	**65,423**	**663**	**1,133**	**(470)**	**64,760**	**64,290**	**-**	**-**
	Stage 2	**87,370**	**863**	**6,396**	**(5,533)**	**86,507**	**80,974**	**-**	**-**
	Stage 3	**1,994**	**498**	**911**	**(413)**	**1,287**	**1,083**	**-**	**209**
	Total	**154,787**	**2,024**	**8,440**	**(6,416)**	**152,554**	**146,347**	**-**	**209**

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29 Allowance for expected credit losses *(continued)*

29.2.2 Restructured financing (continued)

31 December 2021									
Asset Classification as per CBO Norms	**Asset Classification**	**Gross Amount**	**Provision required as per CBO Norms**	**Provision held as per CL**	**Difference between CBO provision required and provision held**	**Net Amount as per CBO norms***	**Net Amount as per CL**	**Profit recognized**	**Reserve profit as per CBO norms**
		RO 000	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6) = 4-5**	**(7) = 3-4-10**	**(8) = 3-5**	**(9)**	**(10)**
Classified as performing	Stage 1	530	3	15	(12)	527	515	-	-
	Stage 2	15,636	149	1,055	(906)	15,487	14,581	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		16,166	152	1,070	(918)	16,014	15,092	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	784	196	247	(51)	433	537	-	155
Subtotal		784	196	247	(51)	433	537	-	155
Total	**Stage 1**	530	3	15	(12)	527	515	-	-
	Stage 2	15,636	149	1,055	(906)	15,487	14,581	-	-
	Stage 3	784	196	247	(51)	433	537	-	155
	Total	16,950	348	1,317	(969)	16,447	15,633	-	155

***** *Net of provisions and reserve profit as per CBO norms.*

	31 December 2022		
Asset Classification	**As per CBO Norms**	**As per CL**	**Difference**
	RO 000	***RO 000***	***RO 000***
Impairment loss charged to statement of profit or loss	**1,272**	**3,252**	**(1,980)**
Provision required as per CBO norms including reserve profit/held	**8,935**	**15,916**	**(6,981)**
Gross non-performing financing (percentage)	**1.24%**	**1.24%**	**0.00%**
Net non-performing financing (percentage)	**0.85%**	**0.76%**	**0.09%**

	31 December 2021		
Asset Classification	As per CBO Norms	As per CL	Difference
	RO 000	*RO 000*	*RO 000*
Impairment loss charged to statement of profit or loss	215	2,426	(2,211)
Provision required as per CBO norms including reserve profit/held	7,468	13,312	(5,844)
Gross non-performing financing (percentage)	0.93%	0.93%	0.00%
Net non-performing financing (percentage)	0.63%	0.62%	0.01%

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29 Allowance for expected credit losses *(continued)*

29.3 Following tables show the movement in impairment allowance for the year:

31 December 2022	**Stage 1** *RO 000*	**Stage 2** *RO 000*	**Stage 3** *RO 000*	**Total** *RO 000*
Impairment allowance at beginning	**5,292**	**4,732**	**2,445**	**12,469**
Charge / (Reversal) for the year – Stage 1	**(3,253)**	**-**	**-**	**(3,253)**
Charge / (Reversal) for the year – Stage 2	**-**	**5,329**	**-**	**5,329**
Charge for the year – Stage 3	**-**	**-**	**1,762**	**1,762**
Reversal of charge – Stage 3	**-**	**-**	**(586)**	**(586)**
Net charge for the year	**(3,253)**	**5,329**	**1,176**	**3,252**
Impairment allowance at end before profit suspended	**2,039**	**10,061**	**3,621**	**15,721**
Add: Increase in profit suspended	**-**	**-**	**195**	**195**
Impairment allowance at end	**2,039**	**10,061**	**3,816**	**15,916**

31 December 2021	**Stage 1** *RO 000*	**Stage 2** *RO 000*	**Stage 3** *RO 000*	**Total** *RO 000*
Impairment allowance at beginning	2,929	4,765	2,137	9,831
Charge / (Reversal) for the year – Stage 1	2,363	-	-	2,363
Charge / (Reversal) for the year – Stage 2	-	(33)	-	(33)
Charge for the year – Stage 3	-	-	124	124
Reversal of charge – Stage 3	-	-	(28)	(28)
Net charge for the year	2,363	(33)	96	2,426
Impairment allowance at end before profit suspended	5,292	4,732	2,233	12,257
Add: Increase in profit suspended	-	-	212	212
Impairment allowance at end	5,292	4,732	2,445	12,469

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30 Related parties' transactions

In the ordinary course of business, Maisarah conducts transactions with certain of its directors, members of Shari'a Supervisory Board, shareholders and companies over which they are able to exert significant influence. The aggregate amounts of balances with such related parties are as follows:

	2022	2021
	RO 000	*RO 000*
Finances		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	**149**	635
Deposits and other accounts		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	**15,055**	236
Other related parties	**29,000**	-
Total deposits and other accounts	**44,055**	**236**
Remuneration paid to Shari'a Board members & Shari'a Supervisor		
Chairman		
– remuneration	**9**	9
– sitting fees paid	**3**	3
Other Members		
– remuneration	**27**	29
– sitting fees paid	**9**	9
	48	50
Other transactions		
Rental payment to a related party	**245**	294
Income from finance to related parties	**8**	19
Profit expense on deposits from related parties	**761**	2
Key management compensation		
Salaries and other benefits	**568**	653

At 31 December 2022, profit rate for finances range from 3.5% to 5.0% (2021: 2.0% to 5.0%), and profit rate for deposits range from 0.0% to 4.6% (2021: 0.0% to 4.8%).

31 Contingent liabilities and commitments

(a) Credit related contingent items

Letters of credit and other commitments for which there are corresponding customer liabilities:

Letters of credit	**2,447**	6,492
Guarantees	**14,413**	13,702
Total	**16,860**	20,194

(b) Capital and investment commitments

Contractual commitments for property and equipment	**2,177**	886

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31 Contingent liabilities and commitments *(continued)*

(c) The unutilised limits of Maisarah's funded and non-funded exposure for the year ended 31 December 2022 amounts to RO 100,253 thousand (2021: 50,730 thousand).

32 Islamic financial derivatives

Forward exchange contracts represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. The values of the derivative instruments held are set out as below:

Forward exchange contracts	**Contract / Notional Amount by term to Maturity**			
31 December 2022	**within 3 months**	**4-12 months**	**more than 12 months**	**Total**
	RO 000	***RO 000***	***RO 000***	***RO 000***
Currency forward - purchase contracts	**96,250**	**7,700**	**-**	**103,950**
Currency forward - sale contracts	**96,250**	**7,708**	**-**	**103,958**

Forward exchange contracts	**Contract / Notional Amount by term to Maturity**			
31 December 2021	**within 3 months**	**4-12 months**	**more than 12 months**	**Total**
	RO 000	***RO 000***	***RO 000***	***RO 000***
Currency forward - purchase contracts	2,695	30,030	-	32,725
Currency forward - sale contracts	2,695	30,130	-	32,825

33 Fair value information

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between the carrying value and fair value estimates. As at the reporting date the fair values of Maisarah's financial instruments are not significantly different from their carrying values.

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

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

	31 December 2022			
Fair value information	**Level 1**	**Level 2**	**Level 3**	**Total**
	RO 000	***RO 000***	***RO 000***	***RO 000***
Investments at fair value through equity	**73,005**	**19,595**	**-**	**92,600**

Notes to the financial statements
For the year ended 31 December 2021

33 Fair value information *(continued)*

Fair value information	31 December 2021 Level 1 RO 000	Level 2 RO 000	Level 3 RO 000	Total RO 000
Investments at fair value through equity	61,507	18,605	-	80,112

34 Financial risk management

The important types of financial risks to which Maisarah is exposed are credit risk, liquidity risk and market risk. The risk management division of Maisarah is an independent and dedicated unit reporting directly to the Board Risk Committee (“BRC”). The division’s primary responsibility is to assess, monitor and recommend strategies for control of credit, market and operational risk. The absence of any direct or indirect reporting lines and permanent membership in all committees of the Bank are among the factors which reflect the independence of the Risk Management Division’s working and the key role it plays within Maisarah.

The risk management framework is pivoted on a host of committees involving the executive management and the Board of Directors (“the Board”) for approval and reporting purposes. The Board has the overall authority for approval of strategies and policies, which it exercises through its various sub-committees. BRC is responsible for reviewing and recommending to the full Board, approval of risk policies and procedures. BRC also reviews the risk profile of Maisarah as presented to it by the Risk Management Division and appraises the full Board in its periodic meetings.

Credit risk

The most important risk to which Maisarah is exposed is credit risk. To manage the level of credit risk, Maisarah deals with counter-parties of good credit. Board Executive Committee is the final credit approving authority of Maisarah which is mainly responsible for approving all credit proposals beyond the authority level of the management. Management Credit Committee (“MCC”) is the management decision making body which is empowered to consider all credit related issues up to certain limits.

Credit risk is managed by the Risk Management Division (“RMD”) through a system of independent risk assessment in credit proposals before they are considered by the appropriate approving authorities. Maisarah has in place a risk grading system for analysing the risk associated with credit. This facilitates the approving authorities in making informed credit decision. Maximum counterparty/group exposures are limited to 15% of the Bank’s capital base as stipulated by CBO and where a higher limit is required for projects of national importance prior CBO approval is obtained. Individual country limits using internal ratings have also been set up to ensure portfolio diversification in terms of sovereign risk ratings and geographical exposure. These limits are approved by the Board. Retail financing is strictly in accordance with the CBO guidelines.

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

34 Financial risk management *(continued)*

Credit risk *(continued)*

34.1 Impact of Coronavirus (COVID) Pandemic

The impact of coronavirus pandemic has subsided to certain extent and is relatively stable now. The number of Covid cases has declined considerably and the levels remain far below those of prior surges. However, the disruption to business and economic activities throughout various geographies around the globe continues. The pandemic has slowed down trade and economic activities with large economies still facing supply disruption and rise in energy cost. The Ukraine-Russia war has further added to the uncertainties around economic challenges faced by various countries. Accordingly, the fiscal and monetary authorities, both domestic and international, have announced various support measures across the globe to counter possible adverse implications.

34.2 Government measures

The Government of Oman and Central Bank of Oman have taken slew of measures to control the pandemic and improve the economic conditions over the last 3 years. This include providing necessary support to affected borrowers particularly Small and Medium Enterprises (SME), wherein CBO allowed deferment of financing instalments / profit for affected customers and the availability of the deferment, without adversely affecting the risk classification of such financing. All effected customers (Corporate, SME and Retail) who have availed / are availing the financing deferment can be rescheduled / restructured as per CBO circular till 30.09.2022. The restructuring / rescheduling implemented include rescheduling of repayments, recovery of profit accrued during deferment period (without charging profit on profit on that portion) granting of reasonable grace period, extending suitable tenor etc. based on proper assessment of the current and future cash flows / income streams of the customers. Banks need to maintain adequate level of provisions against each restructured account.

34.3 Measures at the Window Level

In line with the CBO guidelines, the Window has considered restructuring of all eligible accounts whose cash flows have been impacted by the COVID-19 situation and has backed by specific requests from them. For such cases, every review includes an assessment on whether the strain on cash flows observed are on account of the COVID impact or otherwise and in case these are identified to be otherwise, the accounts are suitably staged. The accounting impact of these changes in terms of the credit facilities has been assessed and were treated as per the requirements of related accounting standard. As at 31 December 2022, the Window has restructured financing amounting to RO 150,851 thousand, constituting 27.16% of total financing. Window has also considered additional ECL to address significant increase in credit risk in certain accounts based on its judgment and experience.

The Window has also undertaken other initiatives to manage the potential business disruption on its operations and financial performance. This entails reviewing counterparties and collateral protection and taking appropriate customer credit rating actions and initiating restructuring of financing, wherever required. The set-up of robust digital technology supported in maintaining customer service and experience during these trying times.

The assessment of Significant Increase in Credit risk (SICR) and the measurement of ECLs are based on reasonable and supportable information that is available. In assessing forecast conditions, consideration have been given both to the effects of COVID (including various variants of virus) and the government support measures being undertaken.

34 Financial risk management *(continued)*

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

Credit risk *(continued)*

34.3 Measures at the Window Level *(continued)*

34.3.1 Impact on SICR:

The Window has given specific consideration to the relevant impact of COVID on the qualitative and quantitative factors when determining the significant increase in credit risk and assessing the indicators of impairment for the exposures in potentially affected sectors. This has resulted in staging downgrade of certain exposures and recognition of relevant ECLs and impairment allowances as disclosed in note 34 to the financial statements. Further, the monitoring of overdue and SICR have been enhanced by reviewing all exceptional reports and undertaking quarterly reviews in respect of accounts in risk grade of 5 to 8. Additional exposure is undertaken on selective basis duly supported by the cashflows that can be firmly established, and the requirements are considered with proper monitoring mechanism.

34.3.2 Impact on ECL:

The Window estimates its Expected Credit Losses (ECLs) considering the macroeconomic indicators and ECLs were estimated based on forward-looking macro-economic factors considering the severity and likelihood of economic scenarios. The macro-economic variables for estimation of forward-looking factor in ECL were identified based on their level and direction of association with asset quality ratio of Oman Banking sector. The forward-looking factors, called as Cyclicality Index, is used to forecast expected point-in-time probability of defaults for all the portfolio for which ECL is estimated. The forward-looking macro-economic factors were revised during the year 2022 as per guidelines of the Bank and in line with the revision of GDP projections by the International Monetary Fund. The revision made in the macro-economic indicators during last year is provided as under:

	Real GDP growth (%)			Oil revenue (%GDP)	
	Dec-22	**Dec-21**		**Dec-22**	**Dec-21**
Present	12.70%	-4.30%		25.97%	23.80%
Year 1	5.60%	1.80%		33.35%	30.29%
Year 2	2.70%	7.40%		28.77%	33.13%
Year 3	2.50%	2.70%		26.35%	32.94%

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

34 Financial risk management *(continued)*

Credit risk *(continued)*

34.3.2 Impact on ECL *(continued)***:**

The ECL has been calculated as probability weighted figure for three scenarios i.e. Base case, Upside and Downside with 50%, 25% and 25% weightings respectively. No change has been considered in the weightage, as the situation is fast evolving and the Window has already considered the conservative estimates of macro-economic indicators as base case, as highlighted in the above table. As per the revised estimates provided by different agencies, the real GDP growth projections have improved.

The Window’s ECL model continues to be sensitive to the above assumptions and are continually reassessed as part of its business as usual model refinement exercise. Other than changes in the macro-economic indicators, the Window has also considered 12-month ECL for revolving credit facilities as advised by the regulator. The total ECL of Maisarah has increased from RO 11,626 thousand as at Dec-21 to RO 14,878 thousand as at Dec-22, thereby increasing the ECL by RO 3,252 thousand. As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected.

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

34 Financial risk management *(continued)*

Credit risk *(continued)*

34.3.2 Impact on ECL *(continued)*:

Sensitivity of ECL to future economic conditions

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

As at 31 December 2022	ECL for Financing / Receivables	ECL for Investment securities	ECL for Other Portfolio	Total
	RO 000	*RO 000*	*RO 000*	*RO 000*
Scenarios currently used by the Window	**14,818**	**58**	**2**	**14,878**
100% Base case scenario	**13,654**	**53**	**1**	**13,708**
100% Downside scenario	**16,399**	**97**	**1**	**16,497**

As at 31 December 2021	ECL for Financing / Receivables	ECL for Investment securities	ECL for Other Portfolio	Total
	RO 000	*RO 000*	*RO 000*	*RO 000*
Scenarios currently used by the Window	10,602	150	874	11,626
100% Base case scenario	10,154	155	888	11,197
100% Downside scenario	12,585	241	1,180	14,006

The above tables reveal that in case of 100% downside scenario, the ECL may increase by RO 1,619 thousand (2021: 2,380 thousand) from the current position.

34.3.3 Accounting for modification loss and restructuring:

In case of corporate customers, the Window plans to add the simple profit accrued during the deferral period to the principal outstanding and either extend the original maturity period of the financing or increase the instalments at the end of the DP. The Window has determined that the modifications due to deferment of instalment and waiver of profit allowed in line with CBO relaxation measures did not result in derecognition of financial assets.

Considering the specific nature of Islamic Financial Institutions (IFIs), in line with the Shari'a principles and rules, AAOIFI does not allow either recording a receivable (Dain) on net present value (NPV) or applying the concept of opportunity cost in accounting.

Analysis on the deferment benefits used of the Customers

The following tables contain an analysis of all the accounts which are availing deferment benefits:

A: Segment-wise analysis of Retail customers benefiting from deferred payments

As at 31 December 2022	Outstanding	Deferred Principal	Deferred Profit	ECL
	RO 000	*RO 000*	*RO 000*	*RO 000*
Retail customers (reduced wages)	292	17	4	-
Retail customers (laid off jobs)	341	9	10	42
Total	**633**	**26**	**14**	**42**

As at 31 December 2021	Outstanding	Deferred Principal	Deferred Profit	ECL
	RO 000	*RO 000*	*RO 000*	*RO 000*
Retail customers (reduced wages)	1,278	10	19	17
Retail customers – (laid off jobs)	505	14	16	12
Total	**1,783**	**24**	**35**	**89**

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

34 Financial risk management *(continued)*

Credit risk *(continued)*

B: Sector-wise analysis of Corporate customers benefiting from deferred payments

As at 31 December 2022		Construction *RO 000*	Services *RO 000*	Manufacturing *RO 000*	Import Trade *RO 000*	All Others *RO 000*	Total *RO 000*
Stage 1	Outstanding	45,899	-	-	-	-	**45,899**
	Deferred Principal	51	-	-	-	-	**51**
	Deferred Profit	2,776	-	-	-	-	**2,776**
	ECL	797	-	-	-	-	**797**
Stage 2	Outstanding	10,500	26,155	-	-	-	**36,655**
	Deferred Principal	226	330	-	-	-	**556**
	Deferred Profit	886	3,186	-	-	-	**4,072**
	ECL	751	1,853	-	-	-	**2,604**
Stage 3	Outstanding	-	-	-	-	-	**-**
	Deferred Principal	-	-	-	-	-	**-**
	Deferred Profit	-	-	-	-	-	**-**
	ECL	-	-	-	-	-	**-**
Total	**Outstanding**	**56,399**	**26,155**	**-**	**-**	**-**	**82,554**
	Deferred Principal	**277**	**330**	**-**	**-**	**-**	**607**
	Deferred Profit	**3,662**	**3,186**	**-**	**-**	**-**	**6,848**
	ECL	**1,548**	**1,853**	**-**	**-**	**-**	**3,401**

As at 31 December 2021		Construction *RO 000*	Services *RO 000*	Manufacturing *RO 000*	Import Trade *RO 000*	All Others *RO 000*	Total *RO 000*
Stage 1	Outstanding	66,380	27,351	2,923	1,873	10,956	109,483
	Deferred Principal	801	-	5,751	1,320	3,326	11,198
	Deferred Profit	2,234	1,023	73	169	312	3,811
	ECL	2,096	269	6	4	69	2,444
Stage 2	Outstanding	18,164	26,295	5,071	409	2,243	52,182
	Deferred Principal	4,387	1,411	120	-	91	6,009
	Deferred Profit	817	932	253	38	23	2,063
	ECL	868	999	169	17	101	2,154
Stage 3	Outstanding	-	-	-	-	74	74
	Deferred Principal	-	-	-	-	-	-
	Deferred Profit	-	-	-	-	3	3
	ECL	-	-	-	-	19	19
Total	**Outstanding**	84,544	53,646	7,994	2,282	13,273	161,739
	Deferred Principal	5,188	1,411	5,871	1,320	3,417	17,207
	Deferred Profit	3,051	1,955	326	207	338	5,877
	ECL	2,964	1,268	175	21	189	4,617

34.3.4 Impact on the Capital Adequacy:

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

- The Stage 2 ECL amount as on Dec-19 is considered “Base Year Amount”; and
- The incremental ECL (i.e., Stage 2 ECL at a respective reporting date minus Stage 2 ECL as at Dec-19) may be considered for Tier 2 capital subject to incremental reduction of 20% ECL every year (like 80% in 2021, 60% in 2022, 40% in 2023 etc.).

The Tier II Capital has improved by 0.63% due to application of the above prudential filter.

Although above measures are not exhaustive and may not fully counteract the impact of COVID pandemic in the short run, they will mitigate the long-term negative impact of the pandemic. In response to this crisis, the Window will continue to monitor and respond to all solvency and liquidity requirements. As at the reporting date the liquidity, funding and capital position of the Window remains strong and is well placed to absorb the impact of the current disruption.

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

34 Financial risk management *(continued)*

Credit risk *(continued)*

Gross exposures subjected to credit risk exposure are as follows:

(a) Portfolio concentrations (Gross)

	2022	2021
	RO 000	*RO 000*
Balances with CBO	**11,948**	21,217
Due from Banks	**13,819**	13,831
Total financing	**555,481**	501,255
Investments	**92,600**	80,112
Letter of credit / Guarantee	**16,860**	20,194
Acceptances	**342**	46,381
Unutilized exposure	**97,396**	48,334
Accrued profit	**11,008**	21,250
Total	**799,454**	752,574

(b) Geographical concentrations (Gross)

	2022				
	Sultanate of Oman	**Other GCC Countries**	**Europe and North America**	**Africa and Asia**	**Total**
	RO 000	***RO 000***	***RO 000***	***RO 000***	***RO 000***
Balances with CBO	**11,948**	**-**	**-**	**-**	**11,948**
Due from Banks	**-**	**12,160**	**1,659**	**-**	**13,819**
Total financing	**555,481**	**-**	**-**	**-**	**555,481**
Investments	**92,408**	**192**	**-**	**-**	**92,600**
Letter of credit / Guarantee	**15,276**	**259**	**-**	**1,325**	**16,860**
Acceptances	**212**	**79**	**-**	**51**	**342**
Unutilized exposure	**97,396**	**-**	**-**	**-**	**97,396**
Accrued profit	**10,999**	**9**	**-**	**-**	**11,008**
Total	**783,720**	**12,699**	**1,659**	**1,376**	**799,454**

	2021				
	Sultanate of Oman	Other GCC Countries	Europe and North America	Africa and Asia	Total
	RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*
Balances with CBO	21,217	-	-	-	21,217
Due from Banks	-	11,995	1,836	-	13,831
Total financing	501,255	-	-	-	501,255
Investments	80,112	-	-	-	80,112
Letter of credit / Guarantee	14,658	261	2,231	3,044	20,194
Acceptances	111	32,737	13,526	7	46,381
Unutilized exposure	48,334	-	-	-	48,334
Accrued profit	21,250	-	-	-	21,250
Total	686,937	44,993	17,593	3,051	752,574

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

34 Financial risk management *(continued)*

Credit risk *(continued)*

(c) Customer concentrations (Gross)

	2022			
	Retail	**Corporate**	**Government**	**Total**
	RO 000	***RO 000***	***RO 000***	***RO 000***
Balances with CBO	**-**	**-**	**11,948**	**11,948**
Due from Banks	**-**	**13,819**	**-**	**13,819**
Total financing	**176,182**	**379,299**	**-**	**555,481**
Investments	**-**	**25,993**	**66,607**	**92,600**
Letter of credit / Guarantee	**136**	**16,724**	**-**	**16,860**
Acceptances	**-**	**342**	**-**	**342**
Unutilized exposure	**-**	**97,396**	**-**	**97,396**
Accrued profit	**505**	**10,001**	**502**	**11,008**
Total	**176,823**	**543,574**	**79,057**	**799,454**

	2021			
	Retail	Corporate	Government	Total
	RO 000	*RO 000*	*RO 000*	*RO 000*
Balances with CBO	-	-	21,217	21,217
Due from Banks	-	13,831	-	13,831
Total financing	175,505	325,750	-	501,255
Investments	-	18,605	61,507	80,112
Letter of credit / Guarantee	315	19,879	-	20,194
Acceptances	-	46,381	-	46,381
Unutilized exposure	-	48,334	-	48,334
Accrued profit	313	20,533	404	21,250
Total	176,133	493,313	83,128	752,574

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

34 Financial risk management *(continued)*

Credit risk *(continued)*

(d) Sector concentrations (Gross)

	2022								
	Balances with CBO	Due from Banks	Total financing	Investments	Letter of credit / Guarantee	Acceptances	Unutilized exposure	Accrued profit	Total
	RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*
Import trade	-	-	31,936	-	2,842	97	14,472	11	49,358
Export trade	-	-	-	-	10	-	-	-	10
Wholesale & retail trade	-	-	15,251	-	478	60	3,492	452	19,733
Mining & quarrying	-	-	6,002	-	79	-	91	4	6,176
Construction	-	-	187,145	-	11,678	54	32,312	7,083	238,272
Manufacturing	-	-	21,445	-	461	-	32,644	58	54,608
Electricity, gas and water	-	-	3,252	-	12	-	1,023	27	4,314
Transport & communication	-	-	71	-	-	-	96	1	168
Financial institutions	-	13,819	15,387	25,993	25	-	810	518	56,552
Services	-	-	68,479	-	731	130	2,242	1,592	73,174
Government	11,948	-	-	66,607	-	-	-	502	79,057
Retail	-	-	176,182	-	136	-	-	505	176,823
Agriculture and allied Activities	-	-	9,024	-	153	-	5,288	14	14,479
Others	-	-	21,307	-	255	1	4,926	241	26,730
Total	11,948	13,819	555,481	92,600	16,860	342	97,396	11,008	799,454

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

34 Financial risk management *(continued)*

Credit risk *(continued)*

(d) Sector concentrations (Gross) *(continued)*

	2021								
	Balances with CBO	Due from Banks	Total financing	Investments	Letter of credit / Guarantee	Acceptances	Unutilized exposure	Accrued profit	Total
	RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*
Import trade	-	-	26,106	-	1,170	-	7,734	77	35,087
Export trade	-	-	-	-	10	-	-	-	10
Wholesale & retail trade	-	-	15,705	-	531	-	3,097	398	19,731
Mining & quarrying	-	-	5,159	-	76	46,200	-	2	51,437
Construction	-	-	163,989	-	9,785	78	19,157	13,430	206,439
Manufacturing	-	-	31,900	-	2,452	47	13,127	731	48,257
Electricity, gas and water	-	-	3,909	-	9	-	339	55	4,312
Transport & communication	-	-	187	-	-	-	17	15	219
Financial institutions	-	13,831	850	18,605	44	-	946	361	34,637
Services	-	-	58,032	-	371	-	616	5,099	64,118
Government	21,217	-	-	61,507	-	-	-	404	83,128
Retail	-	-	175,505	-	315	-	-	313	176,133
Agriculture and allied Activities	-	-	8,485	-	4,183	-	959	3	13,630
Others	-	-	11,428	-	1,248	56	2,342	362	15,436
Total	21,217	13,831	501,255	80,112	20,194	46,381	48,334	21,250	752,574

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

34 Financial risk management *(continued)*

(e) Credit quality concentration (Gross)

	2022			
	Performing Not Past Due	**Performing Past Due**	**Non-Performing**	**Total**
	RO 000	***RO 000***	***RO 000***	***RO 000***
Balances with CBO	**11,948**	**-**	**-**	**11,948**
Due from Banks	**13,819**	**-**	**-**	**13,819**
Total financing	**479,197**	**69,343**	**6,941**	**555,481**
Investments	**92,600**	**-**	**-**	**92,600**
Letter of credit / Guarantee	**16,860**	**-**	**-**	**16,860**
Acceptances	**342**	**-**	**-**	**342**
Unutilized exposure	**97,396**	**-**	**-**	**97,396**
Accrued profit	**7,816**	**2,193**	**999**	**11,008**
Total	**719,978**	**71,536**	**7,940**	**799,454**

	2021			
	Performing Not Past Due	Performing Past Due	Non-Performing	Total
	RO 000	*RO 000*	*RO 000*	*RO 000*
Balances with CBO	21,217	-	-	21,217
Due from Banks	13,831	-	-	13,831
Total financing	467,005	29,583	4,667	501,255
Investments	80,112	-	-	80,112
Letter of credit / Guarantee	20,194	-	-	20,194
Acceptances	46,381	-	-	46,381
Unutilized exposure	48,334	-	-	48,334
Accrued profit	19,819	541	890	21,250
Total	716,893	30,124	5,557	752,574

(f) Amounts arising from Expected Credit Loss (ECL)

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk (SICR)

The assessment of SICR since origination of a financial asset considers customer-specific quantitative and qualitative information without consideration of collateral, and the impact of forward-looking information. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap.

For retail exposures, a significant increase in credit risk cannot be assessed using forward-looking information at an individual account level. Therefore, the assessment is done at the segment level. Segment migration thresholds exist for each PD model by product which considers the proportionate change in PD as well as the absolute change in PD. The thresholds used for PD migration are reviewed and assessed at least annually, unless there is a significant change in credit risk management practices in which case the review is brought forward.

For non-retail exposures the Window uses an internal risk rating scale for its non-retail exposures. All non-retail exposures have an internal rating grade assigned that reflects the probability of default of the customer. Both customer specific and non-customer specific (i.e. macroeconomic) forward-looking information is considered and reflected in the internal rating grade. Significant increase in credit risk is evaluated based on the migration of the exposures among rating grades.

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

34 Financial risk management *(continued)*

(f) Amounts arising from Expected Credit Loss (ECL)

Incorporation of forward-looking information

The Window incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. The Window formulates three economic scenarios: a base case, which is the median scenario assigned a 50% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 25% probability of occurring. External information considered includes economic data and forecasts published by monetary authorities and selected private-sector forecasters. A comprehensive review is performed at least annually on the design of the scenarios by the Bank's senior management.

Economic variable assumptions

The Window uses the macroeconomic forecast to convert the Through the Cycle (TTC) PD into Point in Time (PIT) PD. Real GDP growth rate and Oil Revenue to GDP are considered for establishing the relationship with historical non-performing financing (NPFs) data of the banking system, as they were observed to be more statistically significant parameters reflecting the state of economy. The forecast of macro-economic indicators are considered for next 3 years with time lag of 1 year. The macroeconomic indicators used as at **31 December 2022** including the projections used is presented as under:

		2022	2021			**2022**	2021
Real GDP growth (%)	Present	**12.70%**	-4.30%	**Oil revenue (%GDP)**	Present	**25.97%**	23.80%
	Year 1 Projection	**5.60%**	1.80%		Year 1 Projection	**33.35%**	30.29%
	Year 2 Projection	**2.70%**	7.40%		Year 2 Projection	**28.77%**	33.13%
	Year 3 Projection	**2.50%**	2.70%		Year 3 Projection	**26.35%**	32.94%

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

Credit risk grading

The Window uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The Window has adopted a risk rating framework having 8 performing financings and receivables grades (including special mention) and 3 non-performing financings and receivables grades. The Window's internal Risk Rating (RR) risk rates a customer and to associate a default probability to each rating grade. The ratings assist studying the distribution of customers, grade wise exposures, transition of credit risk ratings over time, grade wise defaults, Non-Performing financings and receivables etc. Risk appetite is also set in terms of how much exposure the Window expects in various grade bands. The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade.

'**High Grade**' exposures includes the risk rate of 1-3 which includes the exposures with good to excellent business credit quality, good to exceptional capacity for timely fulfilment of the financial obligation and negligible or low probability of default and / or low levels of expected loss.

'**Standard Grade**' exposures includes the risk rate of 4-5 which includes the exposures of acceptable to fair credit quality, satisfactory capacity for timely fulfilment of the financial obligation. These exposures carry average to marginally acceptable risk.

'**Satisfactory Grade**' exposures includes the risk rate of 6-8 which includes the exposures with comparatively weak or less acceptable credit quality. The exposures carry high risk, caution and special mention category. Projected repayment capacity is strained and prospects may deteriorate at some future date. These reflect either weak operating environment or operations reflect weakness.

'**Non-performing**' exposures have been assessed as impaired and includes the risk rate of 9 to 11. These also include retail accounts that are delinquent by more than 90 days, unless individually they have been assessed as not impaired; and renegotiated financings and receivables grades that have met the requirements to be disclosed as impaired and have not yet met the criteria to be returned to the unimpaired portfolio.

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

34 Financial risk management *(continued)*

Credit risk *(continued)*

(f) Amounts arising from Expected Credit Loss (ECL) *(continued)*

31 December 2022	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
	RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*
Balances with CBO								
High grade	-	11,948	-	-	-	-	**-**	**11,948**
Standard grade	-	-	-	-	-	-	**-**	**-**
Satisfactory grade	-	-	-	-	-	-	**-**	**-**
Non-performing	-	-	-	-	-	-	**-**	**-**
Total	**-**	**11,948**	**-**	**-**	**-**	**-**	**-**	**11,948**
Banks								
High grade	-	-	-	-	-	-	**-**	**-**
Standard grade	2	13,819	-	-	-	-	**2**	**13,819**
Satisfactory grade	-	-	-	-	-	-	**-**	**-**
Non-performing	-	-	-	-	-	-	**-**	**-**
Total	**2**	**13,819**	**-**	**-**	**-**	**-**	**2**	**13,819**
Financing to customers								
Corporate and SME								
High grade	66	46,130	2,620	12,261	-	-	**2,686**	**58,391**
Standard grade	566	91,041	2,128	71,508	-	-	**2,694**	**162,549**
Satisfactory grade	973	66,104	4,737	85,900	-	-	**5,710**	**152,004**
Non-performing	-	-	-	-	2,381	6,355	**2,381**	**6,355**
Total	**1,605**	**203,275**	**9,485**	**169,669**	**2,381**	**6,355**	**13,471**	**379,299**
Retail (Personal)								
High grade	28	13,478	-	-	-	-	**28**	**13,478**
Standard grade	2	240	-	-	-	-	**2**	**240**
Satisfactory grade	-	-	3	34	-	-	**3**	**34**
Non-performing	-	-	-	-	94	151	**94**	**151**
Total	**30**	**13,718**	**3**	**34**	**94**	**151**	**127**	**13,903**
Retail (Housing and credit card receivables)								
High grade	244	160,188	148	684	58	96	**450**	**160,968**
Standard grade	-	-	99	785	-	-	**99**	**785**
Satisfactory grade	-	-	40	187	-	-	**40**	**187**
Non-performing	-	-	-	-	255	339	**255**	**339**
Total	**244**	**160,188**	**287**	**1,656**	**313**	**435**	**844**	**162,279**
Total financing	**1,879**	**377,181**	**9,775**	**171,359**	**2,788**	**6,941**	**14,442**	**555,481**
Investments								
High grade	-	66,607	-	-	-	-	**-**	**66,607**
Standard grade	58	25,993	-	-	-	-	**58**	**25,993**
Satisfactory grade	-	-	-	-	-	-	**-**	**-**
Non-performing	-	-	-	-	-	-	**-**	**-**
Total	**58**	**92,600**	**-**	**-**	**-**	**-**	**58**	**92,600**
Letter of credit / Guarantees								
Corporate and SME	15	3,403	101	13,321	-	-	**116**	**16,724**
Retail	-	136	-	-	-	-	**-**	**136**
Total	**15**	**3,539**	**101**	**13,321**	**-**	**-**	**116**	**16,860**
Others								
Unutilised	80	48,216	180	49,180	-	-	**260**	**97,396**
Acceptances	1	240	-	102	-	-	**1**	**342**
Accrued profit	4	5,907	5	4,102	1,028	999	**1,037**	**11,008**
Total	**85**	**54,363**	**185**	**53,384**	**1,028**	**999**	**1,298**	**108,746**
Total portfolio	**2,039**	**553,450**	**10,061**	**238,064**	**3,816**	**7,940**	**15,916**	**799,454**

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

34 Financial risk management *(continued)*

Credit risk *(continued)*

(f) Amounts arising from Expected Credit Loss (ECL) *(continued)*

31 December 2021	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
	RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*
Balances with CBO								
High grade	-	21,217	-	-	-	-	**-**	**21,217**
Standard grade	-	-	-	-	-	-	**-**	**-**
Satisfactory grade	-	-	-	-	-	-	**-**	**-**
Non-performing	-	-	-	-	-	-	**-**	**-**
Total	**-**	**21,217**	**-**	**-**	**-**	**-**	**-**	**21,217**
Banks								
High grade	-	-	-	-	-	-	**-**	**-**
Standard grade	1	13,831	-	-	-	-	**1**	**13,831**
Satisfactory grade	-	-	-	-	-	-	**-**	**-**
Non-performing	-	-	-	-	-	-	**-**	**-**
Total	1	13,831	**-**	**-**	**-**	**-**	**1**	**13,831**
Financing to customers								
Corporate and SME								
High grade	78	30,273	30	15,457	-	-	**108**	**45,730**
Standard grade	3,826	137,330	455	49,928	-	-	**4,281**	**187,258**
Satisfactory grade	182	16,228	3,563	72,331	-	-	**3,745**	**88,559**
Non-performing	-	-	-	-	1,328	4,203	**1,328**	**4,203**
Total	**4,086**	**183,831**	**4,048**	**137,716**	**1,328**	**4,203**	**9,462**	**325,750**
Retail (Personal)								
High grade	46	12,522	-	-	-	-	**46**	**12,522**
Standard grade	10	838	-	-	-	-	**10**	**838**
Satisfactory grade	-	-	21	118	-	-	**21**	**118**
Non-performing	-	-	-	-	57	103	**57**	**103**
Total	**56**	**13,360**	**21**	**118**	**57**	**103**	**134**	**13,581**
Retail (Housing and credit card receivables)								
High grade	469	160,266	180	631	-	-	**649**	**160,897**
Standard grade	-	-	77	429	-	-	**77**	**429**
Satisfactory grade	-	-	66	237	-	-	**66**	**237**
Non-performing	-	-	-	-	224	361	**224**	**361**
Total	**469**	**160,266**	**323**	**1,297**	**224**	**361**	**1,016**	**161,924**
Total financing	**4,611**	**357,457**	**4,392**	**139,131**	**1,609**	**4,667**	**10,612**	**501,255**
Investments								
High grade	-	61,507	-	-	-	-	**-**	**61,507**
Standard grade	150	18,605	-	-	-	-	**150**	**18,605**
Satisfactory grade	-	-	-	-	-	-	**-**	**-**
Non-performing	-	-	-	-	-	-	**-**	**-**
Total	**150**	**80,112**	**-**	**-**	**-**	**-**	**150**	**80,112**
Letter of credit / Guarantees								
Corporate and SME	45	10,604	77	9,275	-	-	**122**	**19,879**
Retail	-	315	-	-	-	-	**-**	**315**
Total	**45**	**10,919**	**77**	**9,275**	**-**	**-**	**122**	**20,194**
Others								
Unutilised	86	21,273	250	27,061	-	-	**336**	**48,334**
Acceptances	390	46,327	-	54	-	-	**390**	**46,381**
Accrued profit	9	13,042	13	7,318	836	890	**858**	**21,250**
Total	**485**	**80,642**	**263**	**34,433**	**836**	**890**	**1,584**	**115,965**
Total portfolio	**5,292**	**564,178**	**4,732**	**182,839**	**2,445**	**5,557**	**12,469**	**752,574**

Retail related housing and credit card receivable portfolio is not rated and currently it is categorized based on days past due bucket.

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

34 Financial risk management *(continued)*

Credit risk *(continued)*

(f) Amounts arising from Expected Credit Loss (ECL) *(continued)*

The gross exposure of the financial assets as at **31 December 2022** along with reconciliations from the opening to the closing balance by class of financial instruments are as follows:

31 December 2022	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
	RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*
Balances with CBO								
Opening balance	-	21,217	-	-	-	-	**-**	**21,217**
Transfer between stages								
- Transfer from Stage 1 to 2	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 1 to 3	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 2 to 1	-	-	-	-	-	-	**-**	**-**
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	-	(9,269)	-	-	-	-	**-**	**(9,269)**
Financial asset originated during the year	-	-	-	-	-	-	**-**	**-**
Financial asset matured during the year	-	-	-	-	-	-	**-**	**-**
Closing balance	**-**	**11,948**	**-**	**-**	**-**	**-**	**-**	**11,948**
Banks								
Opening balance	1	13,831	-	-	-	-	**1**	**13,831**
Transfer between stages								
- Transfer from Stage 1 to 2	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 1 to 3	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 2 to 1	-	-	-	-	-	-	**-**	**-**
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	1	(12)	-	-	-	-	**1**	**(12)**
Financial asset originated during the year	-	-	-	-	-	-	**-**	**-**
Financial asset matured during the year	-	-	-	-	-	-	**-**	**-**
Closing balance	**2**	**13,819**	**-**	**-**	**-**	**-**	**2**	**13,819**
Total financing								
Opening balance	4,611	357,457	4,392	139,131	1,609	4,667	**10,612**	**501,255**
Transfer between stages								
- Transfer from Stage 1 to 2	(260)	(29,907)	260	29,907	-	-	**-**	**-**
- Transfer from Stage 1 to 3	(1)	(231)	-	-	1	231	**-**	**-**
- Transfer from Stage 2 to 3	-	-	(116)	(868)	116	868	**-**	**-**
- Transfer from Stage 2 to 1	1,118	21,737	(1,118)	(21,737)	-	-	**-**	**-**
	857	(8,401)	(974)	7,302	117	1,099	**-**	**-**
Re-measurement of outstanding	(2,466)	(12,866)	754	(10,862)	764	(28)	**(948)**	**(23,756)**
Financial asset originated during the year	1,237	163,773	7,290	114,264	303	1,211	**8,830**	**279,248**
Financial asset matured during the year	(2,360)	(122,782)	(1,687)	(78,476)	(5)	(8)	**(4,052)**	**(201,266)**
Closing balance	**1,879**	**377,181**	**9,775**	**171,359**	**2,788**	**6,941**	**14,442**	**555,481**

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

34 Financial risk management *(continued)*

Credit risk *(continued)*

(f) Amounts arising from Expected Credit Loss (ECL) *(continued)*

31 December 2022	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
	RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*
Corporate and SME								
Opening balance	4,086	183,831	4,048	137,716	1,328	4,203	**9,462**	**325,750**
Transfer between stages								
- Transfer from Stage 1 to 2	(249)	(28,971)	249	28,971	-	-	**-**	**-**
- Transfer from Stage 1 to 3	(1)	(152)	-	-	1	152	**-**	**-**
- Transfer from Stage 2 to 3	-	-	(101)	(811)	101	811	**-**	**-**
- Transfer from Stage 2 to 1	1,014	21,214	(1,014)	(21,214)	-	-	**-**	**-**
	764	(7,909)	(866)	6,946	102	963	**-**	**-**
Re-measurement of outstanding	(2,128)	(4,424)	677	(10,815)	648	(22)	**(803)**	**(15,261)**
Financial asset originated during the year	1,204	143,441	7,282	114,187	303	1,211	8,789	258,839
Financial asset matured during the year	(2,321)	(111,664)	(1,656)	(78,365)	-	-	**(3,977)**	**(190,029)**
Closing balance	**1,605**	**203,275**	**9,485**	**169,669**	**2,381**	**6,355**	**13,471**	**379,299**
Retail								
Opening balance	525	173,626	344	1,415	281	464	**1,150**	**175,505**
Transfer between stages								
- Transfer from Stage 1 to 2	(11)	(936)	11	936	-	-	**-**	**-**
- Transfer from Stage 1 to 3	-	(79)	-	-	-	79	**-**	**-**
- Transfer from Stage 2 to 3	-	-	(15)	(57)	15	57	**-**	**-**
- Transfer from Stage 2 to 1	104	523	(104)	(523)	-	-	**-**	**-**
	93	(492)	(108)	356	15	136	**-**	**-**
Re-measurement of outstanding	(338)	(8,442)	77	(47)	116	(6)	**(145)**	**(8,495)**
Financial asset originated during the year	33	20,332	8	77	-	-	**41**	**20,409**
Financial asset matured during the year	(39)	(11,118)	(31)	(111)	(5)	(8)	**(75)**	**(11,237)**
Closing balance	**274**	**173,906**	**290**	**1,690**	**407**	**586**	**971**	**176,182**
Investments								
Opening balance	150	80,112	-	-	-	-	**150**	**80,112**
Transfer between stages								
- Transfer from Stage 1 to 2	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 1 to 3	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 2 to 1	-	-	-	-	-	-	**-**	**-**
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	(103)	2,090	-	-	-	-	**(103)**	**2,090**
Financial asset originated during the year	11	10,398	-	-	-	-	**11**	**10,398**
Financial asset matured during the year	-	-	-	-	-	-	**-**	**-**
Closing balance	**58**	**92,600**	**-**	**-**	**-**	**-**	**58**	**92,600**

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

34 Financial risk management *(continued)*

Credit risk *(continued)*

(f) Amounts arising from Expected Credit Loss (ECL) *(continued)*

31 December 2022	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
	RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*
Letter of credit / Guarantees								
Opening balance	45	10,919	77	9,275	-	-	**122**	**20,194**
Transfer between stages								
- Transfer from Stage 1 to 2	(1)	(293)	1	293	-	-	**-**	**-**
- Transfer from Stage 1 to 3	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 2 to 1	-	195	-	(195)	-	-	**-**	**-**
	(1)	(98)	1	98	-	-	**-**	**-**
Re-measurement of outstanding	(14)	(53)	(43)	(44)	-	-	**(57)**	**(97)**
Financial asset originated during the year	8	1,819	83	8,920	-	-	**91**	**10,739**
Financial asset matured during the year	(23)	(9,048)	(17)	(4,928)	-	-	**(40)**	**(13,976)**
Closing balance	**15**	**3,539**	**101**	**13,321**	**-**	**-**	**116**	**16,860**
Acceptances								
Opening balance	390	46,327	-	54	-	-	**390**	**46,381**
Transfer between stages								
- Transfer from Stage 1 to 2	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 1 to 3	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 2 to 1	-	-	-	-	-	-	**-**	**-**
	-	-	-	-	-	-	**-**	**-**
Re-measurement of outstanding	-	-	-	-	-	-	**-**	**-**
Financial asset originated during the year	1	240	-	102	-	-	**1**	**342**
Financial asset matured during the year	(390)	(46,327)	-	(54)	-	-	**(390)**	**(46,381)**
Closing balance	**1**	**240**	**-**	**102**	**-**	**-**	**1**	**342**
Unutilised limits								
Opening balance	86	21,273	250	27,061	-	-	**336**	**48,334**
Transfer between stages								
- Transfer from Stage 1 to 2	(1)	(1,426)	1	1,426	-	-	**-**	**-**
- Transfer from Stage 1 to 3	-	-	-	-	-	-	**-**	**-**
- Transfer from Stage 2 to 1	1	103	(1)	(103)	-	-	**-**	**-**
	-	(1,323)	-	1,323	-	-	**-**	**-**
Re-measurement of outstanding	(7)	4,007	(18)	16,471	-	-	**(25)**	**20,478**
Financial asset originated during the year	64	35,351	135	18,682	-	-	**199**	**54,033**
Financial asset matured during the year	(63)	(11,092)	(187)	(14,357)	-	-	**(250)**	**(25,449)**
Closing balance	**80**	**48,216**	**180**	**49,180**	**-**	**-**	**260**	**97,396**
Accrued profit								
Opening balance	9	13,042	13	7,318	836	890	**858**	**21,250**
Transfer between stages								
- Transfer from Stage 1 to 2	(1)	(1,076)	1	1,076	-	-	**-**	**-**
- Transfer from Stage 1 to 3	-	(9)	-	-	-	9	**-**	**-**
- Transfer from Stage 2 to 3	-	-	-	(5)	-	5	**-**	**-**
- Transfer from Stage 2 to 1	4	1,573	(4)	(1,573)	-	-	**-**	**-**
	3	488	(3)	(502)	-	14	**-**	**-**
Re-measurement of outstanding	(2)	136	(2)	(710)	191	61	**187**	**(513)**
Financial asset originated during the year	1	2,371	3	1,937	1	34	**5**	**4,342**
Financial asset matured during the year	(7)	(10,130)	(6)	(3,941)	-	-	**(13)**	**(14,071)**
Closing balance	**4**	**5,907**	**5**	**4,102**	**1,028**	**999**	**1,037**	**11,008**

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

34 Financial risk management *(continued)*

Credit risk *(continued)*

(f) Amounts arising from Expected Credit Loss (ECL) *(continued)*

31 December 2021	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
	RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*
Balances with CBO								
Opening balance	-	11,809	-	-	-	-	-	**11,809**
Transfer between stages								
- Transfer from Stage 1 to 2	-	-	-	-	-	-	-	-
- Transfer from Stage 1 to 3	-	-	-	-	-	-	-	-
- Transfer from Stage 2 to 1	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Re-measurement of outstanding	-	9,408	-	-	-	-	-	9,408
Financial asset originated during the year	-	-	-	-	-	-	-	-
Financial asset matured during the year	-	-	-	-	-	-	-	-
Closing balance	-	21,217	-	-	-	-	-	21,217
Banks								
Opening balance	1	8,840	-	-	-	-	1	8,840
Transfer between stages	-	-	-	-	-	-	-	-
- Transfer from Stage 1 to 2	-	-	-	-	-	-	-	-
- Transfer from Stage 1 to 3	-	-	-	-	-	-	-	-
- Transfer from Stage 2 to 1	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Re-measurement of outstanding	-	4,938	-	-	-	-	-	4,938
Financial asset originated during the year	-	53	-	-	-	-	-	53
Financial asset matured during the year	-	-	-	-	-	-	-	-
Closing balance	1	13,831	-	-	-	-	1	13,831
Total financing								
Opening balance	2,472	394,217	4,554	84,820	1,510	4,519	8,536	483,556
Initial application on FAS 31	-	631	1	758	2	2	3	1,391
Transfer between stages								
- Transfer from Stage 1 to 2	(206)	(48,572)	206	48,572	-	-	-	-
- Transfer from Stage 1 to 3	(3)	(179)	-	-	3	179	-	-
- Transfer from Stage 2 to 1	98	5,970	(98)	(5,970)	-	-	-	-
	(111)	(42,781)	108	42,602	3	179	-	-
Re-measurement of outstanding	2,125	(2,836)	(111)	(1,502)	94	(33)	2,108	(4,371)
Financial asset originated during the year	233	51,601	148	42,675	-	-	381	94,276
Financial asset matured during the year	(108)	(43,375)	(308)	(30,222)	-	-	(416)	(73,597)
Closing balance	4,611	357,457	4,392	139,131	1,609	4,667	10,612	501,255

Notes to the financial statements

For the year ended 31 December 2022

34 Financial risk management *(continued)*

Credit risk *(continued)*

(f) Amounts arising from Expected Credit Loss (ECL) *(continued)*

31 December 2021	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
	RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*
Corporate and SME								
Opening balance	2,037	215,635	4,498	84,619	1,326	4,202	7,861	304,456
Initial application of FAS 31	-	631	1	758	2	2	3	1,391
Transfer between stages	-	-	-	-	-	-	-	-
- Transfer from Stage 1 to 2	(200)	(47,306)	200	47,306	-	-	-	-
- Transfer from Stage 1 to 3	-	(14)	-	-	-	14	-	-
- Transfer from Stage 2 to 1	93	5,939	(93)	(5,939)	-	-	-	-
	(107)	(41,381)	107	41,367	-	14	-	-
Re-measurement of outstanding	2,044	4,785	(392)	(1,461)	-	(15)	1,652	3,309
Financial asset originated during the year	204	41,445	142	42,655	-	-	346	84,100
Financial asset matured during the year	(92)	(37,284)	(308)	(30,222)	-	-	(400)	(67,506)
Closing balance	4,086	183,831	4,048	137,716	1,328	4,203	9,462	325,750
Retail								
Opening balance	435	178,582	56	201	184	317	675	179,100
Transfer between stages	-	-	-	-	-	-	-	-
- Transfer from Stage 1 to 2	(6)	(1,266)	6	1,266	-	-	-	-
- Transfer from Stage 1 to 3	(3)	(165)	-	-	3	165	-	-
- Transfer from Stage 2 to 1	5	31	(5)	(31)	-	-	-	-
	(4)	(1,400)	1	1,235	3	165	-	-
Re-measurement of outstanding	81	(7,621)	281	(41)	94	(18)	456	(7,680)
Financial asset originated during the year	29	10,156	6	20	-	-	35	10,176
Financial asset matured during the year	(16)	(6,091)	-	-	-	-	(16)	(6,091)
Closing balance	525	173,626	344	1,415	281	464	1,150	175,505
Investments								
Opening balance	129	79,995	-	-	-	-	129	79,995
Transfer between stages	-	-	-	-	-	-	-	-
- Transfer from Stage 1 to 2	-	-	-	-	-	-	-	-
- Transfer from Stage 1 to 3	-	-	-	-	-	-	-	-
- Transfer from Stage 2 to 1	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Re-measurement of outstanding	21	117	-	-	-	-	21	117
Financial asset originated during the year	-	-	-	-	-	-	-	-
Financial asset matured during the year	-	-	-	-	-	-	-	-
Closing balance	150	80,112	-	-	-	-	150	80,112

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

34 Financial risk management *(continued)*

Credit risk *(continued)*

(f) Amounts arising from Expected Credit Loss (ECL) *(continued)*

31 December 2021	Stage 1		Stage 2		Stage 3		Total	
	ECL	Exposure	ECL	Exposure	ECL	Exposure	ECL	Exposure
	RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*
Letter of credit / Guarantees								
Opening balance	52	20,964	58	8,391	-	-	110	29,355
Transfer between stages	-	-	-	-	-	-	-	-
- Transfer from Stage 1 to 2	(5)	(479)	5	479	-	-	-	-
- Transfer from Stage 1 to 3	-	-	-	-	-	-	-	-
- Transfer from Stage 2 to 1	-	71	-	(71)	-	-	-	-
	(5)	(408)	5	408	-	-	-	-
Re-measurement of outstanding	(15)	6	(2)	(406)	-	-	(17)	(400)
Financial asset originated during the year	24	8,860	25	4,605	-	-	49	13,465
Financial asset matured during the year	(11)	(18,503)	(9)	(3,723)	-	-	(20)	(22,226)
Closing balance	45	10,919	77	9,275	-	-	122	20,194
Acceptances								
Opening balance	168	23,086	-	189	-	-	168	23,275
Transfer between stages	-	-	-		-	-	-	-
- Transfer from Stage 1 to 2	-	-	-	-	-	-	-	-
- Transfer from Stage 1 to 3	-	-	-	-	-	-	-	-
- Transfer from Stage 2 to 1	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Re-measurement of outstanding	-	-	-	-	-	-	-	-
Financial asset originated during the year	390	46,327	-	54	-	-	390	46,381
Financial asset matured during the year	(168)	(23,086)	-	(189)	-	-	(168)	(23,275)
Closing balance	390	46,327	-	54	-	-	390	46,381
Unutilised limits								
Opening balance	102	38,328	147	16,603	-	-	249	54,931
Transfer between stages	-	-	-	-	-	-	-	-
- Transfer from Stage 1 to 2	(6)	(3,460)	6	3,460	-	-	-	-
- Transfer from Stage 1 to 3	-	-	-	-	-	-	-	-
- Transfer from Stage 2 to 1	12	2,687	(12)	(2,687)	-	-	-	-
	6	(773)	(6)	773	-	-	-	-
Re-measurement of outstanding	(26)	(11,565)	21	2,616	-	-	(5)	(8,949)
Financial asset originated during the year	62	12,102	153	13,167	-	-	215	25,269
Financial asset matured during the year	(58)	(16,819)	(65)	(6,098)	-	-	(123)	(22,917)
Closing balance	86	21,273	250	27,061	-	-	336	48,334
Accrued profit								
Opening balance	5	10,120	6	3,021	627	656	638	13,797
Initial application on FAS 31	-	(631)	(1)	(758)	(2)	(2)	(3)	(1,391)
Transfer between stages	-	-	-	-	-	-	-	-
- Transfer from Stage 1 to 2	(1)	(1,999)	1	1,999	-	-	-	-
- Transfer from Stage 1 to 3	-	-	-	-	-	-	-	-
- Transfer from Stage 2 to 1	-	66	-	(66)	-	-	-	-
	(1)	(1,933)	1	1,933	-	-	-	-
Re-measurement of outstanding	6	5,454	7	3,544	209	234	222	9,232
Financial asset originated during the year	-	299	-	1	-	-	-	300
Financial asset matured during the year	(1)	(267)	-	(423)	2	2	1	(688)
Closing balance	9	13,042	13	7,318	836	890	858	21,250

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

34 Financial risk management *(continued)*

Liquidity risk

Liquidity risk is the potential inability to meet Maisarah's liabilities as they become due, because of the difficulty in liquidating assets (market liquidity risk) or in obtaining adequate funding (funding liquidity risk). It arises when Maisarah is unable to generate cash to cope with a decline in deposits or increase in assets.

Maisarah's liquidity risk management is governed by the ALM risk policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management. Maisarah monitors its liquidity risk through cash flow approach. Under cash flow approach Maisarah generates Maturity of Assets and Liabilities (MAL) report which captures all the maturing assets and liabilities into various pre-set time buckets ranging from one month to five years. The mismatches in various time buckets indicate liquidity gap and Maisarah strictly adheres to the CBO set limit of 15% of cumulative liabilities (outflows) on mismatches (liquidity gaps) in time buckets up to one year. In addition, Maisarah has also set up internal limit on mismatches in time buckets beyond one year.

Treasury department of Maisarah controls and monitors the liquidity risk and ensures that the window is not exposed to undue liquidity risk and at the same time makes optimum use of its funds. Middle office in Risk Management Division also monitors the liquidity position of Maisarah.

The CBO has issued guidelines on the implementation of Basel III liquidity framework which are Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The LCR is a short time ratio designed to increase resilience against a liquidity shortage of up to 30 days. As per CBO guidelines LCR should be minimum 100% on an ongoing basis with effect from 01 January 2019 and the Window is in compliance of regulatory limit of LCR as at **31 December 2022**, with **LCR of 132.19%** (2021: 312.84%).

The NSFR is a longer-term structural ratio designed to address liquidity mismatches and reduce funding risk over a one-year horizon. Maisarah needs to maintain a minimum ratio of 100% as per the regulatory guidance. The NSFR of the Window as at **31 December 2022** is **123.48%** (2021: 126.34%) based on closing balance position.

The full report on LCR and NSFR is disclosed by the Bank in its website.

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

34 Financial risk management *(continued)*

Liquidity risk *(continued)*

Maturity profile of financial assets and liabilities based on undiscounted cashflows:

	2022					
	Due on demand and up to 30 days *RO 000*	More than 1 month to 6 months *RO 000*	More than 6 months to 12 months *RO 000*	More than 1 year to 5 years *RO 000*	Over 5 years *RO 000*	Total *RO 000*
Cash and balances with Central Bank of Oman	11,948	-	-	-	-	**11,948**
Due from banks and financial institutions	13,819	-	-	-	-	**13,819**
Total financing	25,908	107,085	60,799	235,084	292507	**721,383**
Investments	419	11,095	12,756	77,857	4,388	**106,515**
Other assets	11,217	133	-	-	1,608	**12,958**
Total assets – funded	**63,311**	**118,313**	**73,555**	**312,941**	**298,503**	**866,623**
Forward purchases	96,250	7,700	-	-	-	**103,950**
Total assets – non funded (Forwards)	**96,250**	**7,700**	**-**	**-**	**-**	**103,950**
Total assets – funded and non funded	**159,561**	**126,013**	**73,555**	**312,941**	**298,503**	**970,573**
Current accounts	10,872	10,753	6,148	-	7,682	**35,455**
Qard Hasan from Head Office	4,405	-	35,000	-	-	**39,405**
Other liabilities	7,238	145	12	128	17	**7,540**
Wakala inter bank deposits	19,333	1,225	-	36,225	-	**56,783**
Wakala customer deposits	25,058	66,583	72,088	195,327	65,959	**425,015**
Equity of unrestricted investment accountholders	2,709	5,432	5,809	28,253	14,126	**56,329**
Total liabilities and accountholders equity	**69,615**	**84,138**	**119,057**	**259,933**	**87,784**	**620,527**
Forward sales	96,250	7,708	-	-	-	**103,958**
Letter of credit and guarantees	16,860	-	-	-	-	**16,860**
Unutilised limits for financing and receivables	97,936	-	-	-	-	**97,936**
Total liabilities non funded (Forwards)	**280,121**	**91,846**	**119,057**	**259,933**	**87,784**	**838,741**
Total liabilities funded and non funded; and accountholders equity	**169,620**	**92,632**	**119,057**	**264,933**	**197,770**	**844,012**
Gap	**(120,560)**	**34,167**	**(45,502)**	**53,008**	**210,719**	**131,832**
Cumulative gap	**(120,560)**	**(86,393)**	**(131,895)**	**(78,887)**	**131,832**	**-**

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

34 Financial risk management *(continued)*

Liquidity risk *(continued)*

Maturity profile of financial assets and liabilities based on undiscounted cashflows *(continued):*

	2021					
	Due on demand and up to 30 days *RO 000*	**More than 1 month to 6 months** *RO 000*	**More than 6 months to 12 months** *RO 000*	**More than 1 year to 5 years** *RO 000*	**Over 5 years** *RO 000*	**Total** *RO 000*
Cash and balances with Central Bank of Oman	23,729	-	-	-	-	**23,729**
Due from banks and financial institutions	13,830	-	-	-	-	**13,830**
Total financing	38,281	79,858	48,364	163,730	220,233	**550,466**
Investments	-	849	3,647	90,145	-	**94,641**
Other assets	20,457	9,741	36,575	-	-	**66,773**
Total assets – funded	**96,297**	**90,448**	**88,586**	**253,875**	**220,233**	**749,439**
Forward purchases	2,695	22,330	7,700	-	-	**32,725**
Total assets – non funded (Forwards)	**2,695**	**22,330**	**7,700**	**-**	**-**	**32,725**
Total assets – funded and non funded	**98,992**	**112,778**	**96,286**	**253,875**	**220,233**	**782,164**
Current accounts	10,105	6,139	5,099	4,499	9,611	**35,453**
Qard Hasan from Head Office	2,759	-	-	35,000	-	**37,759**
Other liabilities	6,860	9,753	36,587	128	-	**53,328**
Wakala inter bank deposits	-	1,225	10,123	51,953	-	**63,301**
Wakala customer deposits	29,156	87,932	97,033	108,988	45,906	**369,015**
Equity of unrestricted investment accountholders	3,224	6,447	6,446	32,216	16,148	**64,481**
Total liabilities and accountholders equity	**52,104**	**111,496**	**155,288**	**232,784**	**71,665**	**623,337**
Forward sales	2,695	22,412	7,718	-	-	**32,825**
Letter of credit and guarantees	20,194	-	-	-	-	**20,194**
Unutilised limits for financing and receivables	50,730	-	-	-	-	**50,730**
Total liabilities non funded (Forwards)	**73,619**	**22,412**	**7,718**	**-**	**-**	**103,749**
Total liabilities funded and non funded; and accountholders equity	**125,723**	**133,908**	**163,006**	**232,784**	**71,665**	**727,086**
Gap	**(26,731)**	**(21,130)**	**(66,720)**	**21,091**	**148,568**	**55,078**
Cumulative gap	**(26,731)**	**(47,861)**	**(114,581)**	**(93,490)**	**55,078**	**-**

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

34 Financial risk management *(continued)*

Market risk

Impact of COVID-19 on Fair Valuation of Securities

Due to the continued negative economic outlook from the from events detailed in 34.1, resulting in increased profit rates on instruments in the market and reducing instruments' yields. This has resulted in the reduction of fair valuation of instruments at **31 December 2022** by **RO 1,019 thousand** (2021: 24 thousand).

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

(a) Currency risk

Maisarah is exposed to currency risk through its transactions in foreign currencies. The major foreign currency to which Maisarah is exposed is the US Dollar which is effectively pegged to Rial Omani.

	2022			2021		
	Assets RO 000	**Liabilities RO 000**	**Net RO 000**	Assets RO 000	Liabilities RO 000	Net RO 000
US Dollars	**93,103**	**74,739**	**18,364**	78,655	77,186	1,469
Euro	**23**	**3**	**20**	36	5	31
UAE Dirham	**500**	**4**	**496**	353	78	275
Others	**110**	**-**	**110**	91	-	91
Total	**93,736**	**74,746**	**18,990**	79,135	77,269	1,866

(b) Profit rate risk

Profit rate risk (PRR) is the risk that Maisarah will incur a financial loss as a result of mismatch in the profit rates on assets & investment accountholders. The profit distribution to investment accountholders is based on profit sharing agreements. However, the profit sharing agreements will result in displaced commercial risk when Maisarah results do not allow it to distribute profits in line with the market rates.

Maisarah has a detailed profit distribution policy in place which details the process and management of profit distribution, including setting up of profit equalization & investment risk reserve. The responsibility of profit rate risk management rests with the Maisarah's Asset and Liability Management Committee (ALCO).

Profit rate sensitivity gap

Sensitivity to profit rates arises from mismatches in the period to repricing of assets and that of the corresponding liability. Maisarah manages these mismatches by following policy guidelines and reduces risk by matching the repricing of assets and liabilities.

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

34 Financial risk management *(continued)*

Market risk *(continued)*

Profit rate sensitivity gap *(continued)*

	2022							
	Effective average profit rates %	**Due on demand and within 30 days** ***RO 000***	**Due within 1 to 6 months** ***RO 000***	**Due within 7 to 12 months** ***RO 000***	**Due within 1 to 5 years** ***RO 000***	**Due after 5 years** ***RO 000***	**Non-profit bearing** ***RO 000***	**Total** ***RO 000***
Cash and balances with Central Bank of Oman	**-**	-	-	-	-	-	14,380	**14,380**
Due from banks and financial institutions	**4.5%**	11,550	-	-	-	-	2,267	**13,817**
Murabaha and other receivables	**5.84%**	1,156	1,016	129	6,191	10,323	(256)	**18,559**
Mudaraba financing	**5.53%**	-	-	9,437	-	-	(41)	**9,396**
Diminishing Musharaka Financing	**6.06%**	10,913	118,114	61,119	72,656	124,795	(13,361)	**374,236**
Investments	**5.70%**	-	10,000	9,019	69,581	4,000	(58)	**92,542**
Wakala	**6.17%**	12,555	55,903	4,616	1,351	166	1,183	**75,774**
Ijara Muntahia Bittamleek	**5.64%**	-	1	14	658	62,722	(321)	**63,074**
Property and equipment	**-**	-	-	-	-	-	651	**651**
Intangibles	**-**	-	-	-	-	-	475	**475**
Other asset	**-**	-	-	-	-	-	11,921	**11,921**
Total assets		**36,174**	**185,034**	**84,334**	**150,437**	**202,006**	**16,840**	**674,825**
Current accounts	**-**	-	-	-	-	-	35,455	**35,455**
Qard Hasan from Head office	**-**	-	-	-	-	-	39,405	**39,405**
Other liabilities	**-**	-	-	-	-	-	11,089	**11,089**
Wakala inter bank deposits	**3.85%**	19,250	-	-	35,000	-	-	**54,250**
Wakala customer deposits	**3.63%**	1,372	27,042	44,155	191,366	-	118,662	**382,597**
Equity of unrestricted investment accountholders	**0.84%**	54,143	-	-	-	-	50	**54,193**
Owner's equity	**-**	-	-	-	-	-	97,836	**97,836**
Equity of accountholders & Total liabilities and shareholders' equity		**74,765**	**27,042**	**44,155**	**226,366**	**-**	**302,497**	**674,825**
On-balance sheet gap		**(38,591)**	**157,992**	**40,179**	**(75,929)**	**202,006**	**(285,657)**	**-**
Cumulative profit sensitivity gap		**(38,591)**	**119,401**	**159,580**	**83,651**	**285,657**	**-**	**-**

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

34 Financial risk management *(continued)*

Market risk *(continued)*

Profit rate sensitivity gap *(continued)*

	2021							
	Effective average profit rates %	**Due on demand and within 30 days *RO 000***	**Due within 1 to 6 months *RO 000***	**Due within 7 to 12 months *RO 000***	**Due within 1 to 5 years *RO 000***	**Due after 5 years *RO 000***	**Non-profit bearing *RO 000***	**Total *RO 000***
Cash and balances with Central Bank of Oman	-	-	-	-	-	-	23,729	23,729
Due from banks and financial institutions	0.76%	11,549	-	-	-	-	2,281	13,830
Murabaha and other receivables	5.68%	4,417	8,785	110	5,310	10,308	-	28,930
Mudaraba financing	6.05%	-	-	17,577	-	-	-	17,577
Diminishing Musharaka Financing	5.91%	15,606	89,663	26,002	90,478	116,046	-	337,795
Investments	5.58%	-	-	-	79,962	-	-	79,962
Wakala financing	6.05%	22,920	34,478	3,981	-	60	-	61,439
Ijara Muntahia Bittamleek	5.45%	-	12	19	685	44,186	-	44,902
Property and equipment	-	-	-	-	-	-	394	394
Intangibles	-	-	-	-	-	-	671	671
Other asset	-	-	-	-	-	-	67,911	67,911
Total assets		54,492	132,938	47,689	176,435	170,600	94,986	677,140
Current accounts	-	-	-	-	-	-	22,789	22,789
Qard Hasan from Head office	-	-	-	-	-	-	37,759	37,759
Other liabilities	-	-	-	-	-	-	54,192	54,192
Wakala inter bank deposits	2.21%	-	-	9,625	50,400	-	-	60,025
Wakala customer deposits	3.77%	1,688	40,173	68,159	102,280	137,485	-	349,785
Equity of unrestricted investment accountholders	2.04%	64,443	-	-	-	-	38	64,481
Owner’s equity	-	-	-	-	-	-	88,109	88,109
Equity of accountholders & Total liabilities and shareholders’ equity		66,131	40,173	77,784	152,680	137,485	202,887	677,140
On-balance sheet gap		(11,639)	92,765	(30,095)	23,755	33,115	(107,901)	-
Cumulative profit sensitivity gap		(11,639)	81,126	51,031	74,786	107,901	-	-

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

34 Financial risk management *(continued)*

(c) Equity risk

Equity risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. The non–trading equity risk exposure arises from equity securities classified as FVOCI. A 10% change in the value of the Window's equities at FVOCI at 31 December 2022 would have impacted equity by **RO 640 thousand** (2021: Nil).

Operational risk

Maisarah has adopted the Basic Indicator Approach under Basel II for the purpose of measuring capital charge for Operational Risk. The approach requires Maisarah to provide 15% of the average three years gross annual income as capital charge for operational risk.

35 Capital management

CBO sets and monitors capital requirements for the Bank as whole as well as individually for Islamic window. A minimum of 11% ratio of total capital to total risk-weighted assets ratio is required to be maintained by Maisarah. The regulatory capital of Islamic window is analysed into the following tiers:

- Tier I capital, which includes share capital allocated from the Head office; deduction of unrealized loss on investment at fair value through equity; and retained earnings; and
- Tier II capital, which includes the impairment provision.

	2022	2021
	RO 000	*RO 000*
Types of capital		
Tier I capital	**96,394**	87,807
Tier II capital	**6,553**	7,031
Total Regulatory Capital	**102,947**	94,838
Risk weighted assets (RWA)		
Credit risk weighted assets	**541,475**	551,627
Market risk weighted assets	**4,717**	13,538
Operational risk weighted assets	**71,614**	63,777
Total risk weighted assets	**617,806**	628,942
Capital ratios		
Tier I capital ratio (%)	**15.60%**	13.96%
Total capital as a % of RWA	**16.66%**	15.08%

36 Segmental information

Maisarah is organised into three main business segments:

(1) Retail banking – incorporating private customer current accounts, savings account, term deposits, Murabaha, Diminishing Musharaka financing and Ijarah Muntahia Bittamleek;

(2) Corporate banking – incorporating current accounts, savings account, term deposits, Murabaha, Mudaraba, Wakala and Diminishing Musharaka financing; and

(3) Treasury & investments

Segment assets and liabilities including quasi-equity comprise operating assets and liabilities.

36 Segmental information *(continued)*

	2022			
	Retail banking *RO 000*	**Corporate banking** *RO 000*	**Treasury and investments** *RO 000*	**Total** *RO 000*
Segment operating revenue	**4,971**	**14,091**	**1,410**	**20,472**
Other revenues	**494**	**1,288**	**779**	**2,561**
Total segment operating revenue	**5,465**	**15,379**	**2,189**	**23,033**
Segment cost				
Operating expenses including depreciation	**(4,906)**	**(5,229)**	**(1,304)**	**(11,439)**
Net impairment	**181**	**(3,524)**	**91**	**(3,252)**
Net profit for the year before tax	**740**	**6,626**	**976**	**8,342**
Segment assets	**177,065**	**390,167**	**122,094**	**689,326**
Less: Provision for impairment	**(964)**	**(13,477)**	**(60)**	**(14,501)**
Total segment assets	**176,101**	**376,690**	**122,034**	**674,825**
Segment liabilities	**99,108**	**326,575**	**97,113**	**522,796**

	2021			
	Retail banking *RO 000*	**Corporate banking** *RO 000*	**Treasury and investments** *RO 000*	**Total** *RO 000*
Segment operating revenue	6,502	9,064	2,864	18,430
Other revenues	329	1,268	109	1,706
Net operating income	6,831	10,332	2,973	20,136
Segment cost				
Operating expenses including depreciation	(4,044)	(3,582)	(1,163)	(8,789)
Provision for impairment	(473)	(1,932)	(21)	(2,426)
Net profit for the year before tax	2,314	4,818	1,789	8,921
Segment assets	176,124	393,098	118,696	687,918
Less: Provision for impairment	(1,145)	(9,482)	(151)	(10,778)
Total segment assets	174,979	383,616	118,545	677,140
Segment liabilities	6,859	68,409	39,472	114,740