National Bank of Oman SAOG

FINANCIAL STATEMENTS

31 December 2022

Draft Subject to CBO Approval

PO Box 751 PC 112 Ruwi Sultanate of Oman.

CHAIRPERSON'S ANNUAL REPORT 2022

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

Oman's Economy

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

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

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

NBO's Operating Performance

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

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

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

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

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

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

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

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

Organizational Updates

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

Key Achievements

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

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

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

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

Muzn Islamic Banking

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

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

People and Learning & Development

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

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

Community Values

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

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

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

Local and Global Recognition

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

Banking Technology and The Banker Awards. Muzn also received multiple awards from The Banker, Alam al-Iktisaad Wal A'mal (AIWA) Awards and World Economic Magazine.

Appreciation

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

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

Thank you.

Amal Suhail Bahwan
Chairperson

National Bank of Oman SAOG

STATEMENT OF FINANCIAL POSITION

Draft Subject to CBO Approval

As at 31 December 2022

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

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

Director

Chief Executive Officer

Chairperson

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

National Bank of Oman SAOG

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Draft Subject to CBO Approval

For the year ended 31 December 2022

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

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

STATEMENT OF CHANGES IN EQUITY

Draft Subject to CBO Approval

For the year ended 31 December 2022

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

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

National Bank of Oman SAOG

STATEMENT OF CASH FLOWS

Draft Subject to CBO Approval

For the year ended 31 December 2022

2021 USD'000	***2022 USD'000***		*Notes*	***2022 RO'000***	*2021 RO'000*
		OPERATING ACTIVITIES			
93,165	**149,278**	Profit before taxation		**57,472**	35,868
		Adjustments for:			
15,958	**15,231**	Depreciation	8	**5,864**	6,144
62,299	**52,595**	Allowance for credit losses - financial instruments	28.5	**20,249**	23,985
(1,684)	**(1,691)**	Amortisation of premium		**(651)**	(648)
(2,044)	**(101)**	Profit on sale of property and equipment		**(39)**	(787)
(2,314)	**(6,291)**	Profit on investments at FVTPL	25	**(2,422)**	(891)
-	**(226)**	Translation differences		**(87)**	-
(7,574)	**(3,925)**	Payment of lease liability		**(1,511)**	(2,916)
(53,561)	**(52,701)**	Income from investment		**(20,290)**	(20,621)
104,245	**152,169**	**Operating cash flows before changes in operating assets and liabilities**		**58,585**	40,134
(17,029)	**803**	Due from banks and other money market placements		**309**	(6,556)
114,455	**(30,008)**	Due to banks and other money market deposits		**(11,553)**	44,065
(583,415)	**(741,678)**	Loans, advances and Islamic financing assets		**(285,546)**	(224,615)
(25,846)	**(91,582)**	Other assets		**(35,259)**	(9,951)
1,014,423	**336,857**	Customers' deposits		**129,690**	390,553
56,110	**82,622**	Other liabilities		**31,809**	21,603
662,943	**(290,817)**	**Cash (used in) / from operating activities**		**(111,965)**	255,233
(5,052)	**(16,499)**	Taxes paid	14	**(6,352)**	(1,945)
657,891	**(307,316)**	**Cash (used in) / from operating activities**		**(118,317)**	253,288
		INVESTING ACTIVITIES			
(329,481)	**(133,291)**	Purchase of investments		**(51,317)**	(126,850)
69,590	**255,452**	Proceeds from sale of investments		**98,349**	26,792
(5,904)	**(5,629)**	Purchase of property and equipment		**(2,167)**	(2,273)
2,423	**212**	Proceeds from disposal of property and equipment		**82**	933
53,561	**52,701**	Income from investment		**20,290**	20,621
(209,811)	**169,445**	**Net cash from /(used in) investing activities**		**65,237**	(80,777)
		FINANCING ACTIVITIES			
-	**(15,626)**	Payment of dividend	20	**(6,016)**	-
300,000	**134,112**	Proceeds from Tier 1 perpetual bond		**51,633**	115,500
(300,000)	**-**	Redemption of Tier 1 perpetual bond		**-**	(115,500)
(21,980)	**(24,000)**	Interest on Tier 1 perpetual bond		**(9,240)**	(8,462)
(649)	**(849)**	Issuance cost on Tier 1 perpetual bond		**(327)**	(250)
(22,629)	**93,637**	**Net cash from / (used in) financing activities**		**36,050**	(8,712)
425,451	**(44,234)**	**(DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS**		**(17,030)**	163,799
263,229	**688,680**	Cash and cash equivalents at the beginning of the year		**265,142**	101,343
688,680	**644,446**	**CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR**		**248,112**	265,142
		REPRESENTING:			
798,363	**678,153**	Cash and balances with Central Banks	4	**261,089**	307,370
233,631	**246,145**	Due from Banks maturing within three months		**94,766**	89,948
(343,314)	**(279,852)**	Due to Banks maturing within three months		**(107,743)**	(132,176)
688,680	**644,446**			**248,112**	265,142

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

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

National Bank of Oman SAOG ("NBO", "the Bank") was established in the Sultanate of Oman in 1973 as a joint stock company and is engaged in retail, wholesale, investment and Islamic banking services within the Sultanate of Oman and through overseas branches in the United Arab Emirates and Egypt. In Oman the bank operates under banking license issued by the Central Bank of Oman and is covered by its deposit insurance scheme, whereas in the United Arab Emirates and in Egypt the branches operate under a commercial bank licences given by the respective Central Banks. The bank is in the process of closing down its operations in Egypt and it is expected that the closure process will be completed during the year 2023. The bank is head quartered at Azaiba, Governorate of Muscat, Sultanate of Oman and its registered address is PO Box 751, Ruwi, Postal Code 112, Muscat, Sultanate of Oman. The Bank's equity shares are listed on the Muscat Stock Exchange. Perpetual bonds and bonds issued under EMTN programme are listed in the Euronext Dublin.

2 BASIS OF PREPARATION

2.1 Basis of measurement

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

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

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

2.2 Functional and presentation currency

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

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

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

2.3 Statement of compliance

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

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

2 BASIS OF PREPARATION (CONTINUED)

2.4 Significant accounting judgments and estimates

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

2.4.1 Financial Instruments

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

Measurement of expected credit losses:

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

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

2.4.2 Fair value of financial instruments

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

2.4.3 Taxes

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

2 BASIS OF PREPARATION (CONTINUED)

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

For the year ended 31 December 2022, the Bank has adopted all of new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2022. The following amendments to existing standards and framework have been applied by the Bank in preparation of these financial statements.

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

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

2.6 Standards issued but not yet effective

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

A. *Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)*

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

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

B. Other standards

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

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

3 SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Financial instruments – initial recognition

a. Date of recognition and initial measurement

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

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

b. Day 1 profit or loss

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

c. Measurement categories of financial assets and liabilities

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

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

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

3.2 Financial assets and liabilities

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

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

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

The details of these conditions are outlined below.

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

3.2.1 Due from Banks, Loans, advances and Islamic financing assets to customers, Financial investments (continued)

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

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

3.2.1 Due from Banks, Loans, advances and Islamic financing assets to customers, Financial investments at amortised cost (continued)

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

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

3.2.2 Financial assets or financial liabilities held for trading

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

3.2.3 Debt instruments at FVOCI

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

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

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

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

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

3.2.4 Equity instruments at FVOCI

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

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

3.2.5 Debt issued and other borrowed funds

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

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

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

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

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

3.2.7 Financial guarantees, letters of credit and undrawn loan commitments

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

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

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

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

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

3.2.8 Financial liabilities

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

3.2.9 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Bank designates certain derivatives as either:
(i) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
(ii) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or
(iii) hedges of a net investment in a foreign operation (net investment hedge).

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Reclassifications

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

3.4 Derecognition of the financial assets and liabilities

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

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

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

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

3.5 Modifications of financial assets and financial liabilities

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Modifications of financial assets and financial liabilities (continued)

Financial assets (continued)

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

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

Financial liabilities

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Impairment of financial assets

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

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

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

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

3.6.1 Measurement of ECL

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

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

3.6.2 Overview of the ECL principles

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

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

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

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

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

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

Stage 1

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Impairment of financial assets (continued)

3.6.2 Overview of the ECL principles (continued)

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

Stage 3
Financing exposure considered credit-impaired. The Bank records an allowance for the LTECLs.

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

3.6.3 The calculation of ECLs

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

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:
• PD – The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

• EAD – The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest/profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest/profit from missed payments.

• LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Bank would expect to receive, including from the realisation of any collateral, if any. It is usually expressed as a percentage of the EAD.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Impairment of financial assets (continued)

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

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

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

3.6.5 Debt instruments measured at fair value through OCI

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

3.6.6 Credit cards and other revolving facilities

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Credit-impaired financial assets

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

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

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

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

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

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

3.8 Write-off

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

3.9 Hedge documentation, effectiveness assessment, and discontinuation

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Determination of fair values (Continued)

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

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

3.12 Property and equipment

Property and equipment are recorded at cost or deemed cost.

i) Recognition and measurement

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

ii) Subsequent costs

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

iii) Depreciation

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

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

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

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

Buildings on freehold land	25 to 40 years
Leasehold improvements	Over the lease terms 3 to 10 years (shorter of lease term or useful life)
Motor vehicles	4 years
Furniture	3 to 10 years
Equipment	5 to 20 years

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

3.13 Collateral pending sale

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

3.14 Deposits

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Other borrowed funds

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

3.16 Taxation – current and deferred

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

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

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

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

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

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

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

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

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

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

3.17 Fiduciary assets

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 Provisions

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

3.19 Perpetual Bond

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. The Bank's perpetual bonds are not redeemable by holders and bear an entitlement to distribution that is non-cumulative and it is governed by the terms and conditions of the Instruments. Accordingly, they are presented within equity. Distributions thereon are recongnised in equity.

3.20 Offsetting

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

3.21 Revenue recognition

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

Interest and similar income and expense

Effective interest rate

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

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

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

Amortised cost and gross carrying amount

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

Calculation of interest income and expense

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Revenue recognition (Continued)

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

Presentation
Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:
— interest on financial assets and financial liabilities measured at amortised cost;
— interest on debt instruments measured at FVOCI;
— the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense;
— the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk; and

Other interest income presented in the statement of profit or loss and OCI includes interest income on lease receivables. Interest expense presented in the statement of profit or loss and OCI includes:
— financial liabilities measured at amortised cost;
— the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense;
— interest expense on lease liabilities.

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

Fee and commission income

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Revenue recognition (Continued)

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Revenue recognition (Continued)

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

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

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

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.23 Leases (continued)

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

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

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

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

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

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

3.24 Staff terminal benefits

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

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

3.25 Segment reporting

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

3.26 Dividend on ordinary shares

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

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

3.27 Directors' remuneration

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

3.28 Impairment of non-financial assets

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.29 Earnings per share

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

3.30 Foreign currency translation

(i) Transactions in foreign currencies are translated into Rial Omani at exchange rates ruling at the value dates of the transactions.

(ii) Monetary assets and liabilities denominated in foreign currencies are translated into Rial Omani at exchange rates ruling at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised costs in the Rial Omani at the beginning of the period, adjusted for effective interest and payments during the period and the amortised costs in foreign currency translated at the exchange rate at the end of the period. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

(iii) Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Rial Omani at the exchange rate at the date that the fair value was determined. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as FVOCI, are included in other comprehensive income.

3.31 Acceptances

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

3.32 Interest rate benchmark (IBOR) reform

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

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

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

4 CASH AND BALANCES WITH CENTRAL BANKS

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

(i) At 31 December 2022, cash and balances with Central Bank of Oman included balances amounting to RO 500,000 (31 December 2021: RO 500,000) as capital deposit. This deposit cannot be withdrawn without the Central Bank of Oman approval.

(ii) Minimum cash reserve to be maintained with Central Bank of Oman as of 31 December 2022 is 3% (2021: 3%) of total customer's deposits and for Central Bank of UAE, is 1% (2021: 1%) of time deposits and 7% (2021: 7%) of all other deposits.

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

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

2021 USD'000	**2022 USD'000**		**2022 RO'000**	2021 RO'000
28,751	**11,558**	Loans and advances to Banks	**4,450**	11,069
35,499	**195,101**	Placement with Banks	**75,114**	13,667
233,856	**103,159**	Demand balances	**39,716**	90,035
298,106	**309,818**	**Due from Banks and other money market placement**	**119,280**	114,771
(223)	**(52)**	Less: allowance for credit losses	**(20)**	(86)
297,883	**309,766**	**Net due from Banks and other money market placement**	**119,260**	114,685

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

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

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

6 LOANS, ADVANCES AND ISLAMIC FINANCING ASSETS (NET)

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

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

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

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

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

Recovered/released during the period includes recovery of reserved interest for RO 1.76 million (31 December 2021 – RO 1.24 million).

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

As of 31 December 2022, loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 173 million (31 December 2021 – RO 171 million).

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

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

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

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

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

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

7 FINANCIAL INVESTMENTS

2021 USD'000	***2022 USD'000***		***2022 RO'000***	*2021 RO'000*
		Investments measured at Fair value through profit and loss (FVTPL)		
1,553	**3,969**	Quoted investments - Oman	**1,528**	598
974	**894**	Quoted investments - foreign	**344**	375
6,725	**6,283**	Unquoted Investments in funds	**2,419**	2,589
9,252	**11,146**	**Total FVTPL investments**	**4,291**	3,562
		Investments measured at Fair value through other comprehensive income (FVOCI)		
		FVOCI – Equity investments		
38,205	**49,506**	Quoted investments - Oman	**19,060**	14,709
55,089	**74,530**	Quoted investments - foreign	**28,694**	21,209
57	**-**	Unquoted investments	**-**	22
93,351	**124,036**	**Total FVOCI – equity instruments**	**47,754**	35,940
		FVOCI - Debt instruments		
10,488	**-**	Government development bonds - Oman	**-**	4,038
10,488	**-**	**Total FVOCI – debt instruments**	**-**	4,038
103,839	**124,036**	**Total FVOCI**	**47,754**	39,978
		Investments measured at amortised cost		
671,945	**602,506**	Government development bonds - Oman	**231,965**	258,699
42,696	**44,886**	Government sukuk - Oman	**17,281**	16,438
57,076	**74,104**	Quoted investments - Oman	**28,530**	21,974
277,922	**194,805**	Treasury Bills	**75,000**	107,000
1,049,639	**916,301**	**Total – amortised cost**	**352,776**	404,111
1,162,730	**1,051,483**	**Total financial investments**	**404,821**	447,651
(1,229)	**(1,127)**	**Less: Impairment**	**(434)**	(473)
1,161,501	**1,050,356**	**Total financial investments**	**404,387**	447,178

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

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

7 FINANCIAL INVESTMENTS (CONTINUED)

Details of significant investments

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

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

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

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

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

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

The movement in financial investment are summarised below:

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

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

8 PROPERTY AND EQUIPMENT

	Freehold land and buildings and leasehold improvements RO'000	*Motor vehicles, furniture and equipment RO'000*	*Capital work in progress RO'000*	*Right of use assets RO'000*	*Total RO'000*
Carrying amount:					
Balance as at 1 January 2022, net of accumulated Depreciation	**44,553**	**11,572**	**1,109**	**2,658**	**59,892**
Additions	**4**	**903**	**1,260**	**938**	**3,105**
Disposals	**-**	**(3)**	**(40)**	**-**	**(43)**
Transfers	**544**	**1,064**	**(1,608)**	**-**	**-**
Depreciation	**(1,268)**	**(2,879)**	**-**	**(1,717)**	**(5,864)**
Balance at 31 December 2022, net of accumulated depreciation	**43,833**	**10,657**	**721**	**1,879**	**57,090**
At cost	**61,243**	**48,693**	**721**	**4,355**	**115,012**
Accumulated depreciation	**(17,410)**	**(38,036)**	**-**	**(2,476)**	**(57,922)**
Net carrying value at 31 December 2022	**43,833**	**10,657**	**721**	**1,879**	**57,090**
Net carrying value at 31 December 2022 – USD'000	**113,851**	**27,681**	**1,873**	**4,881**	**148,286**
Carrying amount:					
Balance as at 1 January 2021, net of accumulated Depreciation	45,852	12,330	1,240	3,146	62,568
Additions	22	915	1,336	1,341	3,614
Disposals	(122)	(7)	(17)	-	(146)
Transfers	96	1,354	(1,450)	-	-
Depreciation	(1,295)	(3,020)	-	(1,829)	(6,144)
Balance at 31 December 2021, net of accumulated depreciation	44,553	11,572	1,109	2,658	59,892
At cost	60,695	47,081	1,109	5,488	114,373
Accumulated depreciation	(16,142)	(35,509)	-	(2,830)	(54,481)
Net carrying value at 31 December 2021	44,553	11,572	1,109	2,658	59,892
Net carrying value at 31 December 2021 – USD'000	115,723	30,057	2,881	6,903	155,564

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

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

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

9 OTHER ASSETS

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

10 DUE TO BANKS AND OTHER MONEY MARKET DEPOSITS

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

11 CUSTOMERS' DEPOSITS AND UNRESTRICTED INVESTMENT ACCOUNTS

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

12 EURO MEDIUM TERM NOTES

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

13 OTHER LIABILITIES

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

Staff entitlements are as follows:

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

Movement in the lease liabilities:

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

Maturity analysis of lease liabilities:

2021 USD'000	**2022 USD'000**		**2022 RO'000**	2021 RO'000
3,364	**2,743**	1 to 5 years	**1,056**	1,295
1,184	**712**	Over 5 years	**274**	456
4,548	**3,455**	Balance at year end	**1,330**	1,751

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

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

14 TAXATION

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

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

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

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

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

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

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

The tax assessments of the Egypt operations in respect of the different taxes applicable are at different stages of completion with the respective tax authorities. The Bank's liability in respect of its branches in UAE has been agreed with the tax authorities up to 31 December 2021.

Tax liability

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

Recognised deferred tax liabilities

Deferred tax liabilities are attributable to the following:

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

14 TAXATION (CONTINUED)

Movement of deferred tax liability

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

15 SHARE CAPITAL

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

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

	2022		*2021*	
	No.of shares '000	***% Holding***	*No.of shares '000*	*% Holding*
The Commercial Bank of Qatar	**567,453**	**34.90%**	567,453	34.90%
Suhail Salim Abdullah Al Mukhaini Bahwan	**239,805**	**14.75%**	-	-
Suhail Bahwan Group (Holdings) L.L.C	-	-	239,734	14.74%
Civil Service Employee Pension Fund	**187,715**	**11.54%**	184,652	11.36%

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

16 SHARE PREMIUM

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

17 LEGAL RESERVE

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

18 OTHER RESERVES

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

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

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

19 TIER 1 PERPETUAL BOND

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

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

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

20 DIVIDENDS PAID AND PROPOSED

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

21 CONTINGENT LIABILITIES AND COMMITMENTS

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

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

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

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

21.1 Contingent liabilities

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

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

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

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

21 CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

21.2 Commitments

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

21.3 Branches

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

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

21.4 Legal claims

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

21.5 Fiduciary assets

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

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

2021 USD'000	***2022 USD'000***		***2022 RO'000***	*2021 RO'000*
273,777	**280,369**	**Fund under management**	**107,942**	105,404

Involvement with unconsolidated structured entities

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

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

2021 USD'000	***2022 USD'000***		***2022 RO'000***	*2021 RO'000*
30,878	**27,093**	**Fund under management**	**10,431**	11,888

21 CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

21.5 Fiduciary assets (continued)

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

2021 *USD'000*	***2022*** ***USD'000***		***2022*** ***RO'000***	*2021* *RO'000*
1,564	**1,514**	**Carrying amount of funds invested**	**583**	602

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

2021 *USD'000*	***2022*** ***USD'000***		***2022*** ***RO'000***	*2021* *RO'000*
30,878	**27,093**	**Fund under management**	**10,431**	11,888
306	**780**	**Commission and fees**	**300**	118

22 INTEREST INCOME

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

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

23 INTEREST EXPENSE

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

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

24 FEE AND COMMISSION INCOME (NET)

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

25 OTHER OPERATING INCOME

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

26 STAFF COSTS

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

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

27 OTHER OPERATING EXPENSES

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

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS

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

Impairment charge and provision held as of 31 December 2022

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

Mapping of IFRS 9 and CBO norms

Amounts in RO'000

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

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

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

Mapping of IFRS 9 and CBO norms

Amounts in USD'000

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

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

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

Impairment charge and provision held as of 31 December 2021

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

Mapping of IFRS 9 and CBO norms

Amounts in RO'000

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held under IFRS 9	Net Amount as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)+(8)	(7) = (3)-(5)	(8)
Standard	Stage 1	2,482,125	34,076	9,043	25,033	2,473,082	-
	Stage 2	477,469	5,189	10,652	(5,463)	466,817	-
	Stage 3	-	-	-	-	-	-
Subtotal		2,959,594	39,265	19,695	19,570	2,939,899	-
Special Mention	Stage 1				-	-	
	Stage 2	108,894	1,105	22,111	(21,006)	86,783	-
	Stage 3	-	-	-	-	-	-
Subtotal		108,894	1,105	22,111	(21,006)	86,783	-
Substandard	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	19,495	4,741	6,955	(2,145)	12,540	69
Subtotal		19,495	4,741	6,955	(2,145)	12,540	69
Doubtful	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	17,720	12,549	13,169	(182)	4,551	438
Subtotal		17,720	12,549	13,169	(182)	4,551	438
Loss	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	134,185	100,857	89,313	26,891	44,872	15,347
Subtotal		134,185	100,857	89,313	26,891	44,872	15,347
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	876,571	-	1,294	(1,294)	875,277	-
	Stage 2	213,949	-	1,881	(1,881)	212,068	-
	Stage 3	-	-	-	-	-	-
Subtotal		1,090,520	-	3,175	(3,175)	1,087,345	-
Total	Stage 1	3,358,696	34,076	10,337	23,739	3,348,359	-
	Stage 2	800,312	6,294	34,644	(28,350)	765,668	-
	Stage 3	171,400	118,147	109,437	24,564	61,963	15,854
	Total	4,330,408	158,517	154,418	19,953	4,175,990	15,854

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

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

Impairment charge and provision held as of 31 December 2021 (continued)

Mapping of IFRS 9 and CBO norms (continued)

Amounts in USD'000

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

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

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

Restructured loans

Amounts in RO'000

Asset classification as per CBO's Norms	Asset classification as per IFRS 9	Gross carrying amount	Provision required as per CBO's norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held under IFRS 9	Net carrying amount as per IFRS 9	Reserve interest as per CBO's norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)+(8)	(7) = (3)-(5)	(8)
Classified as performing	Stage 1	-	-	-	-	-	-
	Stage 2	**191,792**	**1,978**	**11,779**	**(9,801)**	**180,013**	-
	Stage 3	-	-	-	-	-	-
Subtotal		**191,792**	**1,978**	**11,779**	**(9,801)**	**180,013**	-
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	**31,532**	**22,508**	**18,919**	**7,110**	**12,613**	**3,521**
Sub total		**31,532**	**22,508**	**18,919**	**7,110**	**12,613**	**3,521**
Total	Stage 1	-	-	-	-	-	-
	Stage 2	**191,792**	**1,978**	**11,779**	**(9,801)**	**180,013**	-
	Stage 3	**31,532**	**22,508**	**18,919**	**7,110**	**12,613**	**3,521**
	Total	**223,324**	**24,486**	**30,698**	**(2,691)**	**192,626**	**3,521**

Restructured loans

Amounts in USD'000

Asset classification as per CBO's Norms	Asset classification as per IFRS 9	Gross carrying amount	Provision required as per CBO's norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held under IFRS 9	Net carrying amount as per IFRS 9	Reserve interest as per CBO's norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)+(8)	(7) = (3)-(5)	(8)
Classified as performing	Stage 1	-	-	-	-	-	-
	Stage 2	**498,161**	**5,138**	**30,595**	**(25,457)**	**467,566**	-
	Stage 3	-	-	-	-	-	-
Subtotal		**498,161**	**5,138**	**30,595**	**(25,457)**	**467,566**	-
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	**81,901**	**58,462**	**49,140**	**18,467**	**32,761**	**9,145**
Sub total		**81,901**	**58,462**	**49,140**	**18,467**	**32,761**	**9,145**
Total	Stage 1	-	-	-	-	-	-
	Stage 2	**498,161**	**5,138**	**30,595**	**(25,457)**	**467,566**	-
	Stage 3	**81,901**	**58,462**	**49,140**	**18,467**	**32,761**	**9,145**
	Total	**580,062**	**63,600**	**79,735**	**(6,990)**	**500,327**	**9,145**

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

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

Restructured loans

Amounts in RO'000

Asset classification as per CBO's Norms	Asset classification as per IFRS 9	Gross carrying amount	Provision required as per CBO's norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held under IFRS 9	Net carrying amount as per IFRS 9	Reserve interest as per CBO's norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)+(8)	(7) = (3)-(5)	(8)
Classified as performing	Stage 1	-	-	-	-	-	-
	Stage 2	131,939	15,059	7,828	7,231	124,111	-
	Stage 3	-	-	-	-	-	-
Subtotal		131,939	15,059	7,828	7,231	124,111	-
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	34,815	35,683	31,571	9,648	3,244	5,536
Sub total		34,815	35,683	31,571	9,648	3,244	5,536
Total	Stage 1	-	-	-	-	-	-
	Stage 2	131,939	15,059	7,828	7,231	124,111	-
	Stage 3	34,815	35,683	31,571	9,648	3,244	5,536
	Total	166,754	50,742	39,399	16,879	127,355	5,536

Amounts in USD'000

Asset classification as per CBO's Norms	Asset classification as per IFRS 9	Gross carrying amount	Provision required as per CBO's norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held under IFRS 9	Net carrying amount as per IFRS 9	Reserve interest as per CBO's norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)+(8)	(7) = (3)-(5)	(8)
Classified as performing	Stage 1	-	-	-	-	-	-
	Stage 2	342,699	39,114	20,332	18,782	322,367	-
	Stage 3	-	-	-	-	-	-
Subtotal		342,699	39,114	20,332	18,782	322,367	-
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	90,429	92,683	82,003	25,059	8,426	14,379
Sub total		90,429	92,683	82,003	25,059	8,426	14,379
Total	Stage 1	-	-	-	-	-	-
	Stage 2	342,699	39,114	20,332	18,782	322,367	-
	Stage 3	90,429	92,683	82,003	25,059	8,426	14,379
	Total	433,128	131,797	102,335	43,841	330,793	14,379

Draft Subject to CBO Approval

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

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

	Stage 1	*Stage 2*	*Stage 3*	*Total*
	RO' 000	*RO'000*	*RO'000*	*RO'000*
Exposure subject to ECL				
- Loans, advances and Islamic financing assets	2,801,141	538,141	173,112	3,512,394
- Financial investment	399,046	5,775	-	404,821
- Contingent liabilities and commitments	415,860	108,531	-	524,391
- Due from banks and other money market placements	119,280	-	-	119,280
	3,735,327	652,447	173,112	4,560,886
Opening Balance – as at 1 January 2022				
- Loans, advances and Islamic financing assets	9,043	32,763	109,437	151,243
- Financial investment (Debt)	300	173	-	473
- Contingent liabilities and commitments	908	1,708	-	2,616
- Due from banks and other money market placements	86	-	-	86
	10,337	34,644	109,437	154,418
Net transfer between stages				
- Loans, advances and Islamic financing assets	(108)	(2,716)	2,824	-
- Financial investment (Debt)	-	-	-	-
- Contingent liabilities and commitments	-	-	-	-
- Due from banks and other money market placements	-	-	-	-
	(108)	(2,716)	2,824	-
(Release) / charge for the period (net)				
- Loans, advances and Islamic financing assets	(3,450)	13,440	21,757	31,747
- Financial investment (Debt)	12	(51)	-	(39)
- Contingent liabilities and commitments	(331)	192	-	(139)
- Due from banks and other money market placements	(66)	-	-	(66)
	(3,835)	13,581	21,757	31,503
Write off for the period				
- Loans, advances and Islamic financing assets	-	-	(24,295)	(24,295)
	-	-	(24,295)	(24,295)
Closing Balance – as at 31 December 2022				
- Loans, advances and Islamic financing assets	5,485	43,487	109,723	158,695
- Financial investment (Debt)	312	122	-	434
- Contingent liabilities and commitments	577	1,900	-	2,477
- Due from banks and other money market placements	20	-	-	20
	6,394	45,509	109,723	161,626

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

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

	Stage 1	*Stage 2*	*Stage 3*	*Total*
	USD' 000	*USD' 000*	*USD' 000*	*USD' 000*
Exposure subject to ECL				
- Loans, advances and Islamic financing assets	**7,275,691**	**1,397,769**	**449,642**	**9,123,102**
- Financial investment	**1,036,483**	**15,000**	**-**	**1,051,483**
- Contingent liabilities and commitments	**1,080,156**	**281,899**	**-**	**1,362,055**
- Due from banks and other money market placements	**309,818**	**-**	**-**	**309,818**
	9,702,148	**1,694,668**	**449,642**	**11,846,458**
Opening Balance - as at 1 January 2022				
- Loans, advances and Islamic financing assets	**23,488**	**85,098**	**284,253**	**392,839**
- Financial investment (Debt)	**779**	**450**	**-**	**1,229**
- Contingent liabilities and commitments	**2,359**	**4,436**	**-**	**6,795**
- Due from banks and other money market placements	**223**	**-**	**-**	**223**
	26,849	**89,984**	**284,253**	**401,086**
Net transfer between stages				
- Loans, advances and Islamic financing assets	**(279)**	**(7,056)**	**7,335**	**-**
- Financial investment (Debt)	**-**	**-**	**-**	**-**
- Contingent liabilities and commitments	**-**	**-**	**-**	**-**
- Due from banks and other money market placements	**-**	**-**	**-**	**-**
	(279)	**(7,056)**	**7,335**	**-**
(Release) / charge for the period (net)				
- Loans, advances and Islamic financing assets	**(8,961)**	**34,909**	**56,512**	**82,460**
- Financial investment (Debt)	**31**	**(133)**	**-**	**(102)**
- Contingent liabilities and commitments	**(862)**	**501**	**-**	**(361)**
- Due from banks and other money market placements	**(171)**	**-**	**-**	**(171)**
	(9,963)	**35,277**	**56,512**	**81,826**
Write off for the period				
- Loans, advances and Islamic financing assets	**-**	**-**	**(63,104)**	**(63,104)**
	-	**-**	**(63,104)**	**(63,104)**
Closing Balance - as at 31 December 2022				
- Loans, advances and Islamic financing assets	**14,248**	**112,951**	**284,996**	**412,195**
- Financial investment (Debt)	**810**	**317**	**-**	**1,127**
- Contingent liabilities and commitments	**1,497**	**4,937**	**-**	**6,434**
- Due from banks and other money market placements	**52**	**-**	**-**	**52**
	16,607	**118,205**	**284,996**	**419,808**

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

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

	Stage 1	*Stage 2*	*Stage 3*	*Total*
	RO' 000	***RO'000***	***RO'000***	***RO'000***
Exposure subject to ECL				
- Loans, advances and Islamic financing assets	2,482,126	586,363	171,400	3,239,889
- Financial investment	441,876	5,775	-	447,651
- Contingent liabilities and commitments	261,563	213,949	-	475,512
- Due from banks and other money market placements	114,771	-	-	114,771
	3,300,336	806,087	171,400	4,277,823
Opening Balance – as at 1 January 2021				
- Loans, advances and Islamic financing assets	11,840	31,626	112,426	155,892
- Financial investment (Debt)	318	-	-	318
- Contingent liabilities and commitments	910	1,940	-	2,850
- Due from banks and other money market placements	87	-	-	87
	13,155	33,566	112,426	159,147
Net transfer between stages				
- Loans, advances and Islamic financing assets	(365)	(18,609)	18,974	-
- Financial investment (Debt)	(120)	120	-	-
- Contingent liabilities and commitments	-	-	-	-
- Due from banks and other money market placements	-	-	-	-
	(485)	(18,489)	18,974	-
(Release) / charge for the period (net)				
- Loans, advances and Islamic financing assets	(2,432)	19,746	16,225	33,539
- Financial investment (Debt)	102	53	-	155
- Contingent liabilities and commitments	(2)	(232)	-	(234)
- Due from banks and other money market placements	(1)	-	-	(1)
	(2,333)	19,567	16,225	33,459
Write off for the period				
- Loans, advances and Islamic financing assets	-	-	(38,188)	(38,188)
	-	-	(38,188)	(38,188)
Closing Balance – as at 31 December 2021				
- Loans, advances and Islamic financing assets	9,043	32,763	109,437	151,243
- Financial investment (Debt)	300	173	-	473
- Contingent liabilities and commitments	908	1,708	-	2,616
- Due from banks and other money market placements	86	-	-	86
	10,337	34,644	109,437	154,418

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

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

	Stage 1	***Stage 2***	***Stage 3***	***Total***
	USD' 000	***USD' 000***	***USD' 000***	***USD' 000***
Exposure subject to ECL				
- Loans, advances and Islamic financing assets	6,447,082	1,523,021	445,194	8,415,297
- Financial investment	1,147,730	15,000	-	1,162,730
- Contingent liabilities and commitments	679,385	555,712	-	1,235,097
- Due from banks and other money market placements	298,108	-	-	298,108
	8,572,305	2,093,733	445,194	11,111,232
Opening Balance - as at 1 January 2021				
- Loans, advances and Islamic financing assets	30,753	82,145	292,016	404,914
- Financial investment (Debt)	826	-	-	826
- Contingent liabilities and commitments	2,364	5,039	-	7,403
- Due from banks and other money market placements	226	-	-	226
	34,169	87,184	292,016	413,369
Net transfer between stages				
- Loans, advances and Islamic financing assets	(948)	(48,335)	49,283	-
- Financial investment (Debt)	(312)	312	-	-
- Contingent liabilities and commitments	-	-	-	-
- Due from banks and other money market placements	-	-	-	-
	(1,260)	(48,023)	49,283	-
(Release) / charge for the period (net)				
- Loans, advances and Islamic financing assets	(6,317)	51,288	42,143	87,114
- Financial investment (Debt)	265	138	-	403
- Contingent liabilities and commitments	(5)	(603)	-	(608)
- Due from banks and other money market placements	(3)	-	-	(3)
	(6,060)	50,823	42,143	86,906
Write off for the period				
- Loans, advances and Islamic financing assets	-	-	(99,189)	(99,189)
	-	-	(99,189)	(99,189)
Closing Balance - as at 31 December 2021				
- Loans, advances and Islamic financing assets	23,488	85,098	284,253	392,839
- Financial investment (Debt)	779	450	-	1,229
- Contingent liabilities and commitments	2,359	4,436	-	6,795
- Due from banks and other money market placements	223	-	-	223
	26,849	89,984	284,253	401,086

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

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

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

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

Movement in loans as at 31 December 2021

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

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

28 CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

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

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

29 RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank conducts transactions with certain of its directors, shareholders, senior management and companies over which they have significant interest. Principal shareholders comprise of all shareholders with holding more than 10% of the paid-up share capital and others include directors, senior management and associate companies of principal shareholders and directors. The Bank engages in transactions with related parties at arm's length terms and in accordance with relevant laws and regulations. Terms of these transactions are approved by the Bank's Board and Management.

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

	2022			*2021*		
	Principal shareholders RO'000	***Others RO'000***	***Total RO'000***	*Principal shareholders RO'000*	*Others RO'000*	*Total RO'000*
Loans, advances and Islamic financing assets	**-**	**141,789**	**141,789**	-	147,445	147,445
Customers' deposits	**150,110**	**56,059**	**206,169**	106,081	61,386	167,467
Due from Banks	**4,376**	**-**	**4,376**	603	-	603
Due to Banks	**94**	**-**	**94**	260	-	260
Letter of credit, guarantees and acceptance	**985**	**12,723**	**13,708**	618	16,930	17,548
Investment	**2,702**	**541**	**3,243**	2,453	598	3,051

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

Interest income	**23**	**7,993**	**8,016**	2	6,807	6,809
Commission income	**9**	**428**	**437**	6	380	386
Interest expense	**4,912**	**2,141**	**7,053**	1,576	1,341	2,917
Other expenses	**-**	**1,406**	**1,406**	-	850	850

29 RELATED PARTY TRANSACTIONS (CONTINUED)

	2022			*2021*		
	Principal shareholders USD'000	***Others USD'000***	***Total USD'000***	*Principal shareholders USD'000*	*Others USD'000*	*Total USD'000*
Loans, advances and Islamic financing assets	**-**	**368,283**	**368,283**	-	382,974	382,974
Customers' deposits	**389,896**	**145,608**	**535,504**	275,535	159,444	434,979
Due from Banks	**11,366**	**-**	**11,366**	1,566	-	1,566
Due to Banks	**244**	**-**	**244**	675	-	675
Letter of credit, guarantees and acceptance	**2,558**	**33,047**	**35,605**	1,605	43,974	45,579
Investment	**7,018**	**1,405**	**8,423**	6,371	1,553	7,924

The statement of profit or loss and other comprehensive income includes following amounts as relation to the transaction with related parties.

	2022			*2021*		
	Principal shareholders USD'000	***Others USD'000***	***Total USD'000***	*Principal shareholders USD'000*	*Others USD'000*	*Total USD'000*
Interest income	**60**	**20,761**	**20,821**	5	17,681	17,686
Commission income	**23**	**1,112**	**1,135**	16	987	1,003
Interest expense	**12,758**	**5,561**	**18,319**	4,094	3,483	7,577
Other expenses	**-**	**3,652**	**3,652**	-	2,208	2,208

Details regarding senior management compensation are set out below:

2021 USD'000	***2022 USD'000***		***2022 RO'000***	*2021 RO'000*
		Salaries and other benefits		
5,987	**5,278**	- Fixed	**2,032**	2,305
4,865	**2,784**	- Discretionary	**1,072**	1,873
10,852	**8,062**		**3,104**	4,178

30 BASIC AND DILUTED EARNINGS PER SHARE

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

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

31 CAPITAL ADEQUACY

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

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

Capital management

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

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

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

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

2021	***2022***		***2022***	*2021*
USD'000	***USD'000***		***RO'000***	*RO'000*
		Capital base		
1,090,896	**1,161,288**	Common equity Tier 1 - shareholders' funds	**447,096**	419,995
300,000	**434,112**	Additional Tier 1 - capital	**167,133**	115,500
68,538	**57,969**	Tier 2 - subordinated debt and eligible impairment provisions	**22,318**	26,387
1,459,434	**1,653,369**	Total capital base	**636,547**	561,882
		Risk weighted assets		
8,395,616	**8,801,486**	Credit risk	**3,388,572**	3,232,312
598,478	**614,532**	Operational risk	**236,595**	230,414
248,356	**345,519**	Market risk	**133,025**	95,617
9,242,450	**9,761,537**	Total risk weighted assets	**3,758,192**	3,558,343
11.8%	**11.9%**	Common Equity Tier 1 Ratio	**11.9%**	11.8%
15.0%	**16.3%**	Tier 1 Ratio	**16.3%**	15.0%
15.8%	**16.9%**	Risk asset ratio (Basel II norms)	**16.9%**	15.8%

32 RISK MANAGEMENT

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

32 RISK MANAGEMENT (CONTINUED)

32.1 CREDIT RISK

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

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

Corporate credit
Corporate Credit Risk Division is responsible for independent assessment and control of the risks related to all Corporate, Business Banking, Financial Institutions as well as Small and Medium enterprise exposures. The credit risk associated with any corporate financing is assessed based on an analysis of the customer and the industry it operates in. The credit rating acts as a key factor in credit decisions at the time of approval and subsequent credit assessments. The Division reviews and assesses credit risk for proposed exposures prior to facilities being committed to customers by the concerned business units. Renewals and reviews of facilities are subject to the same process. Each proposal is also assessed with respect to established concentration limits for various economic sectors, countries, risk grades, etc. and deviations, if any are highlighted. The Bank follows a risk adjusted return of capital model for benchmarking risk pricing and each credit proposal is also assessed based on internal benchmarks of required risk adjusted returns. The Bank has implemented a customised Moody's Risk Analyst model for risk rating corporate borrowers. The Bank maintains an accurate and consistent corporate credit rating for all its customers.

In addition to formal annual credit risk reviews of each corporate facility, more frequent reviews are also undertaken for watch list accounts, early warning accounts, lower rated customers, public companies and large exposures. Further, the Bank continues to undertake quarterly review of financial institutions and country portfolio including stress tests and review of adverse rating migrations and outlooks in line with best practices and regulatory guidelines. The Bank also undertook a weekly review across all its business segments of early warning accounts, which showed signs of stress, and remedial action prescribed as necessary.
A comprehensive review of the Corporate Credit Portfolio is conducted on a quarterly basis and provided to the Senior Management and the Board Risk Committee. Salient areas covered in the review include: -

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

32 RISK MANAGEMENT (CONTINUED)

32.1 CREDIT RISK (CONTINUED)

- Exposures to senior members and non-resident borrowers
- Exposures to countries / financial institutions
- Clean lending and name lending exposures

The Bank introduced prudent control measures for its UAE operations in line with the changing operating environment detailed below

- Revised business focus on Oman-UAE business corridor with emphasis on businesses sponsored by Omani or reputed UAE nationals.
- Enhanced Due diligence and strengthened KYC processes
- Revised Standard Operating Procedures in line with changing business needs.

Retail credit

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

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

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

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

Loan review mechanism

The Bank has an independent Loan Review Mechanism Division (LRM) with a mandate for constantly evaluating the quality of the loan book, and the balance between risk and reward and to bring about qualitative improvements in credit administration. The division evaluates the effectiveness of loan administration, integrity of the credit grading process, assessment of general and specific loan loss provisions, portfolio quality, etc. In addition to the above the LRM team reviews the Bank's effectiveness of approved internal controls and procedures to ensure robust and sound practices are being followed by all stake holders. LRM also performs independent ad hoc reviews, investigations and assessments as directed by management on areas of concern relating to the credit approval process and/or the analysis processes within the Bank. Significant findings are reported to the CRO, the MRC and potentially to the BRC where warranted.

Risk mitigation policies

The Bank manages, limits and controls concentrations of credit risk − in particular, with respect to individual counterparties and groups, and industries and countries. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored and reviewed periodically by the Management Credit Committee and Board Risk Committee.

32 RISK MANAGEMENT (CONTINUED)

32.1 CREDIT RISK (CONTINUED)

Maximum exposure to credit risk

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

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

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

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

Collateral and other credit enhancements

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

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

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

32 RISK MANAGEMENT (CONTINUED)

32.1 CREDIT RISK (CONTINUED)

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

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

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

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

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

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

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

32 RISK MANAGEMENT (CONTINUED)

32.1 CREDIT RISK (CONTINUED)

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

	Stage 1	*Stage 2*	*Stage 3*	*Total*
	USD'000	*USD'000*	*USD'000*	*USD'000*
Gross loans, advances and Islamic financing assets to customers - corporate Banking				
Performing loans (Grades 1-5)	**3,743,597**	**363,213**	**-**	**4,106,810**
Performing loans (Grades 6)	**42,540**	**410,486**	**-**	**453,026**
Performing loans (Grades 7)	**-**	**483,730**	**-**	**483,730**
Non-performing loans (Grades 8-10)	**-**	**-**	**354,364**	**354,364**
Gross loans, advances and Islamic financing assets to customers - corporate Banking	**3,786,137**	**1,257,429**	**354,364**	**5,397,930**
Gross loans, advances and Islamic financing assets to customers – retail Banking				
Performing loans (Grades 1-7)	**3,489,553**	**140,340**	**-**	**3,629,893**
Non-performing loans (Grades 8-10)	**-**	**-**	**95,278**	**95,278**
Gross loans, advances and Islamic financing assets to customers - retail Banking	**3,489,553**	**140,340**	**95,278**	**3,725,171**
Total gross loans, advances and Islamic financing assets to customers	**7,275,690**	**1,397,769**	**449,642**	**9,123,101**
Loss allowance - loans, advances and Islamic financing assets to customers	**14,248**	**112,951**	**279,393**	**406,592**
Credit related contingent items and commitment				
Performing loans (Grades 1-5)	**558,545**	**130,660**	**-**	**689,205**
Performing loans (Grades 6)	**31,213**	**25,101**	**-**	**56,314**
Performing loans (Grades 7)	**-**	**79,821**	**-**	**79,821**
Non-performing loans (Grades 8-10)	**-**	**-**	**16,171**	**16,171**
Total gross credit related contingent items and commitment	**589,758**	**235,582**	**16,171**	**841,511**
Loss allowance - contingent liabilities and commitment	**1,497**	**4,937**	**5,603**	**12,037**

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32 RISK MANAGEMENT (CONTINUED)

32.1 CREDIT RISK (CONTINUED)

	Stage 1	**Stage 2**	**Stage 3**	**Total**
	USD'000	***USD'000***	***USD'000***	***USD'000***
Due from Banks and money market placements				
Performing Banks (Aa1 to Baa3)	**181,239**	**-**	**-**	**181,239**
Performing Banks (B1 to Ba2)	**47,070**	**-**	**-**	**47,070**
Performing Banks (Unrated)	**81,509**	**-**	**-**	**81,509**
Due from Banks and money market placements	**309,818**	**-**	**-**	**309,818**
Loss allowance - due from Banks and money market placements	**52**	**-**	**-**	**52**
Financial investment	**1,036,483**	**15,000**	**-**	**1,051,483**
Loss allowance – financial investment	**810**	**317**	**-**	**1,127**

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts as of 31 December 2021:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
	RO'000	*RO'000*	*RO'000*	*RO'000*
Gross loans, advances and Islamic financing assets to customers - corporate Banking				
Performing loans (Grades 1-5)	989,405	289,477	-	1,278,882
Performing loans (Grades 6)	166,838	138,507	-	305,345
Performing loans (Grades 7)	-	106,466	-	106,466
Non-performing loans (Grades 8-10)	-	-	139,412	139,412
Gross loans, advances and Islamic financing assets to customers - corporate Banking	1,156,243	534,450	139,412	1,830,105
Gross loans, advances and Islamic financing assets to customers – retail Banking				
Performing loans (Grades 1-7)	1,325,882	51,913	-	1,377,795
Non-performing loans (Grades 8-10)	-	-	31,989	31,989
Gross loans, advances and Islamic financing assets to customers - retail Banking	1,325,882	51,913	31,989	1,409,784
Total gross loans, advances and Islamic financing assets to customers	2,482,125	586,363	171,401	3,239,889
Loss allowance - loans, advances and Islamic financing assets	9,043	32,763	105,908	147,714
Credit related contingent items and commitment				
Performing loans (Grades 1-5)	214,061	52,259	-	266,320
Performing loans (Grades 6)	21,955	18,555	-	40,510
Performing loans (Grades 7)	-	35,323	-	35,323
Non-performing loans (Grades 8-10)	-	-	14,094	14,094
Total gross credit related contingent items and commitment	236,016	106,137	14,094	356,247
Loss allowance – contingent items and commitment	908	1,708	3,529	6,145

32 RISK MANAGEMENT (CONTINUED)

32.1 CREDIT RISK (CONTINUED)

	Stage 1	*Stage 2*	*Stage 3*	*Total*
	RO'000	*RO'000*	*RO'000*	*RO'000*
Due from Banks and money market placements				
Performing Banks (Aa1 to Baa3)	97,587	-	-	97,587
Performing Banks (B1 to Ba2)	14,687	-	-	14,687
Performing Banks (Unrated)	2,497	-	-	2,497
Due from Banks and money market placements	114,771	-	-	114,771
Loss allowance – Banks and money market placements	86	-	-	86
Financial investment	441,876	5,775	-	447,651
Loss allowance – financial investment	300	173	-	473

	Stage 1	*Stage 2*	*Stage 3*	*Total*
	USD'000	*USD'000*	*USD'000*	*USD'000*
Gross loans, advances and Islamic financing assets to customers - corporate Banking				
Performing loans (Grades 1-5)	2,569,883	751,888	-	3,321,771
Performing loans (Grades 6)	433,345	359,758	-	793,103
Performing loans (Grades 7)	-	276,535	-	276,535
Non-performing loans (Grades 8-10)	-	-	362,109	362,109
Gross loans, advances and Islamic financing assets to customers - corporate Banking	3,003,228	1,388,181	362,109	4,753,518
Gross loans, advances and Islamic financing assets to customers – retail Banking				
Performing loans (Grades 1-7)	3,443,849	134,839	-	3,578,688
Non-performing loans (Grades 8-10)	-	-	83,088	83,088
Gross loans, advances and Islamic financing assets to customers - retail Banking	3,443,849	134,839	83,088	3,661,776
Total gross loans, advances and Islamic financing assets to customers	6,447,077	1,523,020	445,197	8,415,294
Loss allowance - loans, advances and Islamic financing assets	23,488	85,099	275,086	383,673
Credit related contingent items and commitment				
Performing loans (Grades 1-5)	556,003	135,738	-	691,741
Performing loans (Grades 6)	57,026	48,195	-	105,221
Performing loans (Grades 7)	-	91,748	-	91,748
Non-performing loans (Grades 8-10)	-	-	36,608	36,608
Total gross credit related contingent items and commitment	613,029	275,681	36,608	925,318
Loss allowance – contingent items and commitment	2,358	4,436	9,166	15,960

32 RISK MANAGEMENT (CONTINUED)

32.1 CREDIT RISK (CONTINUED)

	Stage 1	*Stage 2*	*Stage 3*	*Total*
	USD'000	*USD'000*	*USD'000*	*USD'000*
Due from Banks and money market placements				
Performing Banks (Aa1 to Baa3)	253,472	-	-	253,472
Performing Banks (B1 to Ba2)	38,148	-	-	38,148
Performing Banks (Unrated)	6,486	-	-	6,486
Due from Banks and money market placements	298,106	-	-	298,106
Loss allowance – Banks and money market placements	223	-	-	223
Financial investment	1,147,730	15,000	-	1,162,730
Loss allowance – financial investment	779	450	-	1,229

Impairment assessment

Definition of default and cure

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

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

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

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

Incorporation of forward-looking information

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

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

32 RISK MANAGEMENT (CONTINUED)

32.1 CREDIT RISK (CONTINUED)

Impairment assessment (CONTINUED)

Economic variable assumptions

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

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

1. Despite the fact that oil price was not chosen as an explanatory variable during statistical optimisation of variable selection, the business acumen as well as correlation analysis suggest that it is a major driving force in determination of GDP and real interest rate as defined by the World Bank (GDP deflator is highly affected by oil price as oil manufacturing is responsible for a vast portion of GDP volume in Oman)
2. The base scenario was created on the assumption of stabilisation of oil price at the level of 66 USD/barrel for Brent oil (2021: 42 USD/barrel for Brent oil).
3. The alternative scenarios were constructed based on deviations from the base trajectory of oil price taking into account:
    a. historical volatility of changes in oil prices (28% standard deviation of annual relative price changes),
    b. size of the detachment equal to plus/minus 0.87 standard deviation from the base scenario as an approximate representation of 33.33% probability of alternative (adverse and favourable) scenarios,
    c. the time dynamics of the variable was based on assumption of normal distribution of annual changes of oil prices with some mean reverting characteristics and respective time scaling (standard deviation times square root of time) with the signs (-/+) in line with the character of the scenario (adverse / favourable).
4. GDP and real interest rate were forecasted deterministically based on their reciprocal dependencies and their relationship (with appropriate time lags) to oil price changes assuming mid-prices of Brent oil under given scenario as obtained through the process described in 3.
5. GDP per capita was predicted through regression to corresponding GDP changes as estimated for a given scenario and assumed lowering pace of population growth not dependent on the scenario in question.

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

32 RISK MANAGEMENT (CONTINUED)

32.1 CREDIT RISK (CONTINUED)

Impairment assessment (CONTINUED)

Credit risk Grade

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

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

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

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

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

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

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

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

32 RISK MANAGEMENT (CONTINUED)

32.1 CREDIT RISK (CONTINUED)

Sensitivity analysis

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

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

Exposure at default

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

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

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

Loss given default

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

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

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

Significant Increase in Credit Risk

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

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower

32 RISK MANAGEMENT (CONTINUED)

32.1 CREDIT RISK (CONTINUED)

Significant Increase in Credit Risk (continued)

Credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. The Bank applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Bank may also consider that events set out below are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

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

Management overlays may be applied to the model outputs if consistent with the objective of identifying a significant increase in credit risk.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured at 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Bank determines a probation period during which the financial asset is required to demonstrate good behavior to provide evidence that its credit risk has declined sufficiently. When the contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

32 RISK MANAGEMENT (CONTINUED)

32.1 CREDIT RISK (CONTINUED)

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3.5.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:
• its remaining lifetime PD at the reporting date based on the modified terms; with
• the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Bank Credit Committee regularly reviews reports on forbearance activities. For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that it falls within the 12-month PD ranges for the asset to be considered Stage 1.

Measurement of ECL - Judgemental adjustments:

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

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

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

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

32 RISK MANAGEMENT (CONTINUED)

32.1 CREDIT RISK (CONTINUED)

Model risk management:

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

To manage the model risks, the Bank has implemented the IFRS 9 Governance Framework (the Framework). The Framework is a Bank wide policy and is applicable to all models of the Bank. According to the Framework, all internally or externally (vendor based) developed risk quantification models that directly affect the financial reporting on Expected Loss (EL) and Lifetime Expected Loss (LEL) require independent validation.

The Framework establishes a systematic approach to manage the development, validation, approval, implementation and on-going use of the models. It sets out an effective management structure with clearly defined roles and responsibilities, policies and controls for managing model risk. The Framework is reviewed on a regular basis to ensure it meets regulatory standards and international practices. Any major change to the Framework must be approved by the Board of Directors or the BRCC.

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

32.2 LIQUIDITY RISK

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. To limit this risk, the management continuously looks for opportunities to diversify its funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains liquidity by continually assessing, identifying and monitoring changes in funding needs required to meet strategic goals set in terms of the overall strategy. In addition, the Bank holds certain liquid assets as part of its liquidity risk management strategy.

The Bank manages the liquidity risk based on the Central Bank of Oman guidelines and the Liquidity and Liquidity Contingency Policies, which are approved and periodically reviewed by the Board Risk Committee. Liquidity Risk position is monitored regularly through analysis of various reports, such as, Maturity of Assets and Liabilities, Liquidity Lines, Early Warning Indicators and Stock Ratios. Further, the Bank also periodically conducts stress tests on liquidity based on market and Bank specific events in line with Basel Committee recommendations. The liquidity position of the Bank and stress test scenarios are regularly reviewed by the management and also discussed at the Board Risk Committee.

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

The Net Stable Funding Ratio (NSFR) is a longer term structural ratio designed to address liquidity mismatches and reduce funding risk over a one-year horizon. It is effective January 2020, with a minimum ratio of 100% as per the regulatory guidance.

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32 RISK MANAGEMENT (CONTINUED)

32.2 LIQUIDITY RISK (CONTINUED)

The residual maturity behavioural of the assets, liabilities and equity at 31 December 2022 is as follows:

	On demand within 3 months RO'000	*3 to 12 months RO'000*	*Subtotal less than 12 months RO'000*	*1 to 5 years RO'000*	*Over 5 years RO'000*	*Subtotal over 12 months RO'000*	*Total RO'000*
Cash and balances with Central Banks	156,433	55,082	211,515	26,037	24,037	50,074	261,589
Due from Banks and other money market placements (net)	104,221	2,525	106,746	12,514	-	12,514	119,260
Loans, advances and financing activities for customers (net)	360,031	214,063	574,094	931,796	1,847,809	2,779,605	3,353,699
Financial investments	121,018	35,677	156,695	120,542	127,150	247,692	404,387
Property and equipment	-	-	-	-	57,090	57,090	57,090
Other assets	89,309	8,677	97,986	69	-	69	98,055
Total assets	**831,012**	**316,024**	**1,147,036**	**1,090,958**	**2,056,086**	**3,147,044**	**4,294,080**
Due to Banks and other money market deposits	107,743	11,550	119,293	142,450	-	142,450	261,743
Customers' deposits and unrestricted investment accounts	688,736	1,063,798	1,752,534	773,009	521,879	1,294,888	3,047,422
Euro medium term notes	-	188,865	188,865	-	-	-	188,865
Other liabilities	131,042	7,308	138,350	425	460	885	139,235
Taxation	15,981	-	15,981	-	-	-	15,981
Shareholders' equity	-	-	-	-	473,701	473,701	473,701
Tier 1 perpetual bonds	-	-	-	-	167,133	167,133	167,133
Total liabilities and shareholders' equity	**943,502**	**1,271,521**	**2,215,023**	**915,884**	**1,163,173**	**2,079,057**	**4,294,080**
Total liquidity gap	**(112,490)**	**(955,497)**	**(1,067,987)**	**175,074**	**892,913**	**1,067,987**	**-**
Cumulative liquidity gap	**(112,490)**	**(1,067,987)**	**(2,135,974)**	**(1,960,900)**	**(1,067,987)**	**-**	**-**

	On demand within 3 months USD'000	*3 to 12 months USD'000*	*Subtotal less than 12 months USD'000*	*1 to 5 years USD'000*	*Over 5 years USD'000*	*Subtotal over 12 months USD'000*	*Total USD'000*
Cash and balances with Central Banks	406,319	143,070	549,389	67,629	62,434	130,063	679,452
Due from Banks and other money market placements (net)	270,704	6,558	277,262	32,504	-	32,504	309,766
Loans, advances and financing activities for customers (net)	935,146	556,008	1,491,154	2,420,249	4,799,504	7,219,753	8,710,907
Financial investments	314,332	92,668	407,000	313,096	330,260	643,356	1,050,356
Property and equipment	-	-	-	-	148,286	148,286	148,286
Other assets	231,971	22,538	254,509	179	-	179	254,688
Total assets	**2,158,472**	**820,842**	**2,979,314**	**2,833,657**	**5,340,484**	**8,174,141**	**11,153,455**
Due to Banks and other money market deposits	279,852	30,000	309,852	370,000	-	370,000	679,852
Customers' deposits and unrestricted investment accounts	1,788,924	2,763,112	4,552,036	2,007,816	1,355,530	3,363,346	7,915,382
Euro medium term notes	-	490,558	490,558	-	-	-	490,558
Other liabilities	340,368	18,982	359,350	1,104	1,195	2,299	361,649
Taxation	41,509	-	41,509	-	-	-	41,509
Shareholders' equity	-	-	-	-	1,230,393	1,230,393	1,230,393
Tier 1 perpetual bonds	-	-	-	-	434,112	434,112	434,112
Total liabilities and shareholders' equity	**2,450,653**	**3,302,652**	**5,753,305**	**2,378,920**	**3,021,230**	**5,400,150**	**11,153,455**
Total liquidity gap	**(292,181)**	**(2,481,810)**	**(2,773,991)**	**454,737**	**2,319,254**	**2,773,991**	**-**
Cumulative liquidity gap	**(292,181)**	**(2,773,991)**	**(5,547,982)**	**(5,093,245)**	**(2,773,991)**	**-**	**-**

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32 RISK MANAGEMENT (CONTINUED)

32.2 LIQUIDITY RISK (CONTINUED)

The maturity profile of the assets, liabilities and equity at 31 December 2021 is as follows:

	On demand within 3 months RO'000	3 to 12 months RO'000	Subtotal less than 12 months RO'000	1 to 5 years RO'000	Over 5 years RO'000	Subtotal over 12 months RO'000	Total RO'000
Cash and balances with Central Banks	206,334	50,095	256,429	22,484	28,957	51,441	307,870
Due from Banks and other money market placements (net)	89,948	8,181	98,129	16,556	-	16,556	114,685
Loans, advances and financing activities for customers (net)	499,629	221,926	721,555	805,820	1,561,271	2,367,091	3,088,646
Financial investments	153,790	12,553	166,343	110,947	169,888	280,835	447,178
Property and equipment	-	-	-	-	59,892	59,892	59,892
Other assets	53,683	8,990	62,673	123	-	123	62,796
Total assets	1,003,384	301,745	1,305,129	955,930	1,820,008	2,775,938	4,081,067
Due to Banks and other money market deposits	132,176	11,553	143,729	154,000	-	154,000	297,729
Customers' deposits and unrestricted investment accounts	730,578	974,150	1,704,728	655,374	557,630	1,213,004	2,917,732
Euro medium term notes	-	-	-	192,500	-	192,500	192,500
Other liabilities	100,495	2,220	102,715	1,289	472	1,761	104,476
Taxation	13,175	-	13,175	-	-	-	13,175
Shareholders' equity	-	-	-	-	439,955	439,955	439,955
Tier 1 perpetual bonds	-	-	-	-	115,500	115,500	115,500
Total liabilities and shareholders' equity	976,424	987,923	1,964,347	1,003,163	1,113,557	2,116,720	4,081,067
Total liquidity gap	26,960	(686,178)	(659,218)	(47,233)	706,451	659,218	-
Cumulative liquidity gap	26,960	(659,218)	(1,318,436)	(1,365,669)	(659,218)	-	-

	On demand within 3 months USD'000	3 to 12 months USD'000	Subtotal less than 12 months USD'000	1 to 5 years USD'000	Over 5 years USD'000	Subtotal over 12 months USD'000	Total USD'000
Cash and balances with Central Banks	535,932	130,117	666,049	58,400	75,213	133,613	799,662
Due from Banks and other money market placements (net)	233,631	21,249	254,880	43,003	-	43,003	297,883
Loans, advances and financing activities for customers (net)	1,297,739	576,431	1,874,170	2,093,039	4,055,249	6,148,288	8,022,458
Financial investments	399,454	32,605	432,059	288,174	441,268	729,442	1,161,501
Property and equipment	-	-	-	-	155,564	155,564	155,564
Other assets	139,437	23,351	162,788	319	-	319	163,107
Total assets	2,606,193	783,753	3,389,946	2,482,935	4,727,294	7,210,229	10,600,175
Due to Banks and other money market deposits	343,314	30,008	373,322	400,000	-	400,000	773,322
Customers' deposits and unrestricted investment accounts	1,897,605	2,530,260	4,427,865	1,702,270	1,448,390	3,150,660	7,578,525
Euro medium term notes	-	-	-	500,000	-	500,000	500,000
Other liabilities	261,025	5,766	266,791	3,348	1,227	4,575	271,366
Taxation	34,221	-	34,221	-	-	-	34,221
Shareholders' equity	-	-	-	-	1,142,741	1,142,741	1,142,741
Tier 1 perpetual bonds	-	-	-	-	300,000	300,000	300,000
Total liabilities and shareholders' equity	2,536,165	2,566,034	5,102,199	2,605,618	2,892,358	5,497,976	10,600,175
Total liquidity gap	70,028	(1,782,281)	(1,712,253)	(122,683)	1,834,936	1,712,253	-
Cumulative liquidity gap	70,028	(1,712,253)	(3,424,506)	(3,547,189)	(1,712,253)	-	-

32 RISK MANAGEMENT (CONTINUED)

32.2 LIQUIDITY RISK (CONTINUED)

Liquidity coverage ratio

The Liquidity coverage ratio (LCR) is a short time ratio designed to increase resilience against a liquidity shortage of up to 30 days. The LCR is computed as per CBO requirement under the circular BM1127 (BASEL III: Framework on Liquidity coverage ratio and LCR disclosure standards). It is applicable from January 1, 2015 with a minimum ratio of 60% and increasing by 10% every year thereafter till it reaches a minimum required level of 100% on 1 January, 2020.

Total unweighted Value (average) 2022 *USD'000*	Total weighted Value (average) 2022 *USD'000*		Total unweighted Value (average) 2022 *RO'000*	Total weighted Value (average) 2022 *RO'000*
		HIGH QUALITY LIQUID ASSETS		
-	1,469,005	**HIGH QUALITY LIQUID ASSETS**	-	565,567
		Cash outflows		
1,887,693	114,367	**Retail deposits and deposits from small business customers of which**:	726,762	44,031
1,062,888	31,885	Stable deposits	409,212	12,276
824,806	82,481	Less stable deposits	317,550	31,755
		Unsecured wholesale funding, of which:		
3,305,951	1,211,727	Operational deposits (all counterparties) and deposits in networks of cooperative Banks	1,272,791	466,515
		Additional requirements, of which		
74,101	7,410	Credit and liquidity facilities	28,529	2,853
79,512	3,977	Other contractual funding obligations	30,612	1,531
1,184,249	265,571	Other contingent funding obligations	455,936	102,245
6,531,507	1,603,051	**TOTAL CASH OUTFLOWS**	2,514,630	617,175
		Cash Inflows		
910,813	601,706	Inflows from fully performing exposures	350,663	231,657
309,610	309,610	Other cash inflows	119,200	119,200
1,220,423	911,316	**TOTAL CASH INFLOWS**	469,863	350,857
-	1,469,005	**TOTAL HIGH QUALITY LIQUID ASSETS**	-	565,567
-	691,735	**TOTAL NET CASH OUTFLOWS**	-	266,318
-	212	**LIQUIDITY COVERAGE RATIO (%)**	-	212.37

32 RISK MANAGEMENT (CONTINUED)

32.2 LIQUIDITY RISK (CONTINUED)

Total unweighted Value (average) 2021 *USD'000*	Total weighted Value (average) 2021 *USD'000*		Total unweighted Value (average) 2021 *RO'000*	Total weighted Value (average) 2021 *RO'000*
		HIGH QUALITY LIQUID ASSETS		
-	1,783,460	HIGH QUALITY LIQUID ASSETS		686,632
		Cash outflows		
2,002,571	114,787	Retail deposits and deposits from small business customers of which:	770,990	44,193
1,538,683	68,395	Stable deposits	592,393	26,332
463,888	46,392	Less stable deposits	178,597	17,861
		Unsecured wholesale funding, of which:		
3,626,491	1,443,260	Operational deposits (all counterparties) and deposits in networks of cooperative Banks	1,396,199	555,655
71,797	7,179	Additional requirements, of which		
		Credit and liquidity facilities	27,642	2,764
66,281	3,314	Other contractual funding obligations	25,518	1,276
1,060,039	141,145	Other contingent funding obligations	408,115	54,341
6,827,179	1,709,685	TOTAL CASH OUTFLOWS	2,628,464	658,229
		Cash Inflows		
712,270	411,499	Inflows from fully performing exposures	274,224	158,427
47,262	120,275	Other cash inflows	18,196	46,306
759,532	531,774	TOTAL CASH INFLOWS	292,420	204,733
-	1,783,460	TOTAL HIGH QUALITY LIQUID ASSETS	-	686,632
-	1,177,911	TOTAL NET CASH OUTFLOWS	-	453,496
-	151.41	LIQUIDITY COVERAGE RATIO (%)	-	151.41

32.3 MARKET RISK

The Bank is exposed to market risk, which is the risk that the fair value of the financial assets held by the Bank will fluctuate due to changes in market prices. Market risk arises from changes in the fair value of open positions held in foreign exchange, interest rate, currency, equity, credit spreads, etc. Market risk is managed based on the Central Bank of Oman guidelines and the Market Risk Policy, which is approved and periodically reviewed by the Board Risk Committee. Stress tests are also conducted periodically incorporating adverse movements in equity value, foreign exchange, etc. and reviewed by the Management and Board Risk Committee.

32 RISK MANAGEMENT (CONTINUED)

32.3 MARKET RISK (continued)

The Bank offers hedging products to its customers to hedge their genuine exposures, related to interest rate risk, foreign exchange risk and commodity risk. The counterparty credit risk exposures for such transactions (interest rate swaps, commodities contracts, currency forwards and options, etc.) are assessed based on the positive marked-to-market values of the contracts and the potential future exposures. The Bank has adopted risk weightings in line with best practices to capture the credit risk related to these off-balance sheet exposures.

- ***Equity risk***

The proprietary equity positions are held in the 'FVOCI' category. The market risk is monitored though daily mark-to-market reports which are circulated to the management and, if any, required actions are promptly taken. The portfolio is also monitored and managed as per the Investment Policy approved by the Board Risk Committee.

- ***Interest rate risk***

The principal market risk to which non-trading portfolio is exposed is the risk of loss from fluctuation in the future cash flows or fair values of financial instruments because of changes in market interest rates.

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities.

Methods and assumptions used in preparing the sensitivity analysis: The methods for interest rate sensitivity analysis are Maturity Gap Analysis (which measures the interest rate sensitivity of earnings) and Duration (which measures the interest rate sensitivity of capital). These are in line with the BIS in its paper on 'Principles for the Management and Supervision of Interest Rate Risk' issued in July 2004.

Interest rate risk is managed by monitoring the sensitivity of the Bank's financial assets and liabilities to various standardized interest rate shocks. Standardised shocks include a 100 basis point and 200 basis point parallel shifts in yield curves that are considered on a monthly basis. The impact of these shocks is analysed in the context of its impact on Earnings and Economic Value. The impact is compared against internal limits which have been formulated in line with the Central Bank of Oman and Basel Committee guidelines. The analysis is regularly reviewed by the Management and Board Risk Committee.

Earning impact of 200 basis points parallel shift in interest rate is provided below:

As at December 2022	**200 bps increase**	**200 bps decrease**
Earnings impact - RO'000s	**9,261**	**(9,261)**
Earnings impact - USD'000s	**24,055**	**(24,055)**

In addition, stress scenarios based on specific events or market disruptions are also analysed and presented at monthly ALCO meetings to estimate the impact on liquidity and earnings.

The Bank has been consistently using the above methods/assumptions to conduct interest rate sensitivity analysis. The above sensitivity analyses are carried out at monthly rests and results thereof monitored against the in-house limits and the results are also actively deliberated at the ALCO meetings and presented to the Board Risk Committee.

32 RISK MANAGEMENT (CONTINUED)

32.3 MARKET RISK (CONTINUED)

- ***Interest rate risk (continued)***

- ***IBOR Reform***

A fundamental reform of major interest rate benchmarks is being undertaken globally, replacing some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform').

The main risks to which the Bank has been exposed as a result of IBOR reform are operational. For example, the renegotiation of loan contracts through bilateral negotiation with customers, updating of contractual terms, updating of systems that use IBOR curves and revision of operational controls related to the reform and regulatory risks. Financial risk is predominantly limited to interest rate risk.

Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates, the Bank has established a IBOR Committee to manage the transition for any of its contracts that could be affected. The IBOR Committee is being led by senior representatives from functions across the Bank including the client facing teams, Legal, Finance, Operations, Risk Management and Technology.

The objectives of the IBOR Committee include evaluating the extent to which loans advanced, loan commitments, liabilities and derivatives reference IBOR cash flows, whether such contracts need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties. The IBOR Committee reports to the Executive Committee quarterly and collaborates with other business functions as needed. It provides periodic reports to ALCO and Central Treasury to support the management of interest rate risk and works closely with the Bank Operational Risk Committee to identify operational and regulatory risks arising from IBOR reform.

For contracts indexed to an IBOR that mature after the expected cessation of the IBOR rate, the IBOR Committee has established policies to amend the contractual terms. These amendments include the addition of fall back clauses or replacement of the IBOR rate with an alternative benchmark rate. The Bank has signed up to fall back mechanisms for centrally cleared derivatives and aimed to transfer exposures to the new benchmark rate ahead of the activation date of the fall back provisions.

The Bank has been applying a policy to require that retail products, such as its residential mortgage portfolio, are amended in a uniform way, and bespoke products, such as loans and advances to corporates, are amended in bilateral negotiations with the counterparties.

Based on regulatory guidelines all newly originated floating-rate loans and advances to customers on or after 01 January 2022, incorporate fall back provisions for when an IBOR ceases to exist. The fall back provisions provide for a transition to the applicable alternative benchmark rate, which vary depending on the jurisdiction.

The Bank monitors the progress of transition from IBORs to new benchmark rates by reviewing the total amounts of contracts that have yet to transition to an alternative benchmark rate and the amounts of such contracts that include an appropriate fall back clause. The Bank considers that a contract is not yet transitioned to an alternative benchmark rate (and referred to as an 'unreformed contract') when interest under the contract is indexed to a benchmark rate that is still subject to IBOR reform, even if it includes a fall back clause that deals with the cessation of the existing IBOR.

IBOR reform exposes the Bank to various risks, which the project is managing and monitoring closely. These risks include but are not limited to the following:

• Conduct risk arising from discussions with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform
• Financial risk to the Bank and its clients that markets are disrupted due to IBOR reform giving rise to financial losses
• Pricing risk from the potential lack of market information if liquidity in IBORs reduces and RFRs are illiquid and unobservable
• Operational risk arising from changes to the Bank's IT systems and processes, also the risk of payments being disrupted if an IBOR ceases to be available
• Accounting risk if the Bank's hedging relationships fail and from unrepresentative income statement volatility as financial instruments transition to RFRs.

32 RISK MANAGEMENT (CONTINUED)

32.3 MARKET RISK (CONTINUED)

- ***Interest rate risk (continued)***

As at 31 December 2022, the Bank's remaining IBOR exposure is indexed to US dollar LIBOR with overnight, one-month, three-month, six-month and 12-month settings. These settings will either cease to be provided or no longer be representative after 30 June 2023 as announced by the Financial Conduct Authority (FCA) and the alternative reference rate for US dollar LIBOR is the SOFR.

The table below sets out the IBOR rates that the Bank had exposure to, the new benchmark rates to which these exposures have or are being transitioned, and the status of the transition.

Currency	**Benchmark before reform**	**Benchmark after reform**	**Status as on 31 December 2022**
USD	USD LIBOR	SOFR	Completed

There have not been any significant changes in Interest Rate Risk management process in the Bank during the year.

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2022 is as follows:

	Average effective interest rate	*On demand within 3 months RO'000*	*3 to 12 months RO'000*	*1 to 5 years RO'000*	*Over 5 years RO'000*	*Non-interest sensitive RO'000*	*Total RO'000*
Cash and balances with Central Banks	**N/A**	**-**	**-**	**-**	**-**	**261,589**	**261,589**
Due from Banks and other money market placements (net)	**1.78%**	**72,682**	**2,525**	**12,514**	**-**	**31,539**	**119,260**
Loans, advances and Islamic financing assets (net)	**5.41%**	**1,397,478**	**736,891**	**661,445**	**546,591**	**11,294**	**3,353,699**
Financial investments	**4.28%**	**75,000**	**10,422**	**17,715**	**27,232**	**274,018**	**404,387**
Property and equipment	**N/A**	**-**	**-**	**-**	**-**	**57,090**	**57,090**
Other assets	**N/A**	**-**	**-**	**-**	**-**	**98,055**	**98,055**
Total assets		**1,545,160**	**749,838**	**691,674**	**573,823**	**733,585**	**4,294,080**
Due to Banks and other money market deposits	**3.30%**	**252,732**	**-**	**-**	**-**	**9,011**	**261,743**
Customers' deposits and unrestricted investment accounts	**2.16%**	**175,170**	**1,825,303**	**496,391**	**64**	**550,494**	**3,047,422**
Euro medium term notes	**6.20%**	**-**	**188,865**	**-**	**-**	**-**	**188,865**
Other liabilities	**N/A**	**3,614**	**-**	**-**	**-**	**135,621**	**139,235**
Taxation	**N/A**	**-**	**-**	**-**	**-**	**15,981**	**15,981**
Tier 1 Perpetual Bond	**7.61%**	**-**	**-**	**167,133**	**-**	**-**	**167,133**
Shareholders' equity	**N/A**	**-**	**-**	**-**	**-**	**473,701**	**473,701**
Total liabilities and shareholders' equity		**431,516**	**2,014,168**	**663,524**	**64**	**1,184,808**	**4,294,080**
Total interest rate sensitivity gap		**1,113,644**	**(1,264,330)**	**28,150**	**573,759**	**(451,223)**	**-**
Cumulative interest rate sensitivity gap		**1,113,644**	**(150,686)**	**(122,536)**	**451,223**	**-**	

32 RISK MANAGEMENT (CONTINUED)

32.3 MARKET RISK (CONTINUED)

- ***Interest rate risk (continued)***

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2022 is as follows:

	Average effective interest rate	*On demand within 3 months USD'000*	*3 to 12 months USD'000*	*1 to 5 years USD'000*	*Over 5 years USD'000*	*Non-interest sensitive USD'000*	*Total USD'000*
Cash and balances with Central Banks	**N/A**	**-**	**-**	**-**	**-**	**679,452**	**679,452**
Due from Banks and other money market placements (net)	**1.78%**	**188,784**	**6,558**	**32,504**	**-**	**81,920**	**309,766**
Loans, advances and Islamic financing assets (net)	**5.41%**	**3,629,813**	**1,914,003**	**1,718,039**	**1,419,717**	**29,335**	**8,710,907**
Financial investments	**4.28%**	**194,805**	**27,070**	**46,013**	**70,732**	**711,736**	**1,050,356**
Property and equipment	**N/A**	**-**	**-**	**-**	**-**	**148,286**	**148,286**
Other assets	**N/A**	**-**	**-**	**-**	**-**	**254,688**	**254,688**
Total assets		**4,013,402**	**1,947,631**	**1,796,556**	**1,490,449**	**1,905,417**	**11,153,455**
Due to Banks and other money market deposits	**3.30%**	**656,447**	**-**	**-**	**-**	**23,405**	**679,852**
Customers' deposits and unrestricted investment accounts	**2.16%**	**454,987**	**4,741,047**	**1,289,327**	**166**	**1,429,855**	**7,915,382**
Euro medium term notes	**6.20%**	**-**	**490,558**	**-**	**-**	**-**	**490,558**
Other liabilities	**N/A**	**9,387**	**-**	**-**	**-**	**352,262**	**361,649**
Taxation	**N/A**	**-**	**-**	**-**	**-**	**41,509**	**41,509**
Tier 1 Perpetual Bond	**7.61%**	**-**	**-**	**434,112**	**-**	**-**	**434,112**
Shareholders' equity	**N/A**	**-**	**-**	**-**	**-**	**1,230,393**	**1,230,393**
Total liabilities and shareholders' equity		**1,120,821**	**5,231,605**	**1,723,439**	**166**	**3,077,424**	**11,153,455**
Total interest rate sensitivity gap		**2,892,581**	**(3,283,974)**	**73,117**	**1,490,283**	**(1,172,007)**	**-**
Cumulative interest rate sensitivity gap		**2,892,581**	**(391,393)**	**(318,276)**	**1,172,007**	**-**	

32 RISK MANAGEMENT (CONTINUED)

32.3 MARKET RISK (CONTINUED)

- ***Interest rate risk (continued)***

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2021 is as follows:

	Average effective interest rate	*On demand within 3 months RO'000*	*3 to 12 months RO'000*	*1 to 5 years RO'000*	*Over 5 years RO'000*	*Non-interest sensitive RO'000*	*Total RO'000*
Cash and balances with Central Banks	N/A	-	-	-	-	307,870	307,870
Due from Banks and other money market placements (net)	0.49%	5,482	6,256	9,626	-	93,321	114,685
Loans, advances and Islamic financing assets (net)	5.24%	1,202,123	723,847	668,511	494,165	-	3,088,646
Financial investments	4.45%	15,000	2,553	111,898	183,334	134,393	447,178
Property and equipment	N/A	-	-	-	-	59,892	59,892
Other assets	N/A	-	-	-	-	62,796	62,796
Total assets		1,222,605	732,656	790,035	677,499	658,272	4,081,067
Due to Banks and other money market deposits	1.84%	281,510	11,553	-	-	4,666	297,729
Customers' deposits and unrestricted investment accounts	2.29%	156,652	1,826,752	342,556	63	591,709	2,917,732
Euro medium term notes	5.89%	-	-	192,500	-	-	192,500
Other liabilities	N/A	852	2,862	1,925	-	98,837	104,476
Taxation	N/A	-	-	-	-	13,175	13,175
Tier 1 Perpetual Bond	7.33%	-	-	115,500	-	-	115,500
Shareholders' equity	N/A	-	-	-	-	439,955	439,955
Total liabilities and shareholders' equity		439,014	1,841,167	652,481	63	1,148,342	4,081,067
Total interest rate sensitivity gap		783,591	(1,108,511)	137,554	677,436	(490,070)	-
Cumulative interest rate sensitivity gap		783,591	(324,920)	(187,366)	490,070	-	

32 RISK MANAGEMENT (CONTINUED)

32.3 MARKET RISK (CONTINUED)

- ***Interest rate risk (continued)***

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2021 is as follows:

	Average effective interest rate	*On demand within 3 months USD'000*	*3 to 12 months USD'000*	*1 to 5 years USD'000*	*Over 5 years USD'000*	*Non-interest sensitive USD'000*	*Total USD'000*
Cash and balances with Central Banks	N/A	-	-	-	-	799,662	799,662
Due from Banks and other money market placements (net)	0.49%	14,239	16,249	25,003	-	242,392	297,883
Loans, advances and Islamic financing assets (net)	5.24%	3,122,398	1,880,122	1,736,392	1,283,545	-	8,022,457
Financial investments	4.45%	38,961	6,631	290,644	476,192	349,073	1,161,501
Property and equipment	N/A	-	-	-	-	155,564	155,564
Other assets	N/A	-	-	-	-	163,107	163,107
Total assets		3,175,598	1,903,002	2,052,039	1,759,737	1,709,798	10,600,174
Due to Banks and other money market deposits	1.84%	731,195	30,008	-	-	12,119	773,322
Customers' deposits and unrestricted investment accounts	2.29%	406,889	4,744,810	889,756	164	1,536,906	7,578,525
Euro medium term notes	5.89%	-	-	500,000	-	-	500,000
Other liabilities	N/A	2,212	7,434	5,000	-	256,719	271,365
Taxation	N/A	-	-	-	-	34,221	34,221
Tier 1 Perpetual Bond	7.33%	-	-	300,000	-	-	300,000
Shareholders' equity	N/A	-	-	-	-	1,142,741	1,142,741
Total liabilities and shareholders' equity		1,140,296	4,782,252	1,694,756	164	2,982,706	10,600,174
Total interest rate sensitivity gap		2,035,302	(2,879,250)	357,283	1,759,573	(1,272,908)	-
Cumulative interest rate sensitivity gap		2,035,302	(843,948)	(486,665)	1,272,908	-	

- ***Currency risk***

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank has set limits on open positions by currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

The foreign exchange positions in the books of the Bank are generally small residual positions resulting from market coverings for customer transactions.

Foreign exchange VAR is computed monthly for all non-pegged currencies at 99% confidence level and a holding period of 10 days. Additionally, earnings impact of a 15% adverse movement in exchange rates for all open positions is factored in the monthly stress tests.

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

2021 USD'000	***2022 USD'000***		***2022 RO'000***	*2021 RO'000*
114,725	**240,145**	US Dollar	**92,456**	44,169
109,200	**108,727**	UAE Dirham	**41,860**	42,042
33,088	**30,447**	Others	**11,722**	12,739

32 RISK MANAGEMENT (CONTINUED)

32.4 OPERATIONAL RISK

Operational risk is the risk of loss arising from systems failure, human error, frauds or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff training and assessment processes, including the use of internal audit. Further, the Bank has established an operational loss appetite statement to monitor losses under various operational loss categories and any breaches of set-off thresholds are reported to the Board Risk Committee. In addition to this, the Bank has an operational loss reporting database.

Information Security is an essential component of Operational Risk Management. The Bank has implemented the latest security infrastructure like firewalls, intrusion prevention systems, anti-virus soft wares, etc. Periodic vulnerability assessments are conducted to ensure the security of the systems.

As a part of Business Continuity Management initiatives, the Bank has taken necessary actions to ensure effective measures in case of a crisis situation, e.g. evacuation drills, testing of critical systems and applications from the Disaster Recovery site. The Bank has the capability to ensure that critical Banking processes are tested to ascertain availability during such situations.

32.4.1 Fraud Risk

The Bank has adopted a ‘zero tolerance’ policy towards fraud and corruption and as such will seek to take disciplinary and/or legal action against those who perpetrate, are involved in, or assist with fraudulent or improper activities. The Fraud risk management (FRM) unit manages the fraud risk for the Bank at an enterprise level. The unit monitors transactions originating from Cards, POS and other Digital channels. Besides, the unit conducts Fraud Risk Assessments to assess fraud risks on a pro-active basis, verifies the existing controls and proposes new controls, if required.

The unit is also responsible for managing Incidents across the Bank and maintenance of Operational Loss Database.

32.5 STRATEGIC RISKS

The Bank monitors strategic risks through regular quarterly assessment and reporting at the Board Risk Committee level. This includes reviews of human resource, economic (both at the macro and micro levels), regulatory/compliance, information technology and information security, legal and reputational related risks and the monitoring of strategic project risk arising from initiatives undertaken by the Bank. Furthermore, the Bank has augmented its Internal Capital Adequacy Assessment Process (ICAAP) to align the business strategy and the capital management processes. The Bank had engaged an internationally renowned consultant to review the current ICAAP process and to recommend enhancements that will, once implemented, escalate the ICAAP process and documentation to international best practices. This initiative was proposed and sponsored at the highest level by the Board Risk Committee and its recommendations are being progressively completed.

32 RISK MANAGEMENT (CONTINUED)

32.6 COVID-19

Outbreak of Coronavirus (COVID-19)

The World Health Organization officially declared COVID-19 as a global pandemic on 11 March 2020. From the latter half of Q1-2020, the economic environment and business landscape of the Bank have witnessed rapid changes as a result of the unprecedented outbreak of Coronavirus pandemic coupled with the significant depression in the global crude oil prices. Tightening of market conditions, lockdowns, restrictions on trade and movement of people have caused significant disruptions to businesses and economic activities globally and across industries & sectors.

Government measures

Governments and regulatory authorities across the globe have implemented several measures to contain the impact of the spread of the virus. The Central Banks in Oman and in the UAE had instituted a host of measures to protect the stability of country's economy. These measures include deferral of loan instalments for the affected borrowers (particularly the corporates and SMEs), deferment and waiver of interest/profit for affected Omani nationals employed in private sector, waiver of certain fees, providing capital relief and increasing the lending ratio etc. Some of these measures have been extended until 31 March 2022.

Impact of COVID-19 on the Bank

The assessment of Significant Increase in Credit risk (SICR) and the measurement of ECLs are based on reasonable and supportable information that is available without undue cost or effort. In assessing forecast conditions, consideration has been given both to the effects of COVID-19 and the significant government support measures being undertaken. Relief measures, such as payment holidays, will not automatically lead to loans being measured on the basis of lifetime losses and considerable judgment has been exercised to measure ECLs at this time. When it is not possible to reflect such information in the models, management overlays or adjustments has been considered. This is also broadly consistent with guidelines issued by other regulators within the GCC.

The Central Bank of Oman has issued further IFRS 9 related guidance. These are summarized below:

- Measures related to deferment of loan repayment by a borrower may not on its own, trigger the counting of 30 "days past due" (DPD) or more backstop used to determine significant increase in credit risk (SICR) or the 90 days past due backstop used to determine default. However, Banks should continue to assess the obligor's likelihood of payment of amount due after the deferment period, and in case of SICR or credit impairment and if the same is not of a temporary nature, the risks should be recognized.

- The deferment of repayment by borrowers may indicate short term liquidity or cash flow problems and hence the deferment of loan repayment may not be a sole deciding factor for SICR or impairment until and unless Banks have sighted other supportable evidences of credit quality deterioration.

- Similarly, any covenant breach having particular relevance to Covid-19 e.g. delay in submission of audited financial accounts or any other breach, may be considered differently than normal breaches related to consistent borrower specific risk factors leading to borrowers' default. This sort of breach may not necessarily and automatically trigger SICR resulting in moving accounts to Stage-2.

- Banks must develop estimates based on the best available supportable information about past events, current conditions and forecasts of economic conditions. In assessing forecast conditions consideration should be given both to the effects of Covid-19 coupled with oil prices and policy measures taken to stabilize the economy.

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32 RISK MANAGEMENT (CONTINUED)

32.6 COVID-19 (CONTINUED)

The bank has made appropriate impairment provisions taking note of the above guidelines.

- Nevertheless, any changes made to ECL estimates will be subject to very high levels of uncertainty, as reasonable and supportable forward-looking information may not be currently available to substantiate those changes. As such, the macro-economic forecasts applied in the ECL models couldn't be recalibrated upfront with pre-mature effects of Covid-19 and support measures. Besides the individual and collective LGD's may also get impacted due to Covid-19 effect on market prices of collateral and guarantees. For this reason, Banks are expected to use post model adjustments and management overlays by applying multiple macroeconomic scenarios with careful application of probability weights to each of such scenarios while computing ECL on portfolio basis as prudence.
- The CBO has issued guidelines to further extend the restructuring of credit facilities to borrowers impacted by Covid 19 to 31st October-2022. The bank had complied with the circular and ensured all such cases were restructured before the specified date.

The IFRS 9 Steering Committee of the Bank is primarily responsible for overseeing the Bank's adequacy on ECL. It closely monitors the impact of COVID-19 by an ongoing review of the portfolio including a review of all individually significant exposures in the directly impacted industries and sectors.

Bank's retail portfolio largely comprises of nationals employed in government sector and hence this segment is expected to largely remain insulated from job cuts and salary reductions. Retail lending to private sector employees which forms a small proportion of Banks total retail portfolio is expected to witness some impact in the short to medium term due to the pandemic and hence could lead to potential credit stress. The Bank is fully committed to help its customers through this turbulent period as directed by the CBO. The Bank continued to support its customers and partners through well-executed business continuity plans, in addition to adopting health and safety measures announced by the Supreme Committee entrusted with finding mechanisms for dealing with developments resulting from the COVID-19 pandemic. The Bank continually reviews its precautionary and administrative measures in response to changes on the ground.

Recalibration of IFRS 9 model

The recalibration considered refreshed macro-economic forecast which resulted in an updated assessment of impairment provisions. The recalibrated model used by the bank after further review by the independent agency which carried out the validation.

Accounting for modification loss:

In case of retail customers, the Bank plans to add the simple interest accrued during the deferral period to the total outstanding and either extend the original maturity period of the loan or increase the instalments. As retail loans have shorter tenor behaviourally, modification loss does not have material impact on the carrying value.

With regard to corporate loans the Bank had extended deferrals only for the principal repayments. A vast majority of customers were servicing the interest accruing on the loans. In rare circumstances, where the deferrals were for the entire installments the corresponding modification loss has not resulted in any significant impact to the carrying value.

Impact on the Capital Adequacy:

Besides, the Bank has also applied in its capital adequacy calculations the "Prudential filter" under interim adjustment arrangement for Stage-1 and Stage-2 ECL. The impact of above filter on the Bank's regulatory capital is 51 bps.

Although above measures are not exhaustive and may not fully counteract the impact of COVID-19 in the short run, they will mitigate the long-term negative impact of the pandemic. In response to this crisis, the Bank continues to monitor and respond to all liquidity and funding requirements. As at the reporting date the liquidity, funding and capital position of the Bank remains strong and is well placed to absorb the impact of the current disruption.

Draft Subject to CBO Approval

33 CONCENTRATIONS

The Bank seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risk with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate.

The distribution of assets, liabilities and contingent items by geographical regions as of 31 December 2022 is as follows:

	Sultanate of Oman RO'000	*UAE RO'000*	*Egypt RO'000*	*Others RO'000*	*Total RO'000*
Cash and balances with Central Banks	213,640	47,020	929	-	261,589
Due from Banks and other money market placements (net)	27,949	3,455	613	87,243	119,260
Loans, advances and Islamic financing assets (net)	3,278,009	66,066	-	9,624	3,353,699
Financial investments	375,348	12,619	-	16,420	404,387
Property and equipment	55,974	1,116	-	-	57,090
Other assets	93,844	4,086	125	-	98,055
Total assets	4,044,764	134,362	1,667	113,287	4,294,080
Due to Banks and other money market deposits	11,001	108,487	3	142,252	261,743
Customers' deposits and unrestricted investment accounts	2,934,709	112,250	463	-	3,047,422
Euro medium term notes	188,865	-	-	-	188,865
Other liabilities	138,767	362	106	-	139,235
Taxation	15,570	330	81	-	15,981
Shareholders' equity	488,870	(17,190)	2,021	-	473,701
Tier 1 perpetual bond	167,133	-	-	-	167,133
Liabilities and shareholders' equity	3,944,915	204,239	2,674	142,252	4,294,080
Contingent liabilities	266,416	18,040	-	39,526	323,982

	Sultanate of Oman USD'000	*UAE USD'000*	*Egypt USD'000*	*Others USD'000*	*Total USD'000*
Cash and balances with Central Banks	554,909	122,130	2,413	-	679,452
Due from Banks and other money market placements (net)	72,595	8,974	1,592	226,605	309,766
Loans, advances and Islamic financing assets (net)	8,514,310	171,600	-	24,997	8,710,907
Financial investments	974,930	32,777	-	42,649	1,050,356
Property and equipment	145,387	2,899	-	-	148,286
Other assets	243,750	10,613	325	-	254,688
Total assets	10,505,881	348,993	4,330	294,251	11,153,455
Due to Banks and other money market deposits	28,574	281,784	8	369,486	679,852
Customers' deposits and unrestricted investment accounts	7,622,621	291,558	1,203	-	7,915,382
Euro medium term notes	490,558	-	-	-	490,558
Other liabilities	360,434	940	275	-	361,649
Taxation	40,442	857	210	-	41,509
Shareholders' equity	1,269,793	(44,649)	5,249	-	1,230,393
Tier 1 perpetual bond	434,112	-	-	-	434,112
Liabilities and shareholders' equity	10,246,534	530,490	6,945	369,486	11,153,455
Contingent liabilities	691,991	46,857	-	102,664	841,512

33 CONCENTRATIONS (continued)

The distribution of assets, liabilities and off balance sheet items by geographical regions as of 31 December 2021 is as follows:

	Sultanate of Oman RO'000	*UAE RO'000*	*Egypt RO'000*	*Others RO'000*	*Total RO'000*
Cash and balances with Central Banks	249,001	57,269	1,600	-	307,870
Due from Banks and other money market placements (net)	9,571	3,596	3,063	98,455	114,685
Loans, advances and Islamic financing assets (net)	3,025,929	60,350	-	2,367	3,088,646
Financial investments	425,594	11,231	-	10,353	447,178
Property and equipment	58,453	1,439	-	-	59,892
Other assets	56,704	5,896	196	-	62,796
Total assets	3,825,252	139,781	4,859	111,175	4,081,067
Due to Banks and other money market deposits	-	143,160	17,518	137,051	297,729
Customers' deposits and unrestricted investment accounts	2,797,006	120,215	511	-	2,917,732
Euro medium term notes	192,500	-	-	-	192,500
Other liabilities	101,156	2,940	380	-	104,476
Taxation	12,808	200	167	-	13,175
Shareholders' equity	453,304	(15,854)	2,505	-	439,955
Tier 1 perpetual bond	115,500	-	-	-	115,500
Liabilities and shareholders' equity	3,672,274	250,661	21,081	137,051	4,081,067
Contingent liabilities	303,181	16,611	-	36,456	356,248

	Sultanate of Oman USD'000	*UAE USD'000*	*Egypt USD'000*	*Others USD'000*	*Total USD'000*
Cash and balances with Central Banks	646,755	148,751	4,156	-	799,662
Due from Banks and other money market placements (net)	24,860	9,340	7,956	255,727	297,883
Loans, advances and Islamic financing assets (net)	7,859,555	156,753	-	6,149	8,022,457
Financial investments	1,105,439	29,171	-	26,891	1,161,501
Property and equipment	151,826	3,738	-	-	155,564
Other assets	147,284	15,314	509	-	163,107
Total assets	9,935,719	363,067	12,621	288,767	10,600,174
Due to Banks and other money market deposits	-	371,844	45,501	355,977	773,322
Customers' deposits and unrestricted investment accounts	7,264,951	312,247	1,327	-	7,578,525
Euro medium term notes	500,000	-	-	-	500,000
Other liabilities	262,741	7,636	988	-	271,365
Taxation	33,268	519	434	-	34,221
Shareholders' equity	1,177,414	(41,179)	6,506	-	1,142,741
Tier 1 perpetual bond	300,000	-	-	-	300,000
Liabilities and shareholders' equity	9,538,374	651,067	54,756	355,977	10,600,174
Contingent liabilities	787,483	43,146	-	94,690	925,319

34 SEGMENTAL INFORMATION

For management purposes, the Bank is organised into four operating segments based on business units and are as follows:

- Retail Banking offers various products and facilities to individual retail and high net-worth customers to meet everyday banking needs. This includes asset products like personal loans, housing loan, credit cards and term loans and liability products like savings account, current account and term deposits.
- Wholesale Banking delivers a variety of products and services to Corporate, Government and Financial Institutions, that include lending, accepting deposits, trade finance, treasury and foreign exchange. It also includes investment Banking which offers investment products such as asset management, corporate advisory and brokerage services to retail customers and institutional clients.
- International operations include UAE and Egypt operations.
- Islamic Banking offers various products as per Shari'a principles.
- Funding Center – The Funding center is responsible for balancing and managing the liquidity of funds within the Bank. It acts as repository of funds by allocating funds transfer pricing to various business units for performance management purposes. The department also handles the Bank's investments in securities, asset/liability management and cash instruments.

Management monitors the operating results of these segments separately for the purpose of making decisions about resource allocation and performance assessment. The costs incurred by the support functions are allocated to operating segments for performance measurement purposes.

Segment information by business line is as follows:

Year ended 31 December 2022	**Retail Banking RO'000**	**Wholesale Banking RO'000**	**International Banking RO'000**	**Islamic Banking RO'000**	**Funding center RO'000**	**Total RO'000**
Net Interest income and net Income from Islamic financing and Investment activities	**45,426**	**61,418**	**3,396**	**5,523**	**(12,224)**	**103,539**
Fees, Commission and other operating income	**14,310**	**18,746**	**511**	**1,100**	**31**	**34,698**
Operating income	**59,736**	**80,164**	**3,907**	**6,623**	**(12,193)**	**138,237**
Operating expenditure	**(36,000)**	**(16,577)**	**(4,274)**	**(3,758)**	**93**	**(60,516)**
Operating profit/(loss)	**23,736**	**63,587**	**(367)**	**2,865**	**(12,100)**	**77,721**
Loan impairment (losses)/reversal	**(4,320)**	**(13,773)**	**(638)**	**(1,518)**	**-**	**(20,249)**
Net profit/(loss) before tax	**19,416**	**49,814**	**(1,005)**	**1,347**	**(12,100)**	**57,472**
Taxation	**(2,346)**	**(6,020)**	**(2,357)**	**-**	**1,462**	**(9,261)**
Net profit/(loss) after tax	**17,070**	**43,794**	**(3,362)**	**1,347**	**(10,638)**	**48,211**
Total assets	**1,332,118**	**2,117,153**	**140,203**	**227,163**	**477,443**	**4,294,080**
Total liabilities and equity	**909,304**	**1,889,177**	**140,203**	**227,163**	**1,128,233**	**4,294,080**

34 SEGMENTAL INFORMATION (CONTINUED)

Year ended 31 December 2022	**Retail Banking USD'000**	**Wholesale Banking *USD'000***	**International Banking *USD'000***	**Islamic Banking *USD'000***	**Funding center *USD'000***	**Total USD'000**
Net Interest income and net Income from Islamic financing and Investment activities	**117,990**	**159,527**	**8,821**	**14,345**	**(31,751)**	**268,932**
Fees, Commission and other operating income	**37,169**	**48,691**	**1,327**	**2,857**	**81**	**90,125**
Operating income	**155,159**	**208,218**	**10,148**	**17,202**	**(31,670)**	**359,057**
Operating expenditure	**(93,506)**	**(43,057)**	**(11,101)**	**(9,761)**	**241**	**(157,184)**
Operating profit/(loss)	**61,653**	**165,161**	**(953)**	**7,441**	**(31,429)**	**201,873**
Loan impairment (losses)/reversal	**(11,221)**	**(35,774)**	**(1,657)**	**(3,943)**	**-**	**(52,595)**
Net profit/(loss) before tax	**50,432**	**129,387**	**(2,610)**	**3,498**	**(31,429)**	**149,278**
Taxation	**(6,094)**	**(15,636)**	**(6,122)**	**-**	**3,797**	**(24,055)**
Net profit/(loss) after tax	**44,338**	**113,751**	**(8,732)**	**3,498**	**(27,632)**	**125,223**
Total assets	**3,460,047**	**5,499,099**	**364,164**	**590,034**	**1,240,111**	**11,153,455**
Total liabilities and equity	**2,361,829**	**4,906,953**	**364,164**	**590,034**	**2,930,475**	**11,153,455**

Disaggregated revenues 2022

IFRS15 requires the disclosure of disaggregated revenue from contracts with customers for major products / service lines. The below table provides disaggregation of commission and fee income (net) into revenues within Bank's reportable segments. Contract revenue is further segregated based on the products and services:

2022	**Retail RO'000**	**Wholesale RO'000**	**International RO'000**	**Islamic RO'000**	**Total RO'000**
Transactional	**8,638**	**-**	**2**	**61**	**8,701**
Trade Income	**57**	**3,057**	**245**	**101**	**3,460**
Account Services	**93**	**997**	**(29)**	**31**	**1,092**
Underwriting & Syndication	**846**	**4,165**	**152**	**622**	**5,785**
Investment banking	**-**	**1,608**	**-**	**-**	**1,608**
Total	**9,634**	**9,827**	**370**	**815**	**20,646**

2022	**Retail USD'000**	**Wholesale USD'000**	**International USD'000**	**Islamic USD'000**	**Total USD'000**
Transactional	**22,435**	**-**	**6**	**159**	**22,600**
Trade Income	**149**	**7,939**	**637**	**262**	**8,987**
Account Services	**242**	**2,590**	**(76)**	**80**	**2,836**
Underwriting & Syndication	**2,197**	**10,818**	**395**	**1,616**	**15,026**
Investment banking	**-**	**4,177**	**-**	**-**	**4,177**
Total	**25,023**	**25,524**	**962**	**2,117**	**53,626**

34 SEGMENTAL INFORMATION (CONTINUED)

For management purposes the Bank also reports the segment information of its operations by the following geographical locations:

i) Oman
ii) United Arab Emirates (UAE)
iii) Egypt

Transactions between the above segments are conducted at estimated market rates.

Segment information by geography is as follows:

For the year ended 31 December 2022	***Oman*** ***RO'000***	***UAE*** ***RO'000***	***Egypt*** ***RO'000***	***Total*** ***RO'000***
Net Interest income and Income from Islamic financing and Investment activities	**100,143**	**3,395**	**1**	**103,539**
Fees, Commission and other operating income	**34,187**	**972**	**(461)**	**34,698**
Operating income	**134,330**	**4,367**	**(460)**	**138,237**
Operating expenses (refer note below)	**(57,919)**	**(2,573)**	**(24)**	**(60,516)**
Operating profit	**76,411**	**1,794**	**(484)**	**77,721**
Total impairment losses (net) and taxation	**(26,515)**	**(2,995)**	**-**	**(29,510)**
Segment profit for the year	**49,896**	**(1,201)**	**(484)**	**48,211**
Other information				
Segment assets	**4,153,877**	**139,149**	**1,054**	**4,294,080**
Segment capital expenses	**2,141**	**26**	**-**	**2,167**

For the year ended 31 December 2022	***Oman*** ***USD'000***	***UAE*** ***USD'000***	***Egypt*** ***USD'000***	***Total*** ***USD'000***
Net Interest income and Income from Islamic financing and Investment activities	**260,111**	**8,818**	**3**	**268,932**
Fees, Commission and other operating income	**88,797**	**2,525**	**(1,197)**	**90,125**
Operating income	**348,908**	**11,343**	**(1,194)**	**359,057**
Operating expenses	**(150,439)**	**(6,683)**	**(62)**	**(157,184)**
Operating profit	**198,469**	**4,660**	**(1,256)**	**201,873**
Total impairment losses (net) and taxation	**(68,870)**	**(7,780)**	**-**	**(76,650)**
Segment profit for the year	**129,599**	**(3,120)**	**(1,256)**	**125,223**
Other information				
Segment assets	**10,789,291**	**361,426**	**2,738**	**11,153,455**
Segment capital expenses	**5,561**	**67**	**-**	**5,628**

Note: Operating expenses does not include cost allocation.

34 SEGMENTAL INFORMATION (CONTINUED)

Segment information by business line is as follows:

Year ended 31 December 2021	Retail Banking RO'000	Wholesale Banking RO'000	International Banking RO'000	Islamic Banking RO'000	Funding center RO'000	Total RO'000
Net Interest income and net Income from Islamic financing and Investment activities	45,043	58,683	2,155	4,554	(18,853)	91,582
Fees, Commission and other operating income	12,786	17,089	1,511	383	-	31,769
Operating income	57,829	75,772	3,666	4,937	(18,853)	123,351
Operating expenditure	(37,517)	(18,086)	(4,238)	(3,649)	(8)	(63,498)
Operating profit/(loss)	20,312	57,686	(572)	1,288	(18,861)	59,853
Loan impairment (losses)/reversal	(100)	(23,541)	174	(618)	100	(23,985)
Net profit/(loss) before tax	20,212	34,145	(398)	670	(18,761)	35,868
Taxation	(3,072)	(5,189)	(181)	-	2,851	(5,591)
Net profit/(loss) after tax	17,140	28,956	(579)	670	(15,910)	30,277
Total assets	1,336,673	1,882,285	169,106	197,872	495,131	4,081,067
Total liabilities and equity	953,340	1,729,241	169,106	197,872	1,031,508	4,081,067

Year ended 31 December 2021	Retail Banking USD'000	Wholesale Banking *USD'000*	International Banking *USD'000*	Islamic Banking *USD'000*	Funding center *USD'000*	Total USD'000
Net Interest income and net Income from Islamic financing and Investment activities	116,995	152,423	5,597	11,829	(48,968)	237,876
Fees, Commission and other operating income	33,210	44,387	3,925	995	-	82,517
Operating income	150,205	196,810	9,522	12,823	(48,968)	320,393
Operating expenditure	(97,447)	(46,977)	(11,008)	(9,478)	(20)	(164,929)
Operating profit/(loss)	52,758	149,834	(1,486)	3,345	(48,988)	155,464
Loan impairment (losses)/reversal	(260)	(61,145)	452	(1,605)	260	(62,299)
Net profit/(loss) before tax	52,499	88,688	(1,034)	1,740	(48,728)	93,165
Taxation	(7,979)	(13,478)	(470)	-	7,405	(14,522)
Net profit/(loss) after tax	44,519	75,210	(1,504)	1,740	(41,323)	78,643
Total assets	3,471,878	4,889,052	439,236	513,953	1,286,055	10,600,174
Total liabilities and equity	2,476,208	4,491,535	439,236	513,953	2,679,242	10,600,174

34 SEGMENTAL INFORMATION (CONTINUED)

Disaggregated revenues 2021

IFRS15 requires the disclosure of disaggregated revenue from contracts with customers for major products / service lines. The below table provides disaggregation of commission and fee income (net) into revenues within Bank's reportable segments. Contract revenue is further segregated based on the products and services:

2021	Retail	Wholesale	International	Islamic	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Transactional	7,640	-	2	50	7,692
Trade Income	40	2,884	188	48	3,161
Account Services	132	941	-	19	1,092
Underwriting & Syndication	611	4,556	195	109	5,472
Investment banking	-	1,445	-	-	1,445
Total	8,424	9,826	385	226	18,861

2021	Retail	Wholesale	International	Islamic	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
Transactional	19,844	-	5	130	19,979
Trade Income	105	7,492	488	125	8,210
Account Services	343	2,443	-	50	2,836
Underwriting & Syndication	1,588	11,834	507	283	14,212
Investment banking	-	3,753	-	-	3,753
Total	21,880	25,522	1,000	588	48,990

For management purposes the Bank also reports the segment information of its operations by the following geographical locations:

i) Oman
ii) United Arab Emirates (UAE)
iii) Egypt

Transactions between the above segments are conducted at estimated market rates.

Segment information by geography is as follows:

For the year ended 31 December 2021	*Oman*	*UAE*	*Egypt*	*Total*
	RO'000	*RO'000*	*RO'000*	*RO'000*
Net Interest income and Income from Islamic financing and Investment activities	89,427	2,149	6	91,582
Fees, Commission and other operating income	30,258	778	733	31,769
Operating income	119,685	2,927	739	123,351
Operating expenses (refer note below)	(60,959)	(2,598)	59	(63,498)
Operating profit	58,726	329	798	59,853
Total impairment losses (net) and taxation	(29,569)	(7)	-	(29,576)
Segment profit for the year	29,157	322	798	30,277
Other information				
Segment assets	3,911,961	146,803	22,303	4,081,067
Segment capital expenses	2,261	12	-	2,273

Note : Operating expenses does not include cost allocation.

34 SEGMENTAL INFORMATION (CONTINUED)

Segment information by geography is as follows:

For the year ended 31 December 2021	*Oman* *USD'000*	*UAE* *USD'000*	*Egypt* *USD'000*	*Total* *USD'000*
Net Interest income and Income from Islamic financing and Investment activities	232,275	5,582	16	237,873
Fees, Commission and other operating income	78,594	2,021	1,904	82,519
Operating income	310,869	7,603	1,920	320,392
Operating expenses	(158,335)	(6,748)	153	(164,930)
Operating profit	152,534	855	2,073	155,462
Total impairment losses (net) and taxation	(76,802)	(17)	-	(76,819)
Segment profit for the year	75,732	838	2,073	78,643
Other information				
Segment assets	10,160,938	381,306	57,930	10,600,174
Segment capital expenses	5,879	32	-	5,911

35 FAIR VALUE OF FINANCIAL INSTRUMENTS

Based on the valuation methodology outlined below, the fair values of all financial instruments at 31 December 2022 and 31 December 2021 are considered by the Management not to be materially different to their book values.

Estimation of fair values

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

1. Loans, advances and Islamic financing assets

Fair value is calculated based on discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. For loans that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when interest rates were at levels similar to current levels, adjusted for any differences in interest rate outlook. Expected future cash flows are estimated considering credit risk and any indication of impairment. Expected future cash flows for homogeneous categories of loans are estimated on a portfolio basis and discounted at current rates offered for similar loans to new borrowers with similar credit profiles. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans.

2. Investments

Fair value is based on quoted market prices at the reporting date without any deduction for transaction costs. If a quoted market price is not available, fair value is estimated based on discounted cash flow and other valuation techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate for a similar instrument at the reporting date.

3. Current account balances due to and due from Banks

The carrying amount of current account balances due to and from Banks was considered to be a reasonable estimate of fair value due to their short term nature.

35 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

4. Bank and customer deposits

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity deposits, including certificates of deposit, is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values.

5. Other financial instruments

No fair value adjustment is made with respect to credit-related off-balance sheet financial instruments, which include commitments to extend credit, standby letters of credit and guarantees, as the related future income streams materially reflect contractual fees and commissions actually charged at the reporting date for agreements of similar credit standing and maturity.

Foreign exchange contracts are valued based on market prices. The market value adjustments in respect of foreign exchange contracts are included in other assets and other liabilities.

The fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations. Other unquoted equities are valued based on information provided by fund managers, investee financial information and current purchase prices.

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

Valuation models

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

35 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

Total USD'000	***Level 2 USD'000***	***Level 1 USD'000***	***31 December 2022***	***Level 1 RO'000***	***Level 2 RO'000***	***Total RO'000***
			Investment measured at FVTPL			
4,863	**-**	**4,863**	Quoted equities	**1,872**	**-**	**1,872**
6,283	**6,283**	**-**	Unquoted equities	**-**	**2,419**	**2,419**
11,146	**6,283**	**4,863**	**Total**	**1,872**	**2,419**	**4,291**
			Investment measured at FVOCI			
124,036	**-**	**124,036**	Quoted equities	**47,754**	**-**	**47,754**
124,036	**-**	**124,036**	**Total**	**47,754**	**-**	**47,754**
135,182	**6,283**	**128,899**	**Total financial assets**	**49,626**	**2,419**	**52,045**

Total USD'000	*Level 2 USD'000*	*Level 1 USD'000*	*31 December 2021*	*Level 1 RO'000*	*Level 2 RO'000*	*Total RO'000*
			Investment measured at FVTPL			
2,527	-	2,527	Quoted equities	973	-	973
6,724	6,724	-	Unquoted equities	-	2,589	2,589
9,251	6,724	2,527	Total	973	2,589	3,562
			Investment measured at FVOCI			
93,293	-	93,293	Quoted equities	35,918	-	35,918
10,489	-	10,489	Quoted debt	4,038	-	4,038
58	58	-	Unquoted equities	-	22	22
103,840	58	103,782	Total	39,956	22	39,978
113,091	6,782	106,309	Total financial assets	40,929	2,611	43,540

The Bank's primary medium and long-term financial liabilities are the borrowed funds and subordinated liabilities. The fair values of these financial liabilities not materially different from their carrying values, since these liabilities are repriced at intervals of three or six months, depending on the terms and conditions of the instrument and the resultant applicable margins approximate the current spreads that would apply for borrowings with similar maturities

Derivative financial instrument at level 2 are valued based on counter party valuation, quoted forward rates and yield curves (see note 36). There are no transfers between levels of fair value measurement hierarchy during the years ended 31 December 2022 and 2021.

36 DERIVATIVES

In the ordinary course of business, the Bank enters into various types of transactions with customers and for own account for hedging purpose that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. The Bank uses the following derivative financial instruments:

36 DERIVATIVES (CONTINUED)

Derivative product types

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

Swaps are contractual agreements between two parties to exchange movements in interest or foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity, foreign currency or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Derivatives held or issued for hedging purposes

As part of its asset and liability management the Bank uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. Hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall balance sheet exposures achieve this.

The Bank uses forward foreign exchange contracts, options and currency swaps to hedge against specifically identified currency risks. In addition, the Bank uses interest rate swaps to hedge against the cash flow risks arising from certain fixed interest rate loans and deposits.

For interest rate risk strategic hedging is carried out by monitoring the re-pricing of financial assets and liabilities and entering into interest rate swaps to hedge a proportion of the interest rate exposure.

Fair value hedges of interest rate risk

The Bank uses interest rate swaps to hedge its exposure to changes in the fair values of fixed-rate euro medium term notes (EMTN) issued in respect of the USD LIBOR benchmark interest rate. Pay-floating / receive-fixed interest rate swaps are matched to specific issuances of fixed-rate EMTN with terms that closely align with the critical terms of the hedged item.

The Bank's approach to managing market risk, including interest rate risk, is discussed in Note 32. The Bank's exposure to interest rate risk is disclosed in Note 32.3. Interest rate risk to which the Bank applies hedge accounting arises from fixed-rate senior unsecured bonds issued. The Bank hedges interest rate risk only to the extent of benchmark interest rates because the changes in fair value of a fixed-rate EMTN is significantly influenced by changes in the benchmark interest rate USD SOFR. Hedge accounting is applied where economic hedging relationships meet the hedge accounting criteria.

By using derivative financial instruments to hedge exposures to changes in interest rates, the Bank also exposes itself to credit risk of the derivative counterparty, which is not offset by the hedged item. The Bank minimizes counterparty credit risk in derivative instruments by entering into transactions with high-quality counterparties whose credit rating is higher than A, requiring counterparties to post collateral and clearing through CCPs.

Before fair value hedge accounting is applied by the Bank, the Bank determines whether an economic relationship between the hedged item and the hedging instrument exists based on an evaluation of the qualitative characteristics of these items and the hedged risk that is supported by quantitative analysis. The Bank considers whether the critical terms of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship. The Bank evaluates whether the fair value of the hedged item and the hedging instrument respond similarly to similar risks. The Bank further supports this qualitative assessment by using regression analysis to assess whether the hedging instrument is expected to be and has been highly effective in offsetting changes in the fair value of the hedged item.

The Bank establishes a hedge ratio by aligning the par amount of the fixed-rate senior unsecured bonds and the notional amount of the interest rate swap designated as a hedging instrument. Under the Bank policy, in order to conclude that a hedging relationship is effective, economic relationship between the hedged item and the hedging instrument should exist along with critical terms (such as the nominal amount, maturity and underlying) of the hedging instrument and the hedged item match or are closely aligned.

36 DERIVATIVES (CONTINUED)

Fair value hedges of interest rate risk (continued)
In these hedging relationships, the main sources of ineffectiveness are:

- the effect of the counterparty and the Bank's own credit risk on the fair value of the interest rate swap, which is not reflected in the fair value of the hedged item attributable to the change in interest rate; and
- differences in maturities of the interest rate swap and the loans or the notes.

There were no other sources of ineffectiveness in these hedging relationships.

The effective portion of fair value gains on derivatives held in qualifying fair value hedging relationships and the hedging gain or loss on the hedged items are included in net interest income.

The amounts relating to items designated as hedging instruments at 31 December 2022 as disclosed below.

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

31 December 2022				***Notional amounts by term to maturity***		
	Positive fair value RO'000 (note 9)	***Negative fair value RO'000 (note 13)***	***Notional amount RO'000***	***Within 3 months RO'000***	***3 - 12 months RO'000***	***More than 1 year RO'000***
Fair Value hedge - EMTN	**-**	**(3,635)**	**192,500**	**-**	**-**	**192,500**
Interest rate swaps	**20,557**	**(20,557)**	**442,065**	**13,131**	**31,662**	**397,272**
Forward foreign exchange purchase contracts	**4**	**(50)**	**388,784**	**143,828**	**244,956**	**-**
Forward foreign exchange sales contracts	**286**	**(93)**	**388,784**	**143,860**	**244,924**	**-**
Total	**20,847**	**(24,335)**	**1,412,133**	**300,819**	**521,542**	**589,772**
Total – USD'000	**54,148**	**(63,208)**	**3,667,878**	**781,348**	**1,354,655**	**1,531,875**

31 December 2021				*Notional amounts by term to maturity*		
	Positive fair value RO'000 (note 9)	*Negative fair value RO'000 (note 13)*	*Notional amount RO'000*	*Within 3 months RO'000*	*3 - 12 months RO'000*	*More than 1 year RO'000*
Interest rate swaps	2,049	(2,049)	462,212	7,829	22,550	431,833
Forward foreign exchange purchase contracts	8	(16)	254,848	54,015	200,833	-
Forward foreign exchange sales contracts	1,034	(10)	254,848	54,001	199,840	1,007
Total	3,091	(2,075)	971,908	115,845	423,223	432,840
Total – USD'000	8,029	(5,390)	2,524,436	300,896	1,099,281	1,124,260

37 COMPARATIVE AMOUNTS

Certain of the corresponding figures for 2021 have been reclassified in order to conform with the presentation for the current year.