بنك عُمان العربي
OMAN ARAB BANK

2022

ANNUAL REPORT

“Despite these challenges posed to our economy, we are certain that the Fiscal Balance Plan and its related procedures, as endorsed by the government recently, will undoubtedly steer our economy to the shores of safety. The economy will witness, during the next five years, rates of growth that meet the expectations of all citizens of this dear country.”

His Majesty Sultan Haitham Bin Tarik
November 2020

Contents

Chairman's Report

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present Oman Arab Bank's ("OAB") annual results for 2022.

Oman's economic recovery has been gaining traction in 2022; its Credit rating was upgraded multiple times during the year. The latest announcement was by Standard & Poor's (S&P) in November who upgraded the Sultanate's rating from "BB-" to "BB" with a stable outlook, noting that GDP growth will reach approximately 4% in 2022. It also highlighted that total public debt is projected to decline to 44% of GDP in 2022, down from 61% in 2021.

Financial Performance

OMR **16.2** million

Consolidated results

The Bank recorded net profit of OMR 16.2 million The Bank recorded net profit of OMR 16.2 million for the year ending December 31, 2022 compared to OMR 7.1 million in 2021, an increase of 129% driven by a healthy growth in its core operations in both Conventional and Islamic banking.

The Bank's Operating profit of OMR 47.8 million increased by 11% compared to OMR 43.2 million in 2021. This growth was attributed to higher operating income of 4% and nil increase in cost. Excluding the one-off income of OMR 5.9 million, the operating profit and operating income would have shown increases of 28% and 9% respectively.

Net interest income and net income from Islamic financing grew by 10% to reach OMR 100.2 million in 2022 compared to OMR 90.7 million in 2021. Net fees and commission stood at OMR 17.8 million in 2022 and was 43% higher than the previous year.

Net loans and advances, including Islamic finance, increased by 11% to OMR 3,067 million at 31 December 2022 compared to OMR 2,753 million at 31 December 2021. Customer deposits reached OMR 2,992 million at 31 December 2022 compared to OMR 2,810 million at 31 December 2021, an increase of 6%.

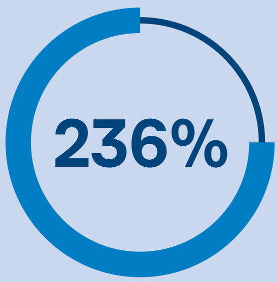
Parent company performance

The parent company's net profit increased by 236% to OMR 10.2 million in 2022 compared to OMR 3.0 million in 2021 driven by improvements across all of its core banking activities.

Total operating income reached OMR 92.7 million in 2022 compared to OMR 92.1 million in 2021. Operating expenses declined by 3% to OMR 55.2 million compared to OMR 56.9 million last year. Operating profit increased from 35.2 million in 2021 to OMR 37.5 million in 2022. Excluding the one-off income of OMR 5.9 million recorded in 2021, operating profit would have shown an increase of 27%.

Net interest income increased by 7% to OMR 74.5 million in 2022 compared to OMR 69.4 million in 2021, while net fees and commissions increased by 52% to reach OMR 14.2 million in 2022.

Loans and advances to customers grew by 10% to OMR 2,165 million at 31 December 2022 compared to OMR 1,961 million at 31 December 2021. Customer deposits increased by 6% to OMR 2,089 million at 31 December 2022 compared to OMR 1,965 million last year.



43%

Alizz Islamic Bank performance

Net Profit of Alizz Islamic Bank increased by 43% to reach OMR 6.3 million in 2022 compared to OMR 4.4 million last year supported by a strong growth in Islamic financing activities. Net financing receivables increased by 14% to OMR 903 million in 2022 compared to OMR 793 million in 2021. Customer deposits reached OMR 903 million in 2022 compared to OMR 845 million in 2021, an increase of 7%.

Awards

OAB received a number of prestigious awards this year, including the "The Leadership Award in social responsibility" in recognition of its efforts towards supporting local communities. Alizz Islamic Bank won "The Sultanate's Best Islamic Bank on Social Media" award by Global Banking and Finance. Alizz Islamic Bank also received the 'Fintech Solution Provider Award of the Year" award for its IFIN (Islamic Finance Initiation Network) Instant Goods and Auto Financing during the OER (Oman Economic Review) Live Digital Transformation Conference & Awards.

Enriching clients' experience

In its efforts to promote a culture of saving, OAB launched its Child Savings Plan, a unique and rewarding savings account designed to encourage parents to start saving for their children's future. This account enables parents to make monthly payments into their children's savings account and watch their children's savings grow at a competitive annual interest rate, with free life insurance. OAB also launched its new reloadable prepaid card "Banki" that empowers customers to manage their family's expenses seamlessly.

OAB continued to drive forward its digital transformation agenda with the latest digital solution targeting small businesses specifically. OAB collaborated with Visa to launch the OAB Point of Sale (Mobile Pay) Payment Solution for small business owners and SMEs. With this new solution, merchants will be able to transform their smartphones into a payment terminal and accept contactless payments from their customers using an NFC-enabled Android devices. When using this payment solution, customers will be able to pay using their contactless cards and receive their payment receipt by e-mail or SMS seamlessly.

Additionally, AIB launched a special offer in partnership with a leading regional airline. The promotion offered Alizz Islamic Bank cardholders a 12% discount on economy and business class tickets. Alizz Islamic Bank also launched multiple discounts for its cardholders at various retail outlets, approved by the Fatwa and Sharia Supervisory Board.

Omanisation and Talent Management

In 2022, OAB implemented global HR best practices to foster a positive, growth-nurturing culture. As part of this initiative, OAB introduced a job rotation policy and re-structured certain divisions and teams within the Bank to enhance efficiencies, boost overall performance and create opportunities for young Omani talent.

As a testament to its commitment to create a strong pipeline of Omani talent in senior leadership roles, OAB announced a number of senior Omani appointments and has successfully maintained one of the highest Omanisation rates in the banking sector at 96%. We are proud to see this commitment reflected across the group, with Alizz Islamic Bank maintaining an Omanisation rate of 92%.

Alizz Islamic Bank launched the 'Ruwad Alizz' programme in 2022, a holistic and accelerated development programme for mid-level leaders, in collaboration with Harvard University. With this program, Alizz Islamic Bank endeavors to develop leadership potential to align to the "Future of Work". The program aims to certify 60 delegates every year, across two batches, and includes delegates from different industries in Oman as part of the bank's commitment to share knowledge and give back to the society.

OAB places significant importance on promoting gender diversity in the workplace and developing female talent to take up leadership positions. At OAB, women make up 36% of all middle management positions. OAB is also proud to have 40% of its branches led by female talents, and for the first time in the history of the Bank, two female employees were appointed as Regional Managers recently.

In support of Oman's socio-economic agenda, OAB also continued to provide on-the-job training opportunities for university and college students, with over 230 training opportunities offered in 2022.

Our commitment to the community

Our commitment to society as a whole is well reinforced by the platforms and initiatives we have introduced to create sustainable value in the community. In 2022, OAB and Alizz Islamic Bank organized a forum in collaboration with the Supreme Judicial Council to discuss and identify opportunities to simplify procedures related to commercial judicial proceedings. OAB also collaborated with the Environmental Authority to support its national initiative to plant 10 million trees, with volunteers from the Bank planting 3,000 mangrove trees in Wadi al-Arsh.

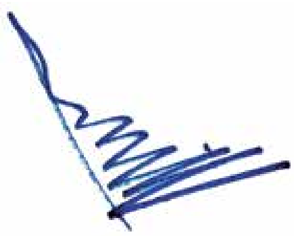
Alizz Islamic Bank, in cooperation with the Omani Society for Petroleum Services (OPAL), organized a workshop on financial inclusion and literacy for small & medium enterprises in the energy sector. The objective was to enable these institutions to grow and strengthen their competitiveness and contribution to the GDP.

In addition, Alizz Islamic Bank celebrated Omani Women's Day by launching the second edition of its 'Hiyya Awards' to recognize successful female entrepreneurs. As part of Alizz Islamic Bank's commitment to corporate social responsibility and its pioneering role in supporting people with disabilities in the Sultanate, the Bank in coordination with Ministry of Social Development and The Association of Early Intervention for Children with Special Needs launched a crowdfunding project to raise OMR 2 million to build the Centre of Excellence for Children with Disabilities. The crowdfunding website was open to all sectors and segments of society and successfully raised the required funds. The Center, which is scheduled to open soon, will be the first-of-its-kind in Oman, and is designed to provide comprehensive services to children of various disabilities.

Conclusion

On behalf of the Board of Directors, I would like to thank our shareholders for their continued support, confidence and trust. I would also like to thank the Bank's Senior Leadership team and employees for their commitment. Their tremendous efforts have brought us to where we are today – and will shape what we become tomorrow. We move forward in 2023 with a new Chief Executive Officer, and I am optimistic for the future stewardship of the Bank.

I would also like to thank the Central Bank of Oman and the Capital Market Authority for their continuous support, and I would like to extend our utmost appreciation to His Majesty Sultan Haitham bin Tarik - may the Almighty protect and preserve him – for his wise leadership. May the Almighty protect Oman, its leader and its people.



Rashad Al Zubair
Chairman

Board of Directors

Mr. Nasri Malhamé
Director

Mr. Mohammed Al Ghanamah
Director

Mr. Imad Sultan
Director

Mr. Yasir Aqil Badri
Director

Ms. Randa Sadik
Director

Mr. Wahbe Tamari
Deputy Chairman

Mr. Walid Samhouri
Director

Mr. Rashad Al Zubair
Chairman

Mr. Abdulaziz Al Balushi
Director

Management team

Tariq Al Zadjali
Chief Technology Officer

Mansoor Al Raisi
Chief Compliance Officer

Rashad Al Shaikh
Head of Retail Banking Division

Asma Al Zadjali
Head of Banking Operations Group

CB Ganesh
Deputy Chief Executive Officer

Sulaiman Al Harthi
Chief Executive Officer

Ahmed El Damaty
Chief Financial Officer

Kartik Natarajan
Head of Strategy

Sulaiman Al Hinai
Head of Treasury, Investment and Government / FI Banking Group

Essam Al Busaidi
Head of Human Resource Division

Auditor's Report on Corporate Governance

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

To the Board of Directors of Oman Arab Bank SAOG ("the Bank")

Purpose of this Agreed-Upon Procedures Report

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

Responsibilities of the Bank

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

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

Practitioners' Responsibilities

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

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

KPMG

Practitioners' Responsibilities (continued)

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

Professional Ethics and Quality Control

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

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

Procedures and Findings

We have performed the procedures described below, which were agreed upon in our engagement letter with the Bank on Code of Corporate Governance:

S. No	Procedures	Findings
(a)	We checked that the corporate governance report (the report) issued by the Board of Directors includes as a minimum, all items suggested by CMA to be covered by the report as detailed in the Annexure 3 of the Code by comparing the report with such suggested content in the Annexure 3.	No exceptions noted.
(b)	We obtained the details regarding areas of non-compliance with the Code identified by the Bank's Board of Directors for the year ended 31 December 2022. With respect to the procedure above, we inquired from and obtained written representation from the management and those charged with governance for non-compliance with the Code for the year ended 31 December 2022.	No exceptions noted.

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

KPMG

KPMG LLC

6 March 2023

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Corporate Governance Report

ANNUAL REPORT

OAB’s approach to corporate governance

Framework and Approach to corporate governance and responsibility

The Board is committed to maintain the highest standards of corporate governance. The Board believes that corporate governance is about having a set of values and behaviors that govern the Bank and its subsidiaries’ (Alizz Islamic Bank) day-to-day activities, values and behaviors that ensure transparency, fair dealing and protection of the interest of the Bank’s stakeholders namely, customers, shareholders, employees, the regulators and the community. In line with this belief, the Board’s approach is to consider corporate governance within the broader framework of corporate responsibility and regulatory oversight.

A Bank’s level of governance and responsibility has emerged as a significant indicator of its overall health as a business. Therefore, the Bank is committed to good governance practices for the sustainability of the Bank’s business and its performance.

In pursuing its commitment to best practice governance standards, the Board will continue to:

- Review and improve the governance practices.
- Monitor global developments in best corporate governance practice and
- Contribute to local debates on what represents the best corporate governance practice.

Our Governance Standards – Principles and Processes

We believe that the best approach for corporate governance is to be guided by the principles and practices that are in our stakeholders’ interests. However, as a minimum, we ensure compliance with legal requirements, in particular to the letter and spirit of the local governance practices issued by the Central Bank of Oman (CBO) and the Capital Market Authority (CMA).

This corporate governance statement is divided into two Parts. Part 1 discusses the broad principles of corporate governance adopted by the Bank. Part 2 provides specific disclosures.

Date of this statement

This statement reflects the Bank's corporate governance policies and procedures at 31 December 2022.

Corporate Governance - Part 1

This part provides information regarding the following subjects as required under the Code of Corporate Governance issued by the CMA:

1. The Board
2. Board Committees and their role
3. Audit governance and independence
4. Executive pay and reward scheme

1. The Board

Role of the Board

The Board of Directors is accountable to the shareholders. The Board's specific responsibilities, among other things, include:

- Ensuring the business is conducted ethically and transparently.
- Providing strategic direction and approving corporate strategies.
- Ensuring availability and adequacy of sound policies, plans and procedures that cover all the Bank's activities in line with governing regulations.
- Ensuring maintenance of adequate risk management controls and reporting mechanisms.
- Monitoring management and financial performance.
- Reviewing and approving the Bank's quarterly and annual financial reports.
- Approving the business plan and budgets.
- Selecting and evaluating the Chief Executive Officer (CEO) and senior management.
- Planning for executive succession.
- Setting Chief Executive Officer's remuneration and recommending the Directors' remuneration to the shareholders for approval at the Annual General Meeting.
- Ensuring adherence to the Central Bank's and other regulatory and supervisory bodies' requirements.
- Approving the appointment of the Bank's representative(s) to the board of its subsidiaries (i.e., Alizz Islamic Bank), based on BRSC recommendation.

Board size and Composition

The Bank's Board of Directors consists of nine members, all of whom are non-executives as mandated by the Central Bank of Oman and the Capital Market Authority's regulations. The current composition of the Board and Board Committees is set out in Part 2.

Selection and Role of the Chairman

The Chairman is a non-Executive Director, appointed by the Board. The Chairman's role includes but is not limited to:

- Ensuring high standards of Corporate Governance by the Bank.
- Ensuring that when all Board members take office, they are fully briefed on the terms of their appointment, their duties and responsibilities.

- Providing effective leadership in formulating the Board's strategy.
- Representing the views of the Board to the public.
- Ensuring that the Board meets at regular intervals throughout the year, and that minutes of meetings accurately record decisions taken and, where appropriate, the views of individual Directors.
- Reviewing the contributions made by the Board members.
- Ensuring the implementation and follow up of the resolutions of the board of directors

Board Independence

According to the Bank's structure, the Board has the highest governing authority within the Bank. It operates independently. The Board consists of nine non-executive directors of which four are independent.

Meetings of the Board and their Conduct

The Board meets formally at least four times a year. In addition, it meets whenever necessary to address specific matters requiring attention between the scheduled meetings. Meeting agendas are established by the Chairman in consultation with the CEO to ensure adequate coverage of financial, strategic and major risk areas throughout the year. Copies of Board papers are circulated in advance.

Meetings attended by the Directors during the past financial year are reported in Part 2.

Attendance at Annual General Meeting

The Directors attend, and are available to answer questions at the Annual General Meeting.

Avoidance of Conflict of Interest of Directors

In accordance with the constitution of the Bank, any Director with a material personal interest in any matter presented to the Board or its Committees must not be present when the matter is being considered, and may not vote on the matter (this is covered in more detail under the Related Party Section).

Expertise of the Board

The Board has a broad range of expertise and experience to meet its objectives. The current Board composition, with details of each member's expertise and experience and other current Directorships, is set out in Part 2.

Nomination and Appointment of New Directors

The Board of Directors is elected by the shareholders of the Bank during the Annual General Meeting for a three-year term. The Board Remuneration and Selection Committee reviews and assesses the required skills of nominees against the Fit and Proper criteria stipulated by the CBO and CMA.

When appointed to the Board, all new Directors receive an induction appropriate to their experience to familiarize them with matters relating to the Bank's business, strategy and current issues. The current members of the Board of Directors were elected on March 28, 2022 at the Bank's Annual General Meeting by acclamation for a term of three years ending in March 2025.

Review of Board Performance

The Board regularly reviews its overall performance, as well as the performance of individual Directors. The review is carried out by an independent consultant appointed by the shareholders.

Board Access to Information

The Board needs high quality, unfiltered information on which to base decisions. All Directors have unrestricted access to the Bank's records and information, and receive regular detailed financial and operational reports from the senior management team to enable them to carry out their duties.

2. Board Committees

The Board Committees' authorities and responsibilities are governed by the relevant Committee's terms of reference in order to enhance the role of the Board in effectively dealing with complex and specialized issues and also ensure implementation of appropriate and effective risk management and corporate governance practices. In this regard, the Board of Directors has established five sub-committees namely the Credit Committee, the Audit Committee, the Compliance and Risk Committee, the Remuneration and Selection Committee and the IT Governance Committee.

Operation of the Committees

Each committee is entitled to the resources and information it requires, including direct access to employees and advisers. Senior managers and other employees are invited to attend committee meetings as necessary.

Composition and Independence of the Committees

Committee members are chosen based on the skills, experience and other qualities they bring to the committees. All committees are composed of non-executive Directors.

The mechanism of Committees' reports to the Board

Minutes of every meeting of the Board Committees are included in the agenda of the Board's meeting. Board meetings are scheduled after the committees' meetings. During each meeting, the committees' chairpersons brief the Board of the outcome of each committee meeting. The brief includes decisions and recommendations made to mitigate the potential risks and enhance the effectiveness of internal controls.

Brief Terms of Reference of Board Committees

a) Credit Committee

The purpose of the Board Credit Committee (BCC) is to assist the Board in fulfilling its responsibilities in lending and credit activities within BCC's delegated authorities taking into consideration the Bank's credit policies, strategic and business plans. Main responsibilities of the Committee include:

- Review and make recommendations to the Board on a regular basis or whenever the need arises on the credit delegated authorities of both the Management and the BCC.
- Reviews the Bank's credit portfolio on a regular basis in coordination with the Board Compliance and Risk Committee.
- Reviews and approves credit facilities above the Executive management's approval limits.

- Review the Management Credit Committee's recommendations with respect to debt write-off or write-down and take the appropriate decisions within the BCC's delegated authorities or escalate to the Board for a decision.
- Considers matters of special importance as delegated by the Board.

b) Audit Committee

The Board Audit Committee's primary responsibility is to assist the Board in fulfilling its responsibilities in relation to the external reporting of financial and non-financial information, oversight responsibilities over the system of internal control, the audit process, and the Bank's process for monitoring compliance with laws and regulations and the code of conduct. Main responsibilities of the Board Audit Committee include:

- Approves the scope of internal audit work planned for the year.
- Reviews and approves the scope of the external audit work planned for the year.
- Approves protocols governing the provision of non-audit services by the external auditor, that are outside of the scope of the external audit work to be undertaken, to ensure the auditor's independency.
- Oversees and annually, reviews the performance of the Internal Audit Function.
- Ensures that the recommendations of the external and internal auditors are well addressed and implemented.
- Ensures the external and internal audit role in reviewing and auditing the IT systems/applications and the IT security.
- Ensures compliance with international accounting standards implemented in the Sultanate of Oman.
- Ensures that the Bank's financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) and other applicable regulations.

c) Compliance and Risk Committee

The Board Compliance and Risk Committee's primary responsibility is to assist the Board in fulfilling its responsibilities in relation to the risk management strategy (covering credit, liquidity, market, operational and other risks) in addition to establishing a compliance function that will develop necessary systems & controls to assess the impact of new laws and regulations on the Bank's operations. The Committee performs the below activities:

- Assists the Board with the formulation of the Bank's Risk Appetite Framework.
- Establishes and reviews the framework for risk management throughout the Bank covering all risks, including strategic, market, liquidity, credit, operational, information security and reputational risks on an ongoing basis.
- Ensures the risk management framework including policies, procedures and monitoring, accurately reflects the Bank's Strategy, Risk Appetite, accepted practices and legal & regulatory requirements.
- Promotes and ensures a high level of awareness of risk management throughout the Bank.
- Reviews the strategy, plan and budget of the risk management function.
- Reviews the assessment of the Bank's risk profile to understand the key risks affecting the Bank and recommend to the Board for approval.
- Reviews and recommends the ICAAP for Board approval consistent with the Board determined risk appetite.
- Reviews the Corporate Governance Framework of the Bank and endorses it for the Board's approval.
- Reviews regulators or external parties (i.e., external auditors) reports on the adequacy of the Bank's Risk Management Frameworks.

- Reviews the effectiveness of the Bank's Business Continuity Plan.
- Reviews the adequacy of the Bank's general insurance policies established by management, and for Directors' and Officers' (D&O) insurance recommending to the Board D&O's insurance for approval.
- Reviews the Bank's policies and recommends the same to the Board for approval
- Reviews the effectiveness of the process for monitoring compliance with all applicable laws and regulations.
- Reviews the Bank's compliance arrangements to ensure they are in accordance with the Bank's objectives and strategies, as well as any regulatory or legislative requirements.
- Reviews any proposed legislative or regulatory changes, the impact that such changes may have on the Bank's business and the internal policies and controls that will be introduced to address these changes.
- Reviews and approves the Compliance function's plan.

d) Remuneration and Selection Committee

- Developing succession plans for the Board or at least the chairperson.
- Preparing detailed job description for the role and responsibilities of Directors including the Chairperson.
- Nominating qualified persons to act as interim (temporary) Director(s) on the Board in the event that a position becomes vacant; and
- Developing proper Board Remuneration policy and reviewing it annually, taking into account market conditions and the Bank's performance.
- Ensuring on an annual basis the absence of any conflict of interest with respect to memberships with Boards of other companies.
- Reviewing Board membership criteria taking into consideration skills and competencies needed for the Board and its Committees.
- Recommending to the Board the appointment of the Chief Executive Officer, Deputy Chief Executive Officer, General Managers/Deputies and Assistant General Managers, Chief Audit Executive, Chief Risk Officer, Chief Compliance Officer and Legal Advisor as well as determining their remunerations and responsibilities.
- Reviewing and monitoring Omanization plans and compliance with the Omani Labor Law, related laws and regulations, Central Bank of Oman and Capital Market Authority instructions and regulations.
- Approving the annual remuneration for the executive management team (including salaries, performance bonus, performance-based incentives and other benefits).

e) Information Technology Governance Committee

The IT Governance Committee has been established to govern Information Technology (IT) activities in line with the Bank's strategic direction and to ensure that the stakeholders' objectives are met including benefit realization, risk mitigation and resources optimization. Main responsibilities of the Board IT Governance Committee include:

- Assess the effectiveness and performance of those stakeholders given delegated responsibility and authority for governance of enterprise IT such as the CTO, Head of IT Security and Head of Information Security.
- Maintain oversight of the extent to which IT satisfies obligations (regulatory, legislation, common law, contractual), internal policies, standards and professional guidelines.
- Evaluate how effectively the IT strategies have been integrated and aligned within the Bank's strategy for delivering value.

- Endorse the governance and management practices, roles and responsibilities incorporated in ITD's policy documents.
- Receive quarterly updates to monitor the IT operations, projects, resources and realization of expected return on investment / benefits to the Bank.
- Approve IT / digital strategic projects/initiatives and recommend IT / digital budget to the board of directors for approval.
- Approve the IT Risk Management Framework and ensure it is aligned with the Enterprise Risk Management (ERM) Framework if available.
- Receive quarterly updates on IT/Security incidents along with the corrective & follow-up actions taken by the stakeholders.
- Endorse the IT Strategy document which will contain strategic goals and appropriate organizational structures aligning IT resource management with the Bank's human resources (HR) planning.
- Endorse the management, control and monitoring framework for IT / digital projects and resources
- Ensure proper framework is in place for communication with external and internal stakeholders, including communication formats, channels and stakeholder acceptance.
- Direct the implementation of mechanisms to ensure that information meets all criteria for mandatory IT reporting requirements for the Bank with proper validation and escalation processes.
- Review the IT audit reports and ensure that corrective and preventive actions are implemented.

Composition of the Committee and Meetings.

Each Board Committee shall comprise of at least three members. The Board committees convenes at least four times a year, except the Remuneration and Selection Committee, which convenes at least twice a year. The current committee memberships and the dates of the meetings held are set out in Part 2.

3. Audit Governance and Independence

The Board is committed to three basic principles:

- The Bank must produce accurate and fair financial reports;
- The Bank must have independent auditors who serve shareholders' interests by ensuring that shareholders know the Bank's actual financial position; and
- The accounting and auditing standards are comprehensive and relevant and comply with applicable accounting standards and policies.

Engagement of Auditors

The Bank's independent external auditors for the financial year ended 31 December 2022 are KPMG. They were appointed by shareholders at the Annual General Meeting held on 28 March 2022.

Certification and Discussions with Auditors on Independence

The Board Audit Committee requires the Bank's external auditors to confirm that they maintained their independence at the commencement and during the audit. Board Audit Committee also meets with the external auditors to discuss their audit and any concerns they may have.

Rotation of External Auditors

Subject to applicable regulatory requirements, the Bank will require a rotation of the external auditor every four years. A minimum of two years' 'cooling off' period will be observed before the same auditor is re-appointed.

Attendance at Annual General Meeting

The Bank's auditors attend, and are available to answer questions at, the Annual General Meeting.

4. Executive Pay and Reward Schemes

Overview

The Bank's goal in rewarding the CEO and other executives is to provide base pay plus performance-linked rewards and other benefits that will attract and retain key executives. The Bank's policy is to provide individual performers with a level of income that:

- Recognizes the market value of each position in a competitive market;
- Rewards the individual's capabilities and experience;
- Recognizes the performance of individuals and
- Assists in executive retention.

To do this, the Bank has designed a fair and transparent structure for rewarding the Bank's executives that matches comparable remuneration in the marketplace.

Senior Management Remuneration

The remuneration of the CEO is recommended by the Board Remuneration and Selection Committee and approved by the Board of Directors.

The CEO recommends the pay and reward packages for key senior management staff consistent with the market practice and this is approved by the Board Remuneration and Selection Committee.

The fees paid to each Director during the year ended 31 December 2022 together with pay and rewards for the Bank's key management personnel are set out in Part 2.

Corporate Governance - Part 2

1. Profiles of members of Board of Directors

Mr. Rashad Al Zubair - Chairman

Mr. Rashad Al Zubair is the Chairman of The Zubair Corporation ("Z-Corp"), a leading business group in the Sultanate of Oman, with business interests extending to Energy & Natural Resources, Smart Electrification & Automation, Mobility & Equipment, Industrial & Chemical, Digitization & Information Technology, Education, Real Estate, Investments and Art & Heritage. He steers the affairs of the Board, and acts as its representative in major matters and significant business relationships.

Mr. Al Zubair has been the Chairman of Oman Arab Bank since June 1999. He is also the Chairman of the Zubair Holding SAOC and Oasis Water Company SAOC as well as Vice Chairman of Barr Al Jissah Resort Co SAOC. He is the Vice Chairman and Founder Member of Muscat University.

Mr. Al Zubair has held directorships (including the office of Chairman), in several prominent joint stock companies. He was the Deputy Chairman of the Oman Business Council and has been a member since its inception. He also served as Director of the Capital Market Authority, the regulatory body of the Muscat Securities Market and was also a member of Oman Centre for Governance & Sustainability (OCGS).

Mr. Wahbe Tamari - Deputy Chairman

Mr. Wahbe Tamari is currently Chairman of the Board of Arab Bank Switzerland Ltd. and Arabia Insurance Company SAL. He is also an active member of the board of Arab Bank Plc, Sucafina SA, Solidere International Plc, as well as a number of other companies active in various domains. He leads numerous projects in financial services and real estate. His deep understanding and passion for commodities began with his internship at Merrill Lynch London in 1982; later he joined Sucafina SA, a company established by and belonging to his family, which he managed between 1988 and 2004. Sucafina SA is a leading sustainable Farm to Roaster coffee company, with a family tradition in commodities that stretches back to 1905. Today, with more than one thousand employees spread over thirty countries, Sucafina Group is one of the leading coffee trading houses in the world, and one of the few focused entirely on the coffee business. Sucafina Group's extensive supply chains span from producer-facing export operations to destination sales offices around the world.

Mr. Tamari is an active member of YPO (Young President Organization) - having previously taken the lead of their Alpine Chapter – and is a member of YPO Emirates Gold since 2021. He serves on a variety of philanthropic councils that mainly focus on the education of young people. He sits on the Board of the Tamari Foundation whose mission is to be a catalyst for change through a variety of educational initiatives and projects focusing on human well-being within developing nations. Mr. Tamari resides in Dubai and was born in Beirut, Lebanon.

He is a graduate of Webster University Geneva with a BA in Management and Harvard Business School in 2013.

Ms. Randa El Sadek - Board Member

Ms. Randa El Sadek is currently the Chief Executive Officer of Arab Bank in Jordan. Previously, she held the position of deputy CEO of the Bank. She has more than 31 years' experience in the international sector. She worked with the National Bank of Kuwait for 23 years where she was the Group General Manager of the International Banking Group in charge of the bank's international activities, branches and subsidiaries worldwide. She was a member of the bank's Management Executive Committee and served on the Boards of Directors of the bank's overseas subsidiaries and was Managing Director of London-based National Bank of Kuwait (International) Plc.

In addition to her current position, Ms. El Sadek is also the Chairman of Arab Tunisian Bank, the Vice Chairman of Arab Bank Australia. She is chairman of Al Arabi Finance Holdings in Lebanon and chairman of the Directors of Al Arabi Investment Group in Jordan.

Ms. Randa El Sadek holds an MBA in Finance from the American University of Beirut.

Mr. Abdulaziz Al Balushi - Board Member

Mr. Abdulaziz Mohammed Al Balushi is the Chief Executive Officer of OMINVEST, major shareholder of Oman Arab Bank. He is an experienced and professional banker with more than 29 years of experience in the banking industry and capital markets. He was the CEO of Ahli bank SAOG from 2007 to 2013 and was primarily responsible for converting a single product mortgage bank into a full-fledged commercial bank.

During his tenure, Ahli bank won many prestigious awards including the best bank of Oman for three consecutive years by OER, the best bank in Oman 2012 by World Finance and the Bankers award 2013. In a career that has spanned over two decades, Mr. Al Balushi has held positions of increasing responsibility in all major areas of Banking. He started his career with Oman International Bank and prior to joining Ahli Bank, he was Deputy CEO of National Bank of Oman.

Mr. Al Balushi served in various Boards of companies across the Sultanate including ONIC Holding, Al Ahlia Insurance Company, National Life Insurance, Oman Investment & Finance Company, Gulf Hotels Co. and as an Advisory Board Member in the College of Agricultural and Marine Services at Sultan Qaboos University. Currently, he is Deputy Chairman of Jabreen Capital. He is also a Board member at National Life and General Insurance Company SAOG and National Finance Company SAOG. Additionally, he is a member of Oman American Business Center, an organization formed to foster the development of commercial activity between the United States of America and the Sultanate of Oman.

He holds a Master of Science Degree in Finance from the University of Strathclyde (UK) and a Fellow Chartered Institute of Bankers (UK). He is also a Fellow of the Institute of Financial Services, an organization supporting professionalism in financial services. He has attended a host of Specialized Executive Management Development Programs at International Institutes of worldwide repute such as Strathclyde; London and INSEAD Business Schools. In November 2012, he was ranked as the "Second Best CEO in the Arab Banking World" by Forbes Magazine.

Mr. Walid Al Samhouri - Board Member

Mr. Walid Al Samhouri is Executive Vice President – Jordan Country Head at Arab Bank. He has a vast banking experience for more than 33 years with Arab Bank where he worked in different geographies and handled various responsibilities in the Corporate and Institutional Banking, Credit, Banking Operations, Commercial and Trade Finance.

Mr. Al Samhouri is the Chairman of Arab Sudanese Bank -Sudan, and a board member of Arab Tunisian Bank, Tunisia. He is also a board member in Jordan Loan Guarantee Corporation, Jordan. He holds a Master's degree in Economics from the University of Jordan.

Mr. Imad Sultan - Board Member

Mr. Imad Sultan joined the family business at W. J. Towell & Co. LLC, (a major diversified family-owned corporation since 1866) as a Business Development Manager in 1995 and has been in the Towell Group since then. He is currently the Vice Chairman & Managing Director of W. J. Towell LLC, and the Chairman of the Executive Committee of the Group. He is also a vice Chairman and Chairman of the Nomination Committee and Member of the Executive Committee at Muscat Stock Exchange. In addition, Mr. Sultan is a Board member of Savannah Resources PLC. Formerly he served as a Director on the Boards of National Bank of Oman, Oman International Development & Investment Company SAOG. (Ominvest), National Hospitality Institute and Oman Tennis Association among others.

He holds a Bachelor of Science in Business Administration degree in Marketing from the American University in Washington DC, USA and has been a member of the Young Presidents Organization since 2005.

Mr. Nasri Malhamé - Board Member

Mr. Nasri Malhamé served as the CEO of Arab Bank (Switzerland) from 2009-2017. He is a board member of various entities, Arab Bank Switzerland (Lebanon). AB Fund Managers-Guernsey, Ubhar Capital-Oman and Chambre de commerce Arabo-Suisse, Geneva.

Mr. Malhamé has previously worked at B.A.I.I. Paris, an affiliate of BNP, after that he joined BNP Paribas-Geneva as an Executive Director in charge of Private Banking and Trade Finance for Southern Europe and the MENA region, and was appointed as a member of the Executive Committee in 2000.

He holds a Ph.D. in Banking and Management from Université Paris Dauphine and has set up his own consultancy firm, NVM Consulting.

Mr. Mohammed Al Ghanamah - Board Member

Mr. Mohammad Al Ghanamah has held the position of Executive Vice President and Head of Credit Division at the Head office of the Arab Bank in Jordan since 2010. He previously worked in several executive positions at the Bank, where he held the position of Executive Vice President – Global Head of Corporate and Investment Banking from 2007 to 2010.

Mr. Al Ghanamah occupied several positions between 1976 and 2010 across major regional banks, including the Saudi American Bank, Riyadh in the Kingdom of Saudi Arabia, the United Saudi Bank and the Banque Saudi Fransi. He also worked at the Gulf International Bank in Bahrain and Cairo Amman Bank in Jordan.

Mr. Al Ghanamah has over four decades of experience in the banking and management field. He is a member of several Boards of Directors, including the Islamic International Arab Bank, where he holds the position of Deputy Chairman of the Board, as well as the Arab National Bank in Saudi Arabia, the Arab Bank in Syria, T-Bank in Turkey. He is also a Chairman of the Supervisory Board of Arab National Leasing Company, Jordan and Deputy of Supervisory of AB invest in Amman, Jordan. He holds a Bachelor of Science degree in Mathematics from King Saud University in Riyadh, Saudi Arabia and a Diploma in Computer Programming from London.

Mr. Yasir Badri - Board Member

Mr. Yasir Badri is part of the Direct Investments team at Mubadala Investment Company – a sovereign investment arm of the Abu Dhabi government, managing a diverse portfolio of assets and investments worth more than USD 250 billion in the UAE and abroad.

He has been with Mubadala since 2009 and currently serves as a Senior Principal - Financial Services, focused on executing Mubadala's investment strategy in the space through fund, private, and public investments.

Prior to his role in Financial Services, Mr. Badri worked in the corporate Mergers and Acquisitions team, responsible for providing transaction execution support to multiple investment units at Mubadala. Before that, he worked in the financial risk management department under Mubadala's corporate treasury.

Mr. Badri holds a Bachelor's in Science of Finance degree from the American University of Sharjah (AUS). He is also a certified Chartered Financial Analyst (CFA) since 2013.

2. Board Committees

The terms of references of the Committees are set out in Part 1. The structure of the Board Committee is as follows:

Table 1

S.N	Director Name	Independent/ Independent	Committee*	Executive in OAB	Representing
1	Mr. Rashad Al Zubair	Independent	BRSC - Deputy Chairman BRSC Chairman	No	Self
2	Mr. Wahbe Tamari	Non-Independent	BRSC - Chairman	No	Arab Bank
3	Mr. Imad Sultan	Independent	BCRC - Deputy Chairman BAC - Member BRSC - Member	No	Self
4	Mr. Abdul Aziz Al Balushi	Non-Independent	BRSC - Member BCC - Member IT Governance Committee	No	OMINVEST
5	Ms. Randa El Sadek	Non-Independent	BCC - Deputy Chairman BRCS - member IT Governance Committee	No	Self
6	Mr. Walid Samhouri	Non-Independent	BCRC - Chairman BCC - Member IT Governance Committee	No	Self
7	Mr. Mohammed Al Ghanamah	Non-Independent	BAC - Deputy Chairman	No	Self
8	Mr. Nasri Malhamé	Independent	BAC - Chairman	No	Self
9	Mr. Yasir Badri	Independent	BCRC – Member	No	Self

The members of the Committees together with the number of meetings held in 2022 and attended by each member are set out in the Table 2 below.

Table 2

Director	Board Meetings		Credit Committee		Audit Committee		Compliance and Risk Committee		Remuneration and Selection Committee		IT Governance Committee	
	(Note 1)		(Note 2)		(Note 3)		(Note 4)		(Note 5)		(Note 6)	
	No. of meetings attended	No. of meetings attended	No. of meetings attended	No. of meetings attended	No. of meetings attended	No. of meetings attended	No. of meetings attended	No. of meetings attended	No. of meetings attended	No. of meetings attended	No. of meetings attended	No. of meetings attended
Rashad Al Zubair	6	7	9	8	A/N	N/A	A/N	N/A	2	1	A/N	A/N
Wahbe Tamari	5	7	A/N	A/N	A/N	N/A	A/N	N/A	2	2	A/N	A/N
Abdul Aziz Al Balushi	6	7	9	8	A/N	N/A	A/N	N/A	2	2	A/N	1
Walid Samhouri	7	7	9	9	A/N	N/A	7	7	A/N	N/A	1	1
Randa El Sadek	7	7	9	9	A/N	N/A	A/N	N/A	2	2	1	1
Imad Sultan	4	7	A/N	N/A	5	6	4	7	N/A	2	A/N	A/N
Nasri Malhamé	7	7	A/N	N/A	6	6	A/N	N/A	A/N	N/A	A/N	A/N
Yasir Badri	6	7	A/N	N/A	A/N	N/A	7	7	A/N	N/A	A/N	A/N
Mohammed Al Ghanamah	7	7	A/N	A/N	6	6	N/A	A/N	A/N	N/A	A/N	A/N

Directors' attendance record:

Note 1: Board Meetings were held on 23rd Jan, 28th Mar, 12th May, 21st May, 11th Aug, 5th Oct and 13th Nov during 2022.

Note 2: Credit Committee meetings were held on 17th Jan, 22nd Feb, 23rd Mar, 30th Jun, 21st Jul, 23rd Aug, 22nd Sep, 23rd Oct and 27th Dec during 2022.

Note 3: Audit Committee meetings were held on 22nd Jan, 30th Jan, 8th May, 8th Jun, 9th Aug and 12th Nov during 2022.

Note 4: Compliance and Risk Committee were held on 20th Mar, 22nd Mar, 10th May, 7th Aug, 8th Aug, 20th Oct and 9th Nov during 2022.

Note 5: Remuneration and Selection Committee meetings were held on 23rd Jan and 22nd Mar during 2022.

Note 6: IT Governance Committee meeting was held on 2nd Nov, 2022.

3. Remuneration and sitting fees

The Directors' remuneration is governed as set out in the Regulation for Public Joint Stock Companies, the Commercial Companies Law and regulations issued by the Central Bank of Oman.

An amount of OMR 130,713 is proposed as Board Remuneration, in addition to OMR 64,500 as sitting fees for the meetings of the Board of Directors and its committees for the year 2022. These are subject to the Annual General Meeting approval proposed to be held on 22 March 2023.

The proposed remuneration and sitting fees for the year 2022 for all directors are as follows:

Table 3

Director's Name	Remuneration (OMR)	Sitting Fees (OMR)	Total (OMR)
Rashad Al Zubair	25,714	7,500	33,214
Wahbe Tamari	10,714	3,500	14,214
Abdul Aziz Al Balushi	12,857	8,000	20,857
Randa El Sadek	15,000	9,500	24,500
Walid Samhouri	15,000	10,000	25,000
Nasri Malhamé	15,000	6,500	21,500
Imad Sultan	8,571	6,500	15,071
Yasir Aqil Badri	12,857	6,500	19,357
Mohammed Al Ghanamah	15,000	6,500	21,500
Total	**130,713**	**64,500**	**195,213**

The remuneration paid to the top five executives for 2022 is OMR 899,613 (2021: OMR 1,067,187). No stock options are available to the Directors or the executives of the Bank. The Executives are required to provide 90 days' notice should they wish to resign. No severance fees are payable to the key executives in the event of termination of employment.

4. Profile of Senior Management

Mr. Sulaiman Al-Harthi - Chief Executive Officer

Mr. Sulaiman Al-Harthi joined OAB as Chief Executive Officer in January 2023. He has over 35 years of experience in the banking sector. He held several leadership positions at major local banks, including Deputy Chief Executive Officer of Oman Arab Bank and CEO of Alizz Islamic Bank. He is currently the Deputy Chairman of Takaful Oman Insurance SAOG and a member of the Board of Directors of the College of Banking and Financial Studies. Mr. Sulaiman is also a member of the Board of Trustees of the Gulf College, and a member of the Board of Directors of the Harvard Business School (HBS) club.

Mr. Al-Harthi is a graduate of Oman Institute of Banking and holds an MBA in Finance from Leicester University, UK. He has completed Executive Management Programmes at Harvard Business School and at INSEAD Business School.

Mr. CB Ganesh – Deputy Chief Executive Officer

Mr. CB Ganesh joined OAB as Deputy Chief Executive Officer in February 2021 and was appointed Acting Chief Executive Officer from August 2021 until 3 January 2023. Mr. Ganesh is an entrepreneurial and financially astute executive with an exemplary track record of building brands, improving profitability and creating stakeholder value. He has a vast global banking experience of more than 30 years, spanning across India, Hong Kong, UAE and Oman. Mr. Ganesh, an alumnus of MIT-Sloan (USA) and IIM-Calcutta (India), also holds Masters in Bank Management and Masters in Commerce. He is also a Non-Executive Director Diploma holder from Financial Times (FT-NED).

Mrs. Asma Al Zadjali – Head of Banking Operations Group

Mrs. Al Zadjali was appointed Head of Banking Operations Group in May 2019. She holds an MBA from the University of Strathclyde and is the Chairperson of Strathclyde's Oman Alumni. Ms. Al Zadjali has over 20 years of experience working in large companies and banks. Since joining the Bank, she has been instrumental in the centralization of Retail Banking, Corporate Banking and Islamic Finance Credit Administration; thereby, improving asset quality and bringing in the necessary changes to establish better control and improve turnaround times. She has also led the remedial, recovery and legal department teams, improving collection processes. She graduated from the National CEO Program (NCP) in May 2018 as the only candidate from the banking sector and was one of only three female candidates to have passed the stringent entry criteria for the program.

Mr. Ahmed El Damaty- Chief Financial Officer

Mr. Ahmed El Damaty was appointed as CFO in October 2021. He has more than 23 years of experience in the banking sector. Mr. El Damaty held different senior positions in countries across the Middle East with a leading global financial institution. Most recently, and prior to joining OAB, he served as the CFO of a local Bank in Oman. Mr. El Damaty holds a Bachelor degree in accounting and he is a certified Chartered Financial Analyst (CFA).

Mr. Sulaiman Al Hinai - Head of Treasury, Investments & Government Relations

Mr. Sulaiman Al Hinai was appointed as Head of Treasury, Investments & Government Relations in July 2017. In June 2022, he was appointed acting Head of Corporate and Institutions Banking Division, in addition to his current role, until further notice. He is a treasury professional with regional expertise spanning 24 years in commercial banking and treasury with various local and regional banks including, Doha Bank, Oman International Bank, and Ahli Bank SAOG. Mr. Al Hinai holds a Banking Diploma from the Arab Academy for Banking and Financial Sciences in Jordan.

Mr. Rashad Al Shaikh - Head of Retail Banking Division

Mr. Rashad Al Shaikh leads the Retail Banking Division. He has over 19 years of experience in various fields including corporate banking, project finance, investment banking and retail banking. He has extensive experience in policy setting and is well experienced in negotiating commercial agreements. He worked with a number of international banks on various mandates that have been concluded successfully in the area of advisory. Mr. Al Shaikh holds a B.S. in Business Administration from the University of Central Florida, Orlando, USA.

5. Internal Controls Review

The Board ensures maintaining a strong and effective control environment by developing comprehensive and sound policies, plans and procedures that cover all the activities of the Bank in line with governing regulations, and ensure that the same is circulated to the Banks' employees. The Board has also established various sub-committees, such as the Board Audit Committee and the Board Compliance and Risk Committee, to ensure the effectiveness of internal controls systems and the overall management of various potential risks. Under the oversight of these Committees, Internal Audit and other control functions review and evaluate the adequacy and the effectiveness of the Bank's systems and internal controls on an ongoing basis. Outcomes of such reviews are communicated to all relevant stakeholders, and are followed up and monitored to ensure effective and efficient resolution of gaps identified in order to manage and/or mitigate potential risks.

Internal Audit Charter: The Internal Audit Charter defines the purpose, authority and responsibility of the Internal Audit Division. It supports positioning the Internal Audit as an independent and objective assurance and consulting activity to improve and add value to the Bank's operations, and help achieve its objectives by adopting a systematic and disciplined approach to evaluate and help enhance the effectiveness and efficiency of internal controls.

6. Related Party Transactions:

The Board of Directors in its drive to mitigate the risks of the influence of related parties on the integrity of the Bank's transactions and its financial position, and in order to implement the highest degree of transparency and clarity when dealing with the related parties, has established the necessary governance policies and processes including those governing the relationship between the Bank and its Directors and Senior Management. These policies ensure, among other things, the following:

- All related parties' transactions are undertaken on an arm's-length basis and in accordance with the prevailing regulatory requirements issued by the Central Bank of Oman and the Capital market Authority.
- Directors and Senior Management neither take part in the discussions nor participate in the voting process over resolutions pertaining to them and their related parties.
- Related parties' transactions are reviewed by the Board Audit Committee prior to submission for the Board and or shareholders (AGM) for their appropriate action.
- All related party transactions are subject to annual review by the Internal Audit Department.
- All related parties are disclosed in the annual report.

7. Controlling and Managing Risk

Approach to Risk Management

Managing an organization's risk is an inherent aspect of any business and is a cornerstone to building shareholders value. Risk Management plays a pivotal role in any business, in particular for financial institutions. The Bank's Risk Management approach is aligned to its vision and values, objectives, strategies, policies, procedures and training.

The Bank recognizes four main types of risk:
- Credit risk, being the risk of financial loss from the failure of customers to honor fully/partially the terms of their contracts;
- Market risk, being the risk to earnings from changes in market factors such as interest and foreign exchange rates, or liquidity and funding profiles;
- Operational risk being the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition encompasses legal risk, but excludes strategic, reputational risk; and
- Information security risk, being the probable frequency of financial, reputational or other damage to information assets, arising from a cyber-attack or breach within the system's/network.

The Board recognizes that these risk categories are interlinked and therefore it takes an integrated approach to manage them. The Bank has comprehensive risk principles/controls that apply to each category of risk.

The Risk Management function aims at ensuring that:

a. The Bank operates its key risk activities within acceptable risk/reward parameters through establishment as well as maintenance of policies and procedures

b. The trend and magnitude of risk is adequately identified, measured, monitored and controlled.

Overview of Risk Management

The Board is responsible for approving and reviewing the Bank's risk management strategy and policy. Executive management is responsible for implementing the Board-approved risk management strategy and developing policies, controls, processes and procedures to identify and manage risks in the conduct of business.

In order to effectively manage various risks in the business, the Bank has set up a Risk Management department. The head of this department is responsible for independently evaluating and managing the risks, with direct reporting line to the Compliance and Risk Committee of the Board.

8. Compliance:

The Bank is committed to comply with the laws and regulations issued by the Central Bank of Oman, the Capital Market Authority and other local authorities. The Bank also strives to implement global best practices relating to the functions of banks. In this regard, the Bank maintains a strong and transparent relationship with the regulators, shareholders, customers and all other stakeholders. The Bank has developed a governance framework, which includes the governance policy, related party transactions, a disclosure policy and the professional code of conduct for both directors and employees. The Bank has also developed various policies and procedures to maintain effective practices for compliance risk management and to build and maintain a strong compliance culture within the Bank.

Non-compliance of Corporate Governance and Penalties

The Bank has complied with all regulatory requirements except for a few instances related to risk classification and erroneous reporting for which the Central Bank has imposed a penalty of OMR 20,000 on the Bank. The Bank has taken immediate corrective action to ensure compliance.

9. Means of communication with shareholders and investors

The Bank is committed to provide all shareholders comprehensive and equal access to information about the Bank's activities, and to fulfil its continuous disclosure obligations to the Central Bank of Oman and the Capital market Authority.

The Bank's website www.oman-arabbank.com includes annual reports, quarterly financial statements, briefings and presentations given by the CEO and other executives, public announcements and economic updates.

We confirm the following:

a) Availability and accessibility of quarterly results to the shareholders.

b) Quarterly results and the annual report are posted on the Bank's website www.oman-arabbank.com.

c) The website displays all official releases.

d) The Management Discussion and Analysis (MD&A) is part of the Bank's annual report.

e) Shareholders, investors and interested parties are invited to attend Discussion Sessions on a regular basis, in coordination with MSX.

10. Dividend Policy

The Bank's Dividend Policy complies with CBO's guidance and seeks to:

- Establish provisions that support the Bank's financial and capital position.
- Pay cash dividends to the shareholders appropriate to their investment.
- Retain sufficient provisions that support the future growth of the Bank operations and strengthen its position in case of any unexpected crisis.
- Strike a balance between the retention of some earnings appropriate to the economic conditions and the understandable desire of shareholders for immediate and high returns.

11. Market Price Data and Shareholding Distribution

The following are the major shareholders who own more than 5% of the Bank at 31 December 2022:

Sr. No.	Shareholder	Percentage of ownership
1	Arab Bank PLC - Jordan	49.00%
2	Oman International Development and Investment Company (OMINVEST)	30.99%

Arab Bank Plc is a publicly held company and listed on the Amman Stock Exchange, Jordan. OMINVEST is a public joint stock company listed on the Muscat Securities Market. The General public holds the remaining 20.01%.

The high/low share price of the Bank during each month of 2022 and a comparison with the MSX Financial Index are provided below:

Month	OAB Stock Price (OMR)		Financial Index	
	High	Low	High	Low
January	0.160	0.160	6,824.05	6,553.27
February	0.160	0.152	6,603.08	6,379.86
March	0.142	0.116	7,082.11	6,428.98
April	0.131	0.124	6,796.87	6,593.72
May	0.120	0.116	6,633.56	6,525.39
June	0.126	0.118	6,687.66	6,534.05
July	0.129	0.114	7,284.78	6,560.49
August	0.125	0.117	7,481.70	7,233.37
September	0.128	0.120	7,404.85	7,054.57
October	0.127	0.120	7,319.34	6,933.27
November	0.120	0.116	7,512.61	6,994.31
December	0.137	0.120	7,961.76	7,488.01

12. Perpetual Tier 1 Capital Bonds

On 29 January 2022, the Bank redeemed perpetual subordinated bonds amounting to OMR 30 million, which it had originally issued on 29 December 2016, at an interest rate of 7.75% per annum, at the first call option (fifth year of issuance).

13. Profile of the Statutory Auditors

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

Audit fees

The professional fees paid or payable to KPMG for the financial year 2022 is OMR 112,600 for their audit and related services.

14. Other Matters

The last Annual General Meeting was held on 28 March 2022. The meeting was conducted as per statutory requirements and attended by the Chairman, Mr. Rashad Muhammed Al Zubair and all other members of the Board of Directors except Mr. Imad Sultan.

15. Acknowledgment by the Board

The Board of Directors acknowledges its responsibilities and confirms that:

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

ii. The Bank has adequate internal controls and procedures that are reviewed regularly through internal audit and overseen by the Audit Committee of the Board.

iii. There are no material matters that could possibly affect the continuation of the Bank's ability to continue its operations during the next twelve months.

Rashad Al Zubair
Chairman

Sulaiman Al Harthi
Chief Executive Officer

Management Discussion and Analysis Report

ANNUAL REPORT

OAB at a glance

OAB has a long and proud history in Oman, as one of the first banks to be established in the country. Following the acquisition of branches from Arab Bank, which had operated in Oman since 1973, Oman Arab Bank was established in 1984. Eight years later, in 1992, we expanded our operations by acquiring all of Omani European Bank's retail branches. In 2020, we acquired Alizz Islamic Bank (AIB), and merged our Islamic banking window with AIB. That same year, Oman Arab Bank became a public joint-stock company (SAOG), with shares listed in the Muscat Securities Market. Today, Oman Arab Bank SAOG ("OAB") operates as a subsidiary of Arab Bank, one of the largest global Arab banking networks with operations spanning five continents. The Bank is owned by Arab Bank (49%), Oman International Development and Investment Company SAOG (30.99%) and other individual and corporate investors (20.01%).

In 2021, the Board endorsed a focused strategy that was built on our long-standing history to pave the way forward for a new growth journey for the Bank. This strategy is comprised of the following pillars: Growing our core business, developing our people, accelerating our digital transformation, and enhancing our operational efficiencies to deliver a consistently superior customer experience.

As the world had undergone historic changes of profound and far-reaching impact, our team rose to the challenge and we are pleased with the progress we have achieved against our strategy in 2022, as demonstrated by the growth in our business and financial results.

Financial Performance Analysis

OPERATING ENVIRONMENT

Oman continued to record a strong fiscal performance supported by high oil and gas prices. It posted a surplus of OMR 1.15Bn in 2022 which was the first surplus posted since 2014. Total state revenues for 2022 increased to OMR 14.2Bn compared to the budget estimate of OMR 10.6Bn, an increase of 34.5%. The average oil price was at USD 94 per barrel compared to USD 50 per barrel in the 2022 state budget. This contributed to an acceleration in economic recovery and an improvement in the financial and economic indicators. The increase in revenues has supported the reduction of total public debts from OMR 20.8Bn in 2021 to OMR 17.7Bn in 2022. It has also helped enhance social spending, and stimulated economic growth.

The debt to GDP ratio decreased in 2022 to 43% compared to an estimated 83% in the Medium-Term Fiscal Plan.

The Sultanate's sovereign credit ratings were upgraded by various global rating agencies in 2022. S&P raised its foreign and local currency long-term sovereign credit ratings of Oman to 'BB' from 'BB-', the agency's second upgrade for Oman in 2022.

Total conventional and Islamic credit extended to various sectors in Oman increased by 4.8% or OMR 1.3Bn in 2022 of which OMR 1.0Bn was extended to the private sector. Total deposits increased by 1.1% or OMR 0.3Bn mainly from Government deposits.

CUSTOMER CENTRICITY

During the year, we continued to make progress in the end-to-end digitization of customer journeys, keeping pace with the latest technological advancements in the banking industry, including improved digital on-boarding and servicing experience, to support better customer outcomes. We will further improve our service proposition in FY23.

We announced the introduction of our Digital Instant Loan facility, a first in the banking industry in Oman. With this service, available through the OAB Online Banking App, customers can apply for a personal loan in just a few minutes. Additionally, the Bank announced a reduction in personal loan interest rates for a limited time.

For young professionals who are always on the go and looking to maximise their rewards and manage their finances seamlessly, we introduced a new 'Advantage' segment that opens up a world of opportunities and a range of features. OAB Advantage customers enjoyed 1% cashback on all digital and POS transactions, among other unique advantages and benefits.

Continuing to cater to our clients' ever-evolving needs, we launched an Instant Easy Payment Plan for all OAB credit card holders. Under the plan, customers can shop at participating retail outlets and pay for their purchases in 12 easy monthly instalments at 0% interest.

To empower families to spend, save and keep track of their budgets, OAB launched "Banki", its new reloadable prepaid card for family members and household members, so that OAB customers can manage their family's expenses seamlessly. In addition, we introduced a new Child Savings Plan, a rewarding savings account designed to encourage parents to save for their children's future, and the 'OAB Savings Basket' that enables customers to invest their savings and receive guaranteed returns at a competitive interest rate.

We continued to reward our cardholders with a suite of exciting rewards and benefits, this included a spend and win campaign for football fans that saw three lucky customers win a hospitality package for two to attend one of the 2022 World Cup matches in Qatar, including airline tickets, accommodation and transportation to the match stadium. We also launched a series of shopping offers that enabled customers to save 20% on food purchases at a major hypermarket chain , in-store and online. In addition, customers who applied for a new Credit Card earned up to OMR 50 guaranteed cash on their card after completing their first transaction.

Customers who chose to switch over to OAB to benefit from our unique digital offering and our range of products and services, were also rewarded with up to OMR 200 in OAB Reward Points when they transferred their salary to OAB. Customers who referred their friends and family to benefit from these opportunities were also rewarded through our 'Friends of OAB' referral programme.

Central to our efforts around fostering a strong service culture with the Bank, we introduced certified Service Ambassadors in key branches to simplify and enhance customers' in-branch experience. These service ambassadors have undergone extensive training and development to deliver a superior banking experience.

OAB continues to drive its digital transformation agenda forward with its latest digital solution targeting small businesses. OAB has collaborated with Visa to launch the OAB Point of Sale (Mobile Pay) Payment Solution for all small business owners and SMEs. With this new solution, merchants can transform their NFC-enabled android smartphones into payment terminals and accept contactless payments from their customers.

Furthermore, we were pleased to introduce a new Debit Card issuance kiosk at the OAB Head Office through which customers can issue, renew or replace their OAB debit card instantly at any time.

Over the past year, the Bank's branches and digital channels bore witness to several strategic developments, including expansions and the addition of new innovative services. These developments resulted from extensive research conducted by the bank on the locations of branches, market developments, and customer insights. In the last quarter of the year, OAB opened its new branch in Shinas in a prime location in the heart of the city, opposite Shinas Mall, and merged the Muttrah and Ruwi branches to enhance customers' experience.

To offer merchants a seamless banking experience and as part of our integrated point of sale proposition, we installed Cash Deposit Machines at various merchants' locations to help them manage their cash flows seamlessly.

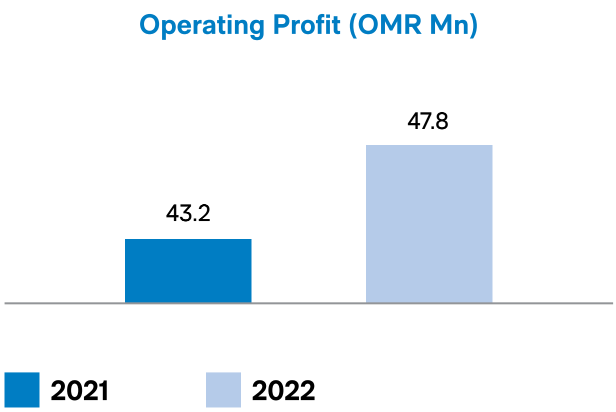
OAB offers a range of corporate finance solutions to small and medium enterprises, large corporations, Government entities and Semi-Government entities.

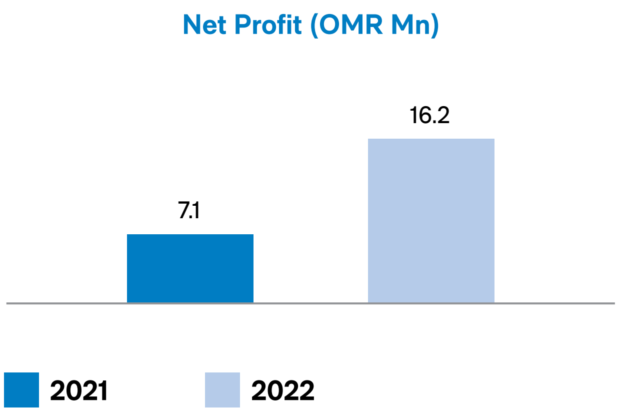
We introduced a new SME Debit Card enabling non-borrowing SMEs to use ATMs for cash withdrawals and deposits, PoS transactions and E-commerce transactions, supporting transaction migration with flexible transaction limits.

We also continued to collaborate with various government and private entities to offer e-payment gateway solutions and a new Merchant Settlement and Reporting System.

FINANCIAL REVIEW

Oman Arab Bank posted a net profit of OMR 16.2 million in 2022, an increase of 129% over 2021 driven by a strong performance in the Bank's core activities. Operating profit was up 11% and reached OMR 47.8 million compared to OMR 43.2 million in 2021.

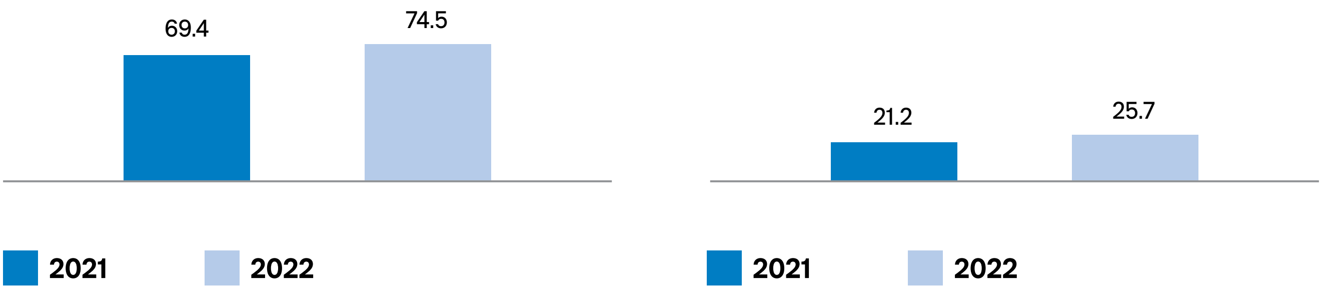




Total operating income reached OMR 122.6 million for the year ended 31 December 2022 showing a growth of 4%. Excluding the impact of the refund realized from the insurance claim in 2021, operating income would have shown a growth of 9%.

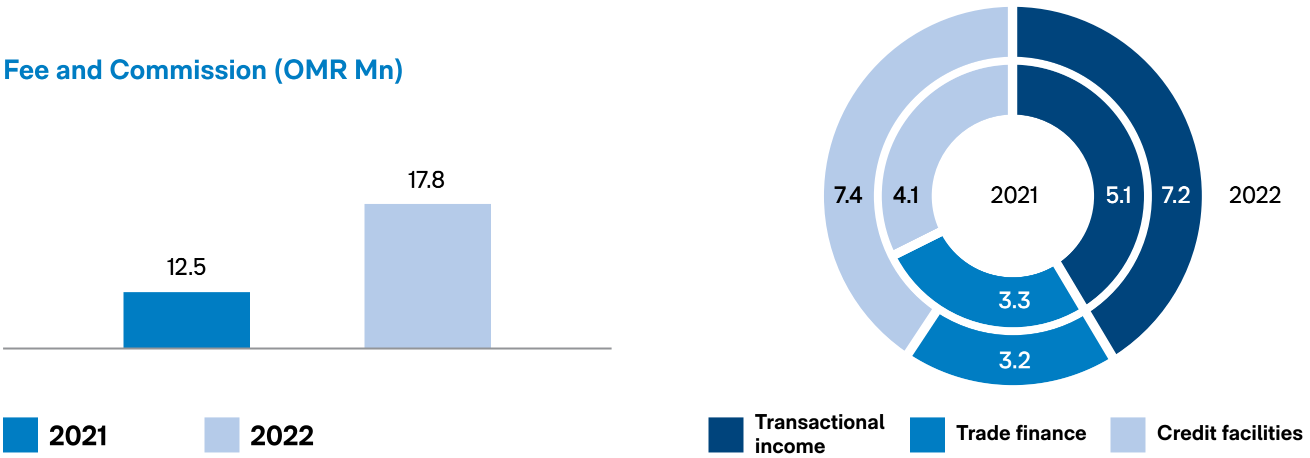
Net Interest Income (OMR Mn)

Conventional **Islamic**



Net interest income from conventional activities reached OMR 74.5 million in 2022 against OMR 69.4 million in 2021, an increase of OMR 5.1 million or 7%. Net income from Islamic financing increased by 21% from OMR 21.2 million in 2021 to OMR 25.7 million in 2022.

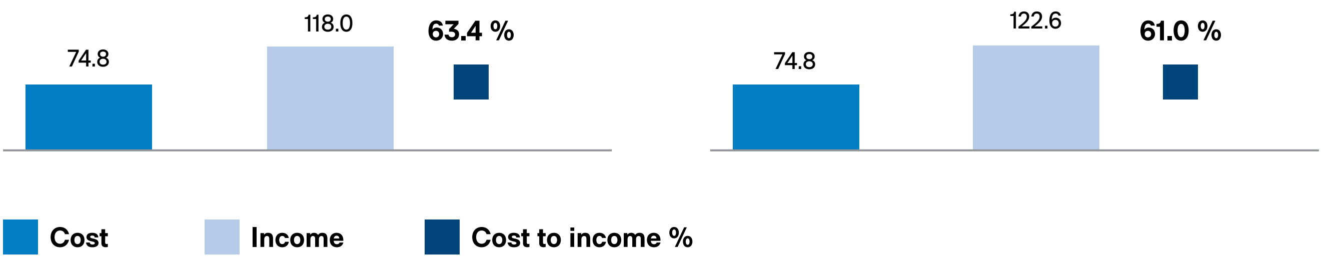
Fee and Commission (OMR Mn)



Net fee and commission income grew 43% to reach OMR 17.8 million in 2022 compared to OMR 12.5 million in 2021 supported by a healthy growth in fees generated from the card business and credit facilities.

Cost/Income

2021 **2022**

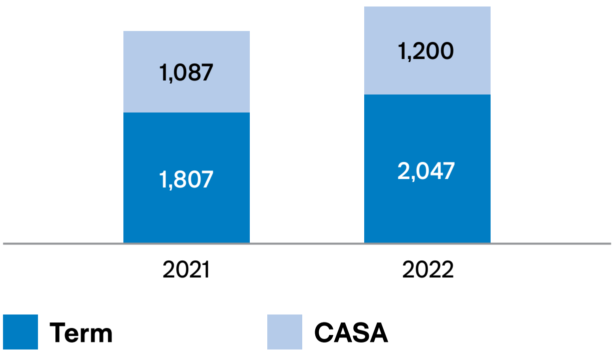


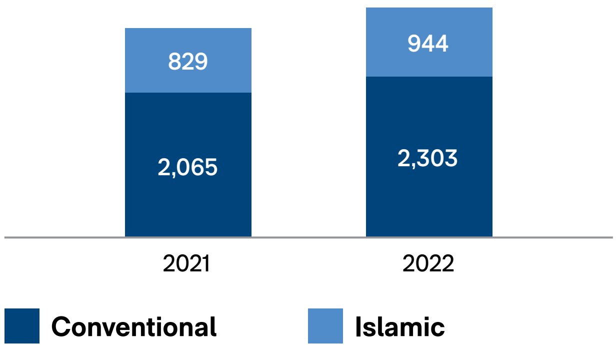
Total operating expenses amounted to OMR 74.8 million for the year ended 31 December 2022 showing a flat growth compared to the previous year as a result of effective cost discipline. The Cost to income ratio decreased from 63.4% in 2021 to 61% in 2022.

Net allowances for credit losses amounted to OMR 30.3 million in 2022 compared to OMR 35.2 million in 2021. The decrease has been noted in both retail and corporate business lines.

Break up of net allowances for credit losses (OMR Mn)	2021	2022
Impairment on loans and advances to customers	34,144	30,135
Impairment on investment securities	(188)	(43)
Impairment on loan commitments, financial guarantees and acceptances	1,225	290
Impairment on due from banks, central bank balances and other financial assets	33	(38)
Total Capital	**35,214**	**30,344**

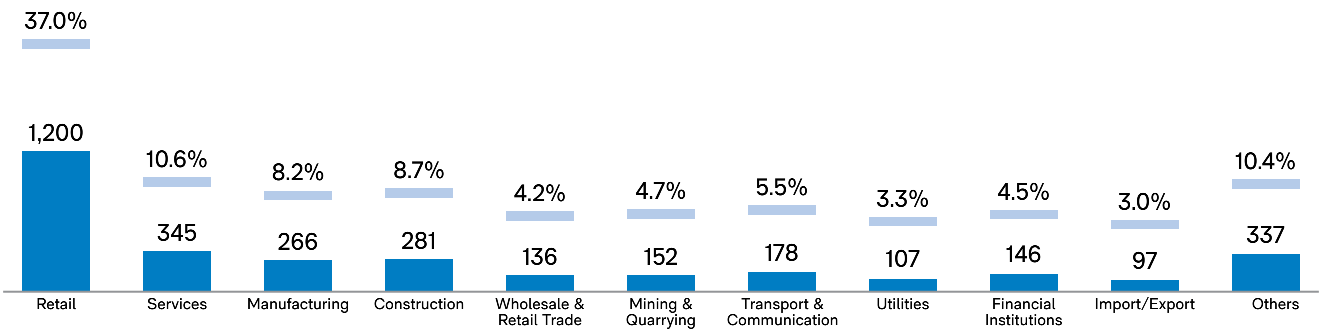
Gross Loans (OMR Mn)





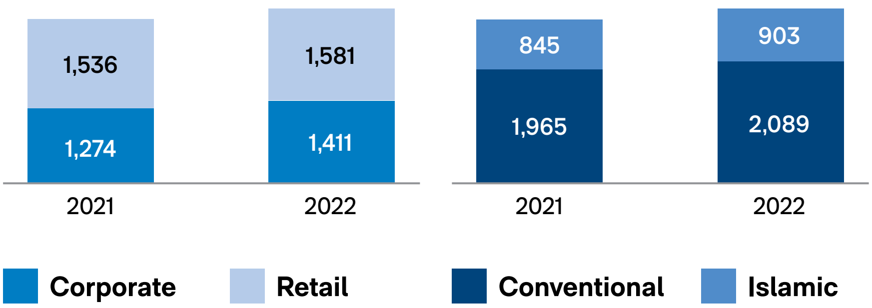
Net loans and financing to customers increased by OMR 314 million or 11% and amounted to OMR 3,067 million at 31 December 2022 compared to OMR 2,753 million at 31 December 2021. Gross loans increased by OMR 352 million of which corporate and retail loans increased by OMR 239 million and OMR 113 million respectively.

Gross Loans by Sector (OMR Mn)

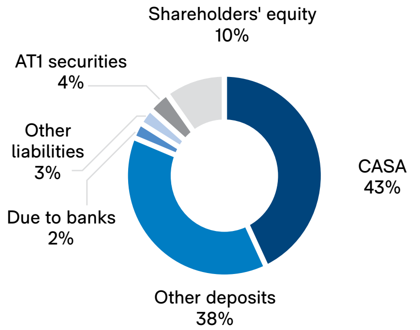


Customer deposits which are the main source of funding increased by 6% from OMR 2,810 million at 31 December 2021 to OMR 2,992 million at 31 December 2022 with the growth observed across both Islamic and Convectional deposits. Total CASA (current, on-demand and saving accounts) increased by 3% or OMR 45 million and accounted for 53% of total deposits.

Customer Deposits (OMR Mn)

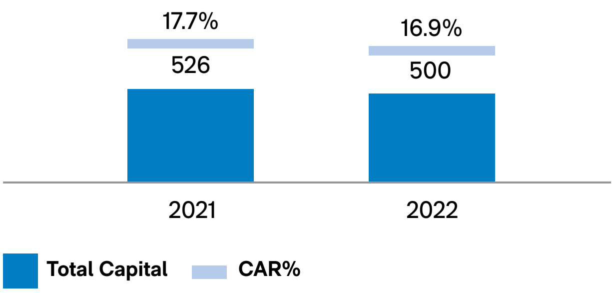


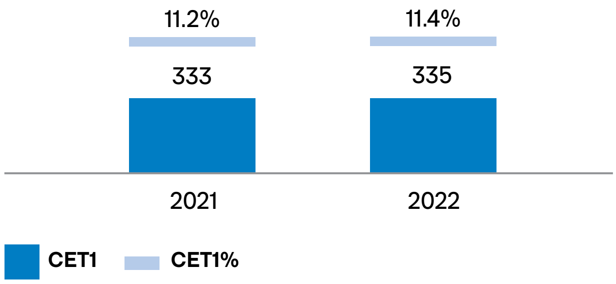
Funding Mix

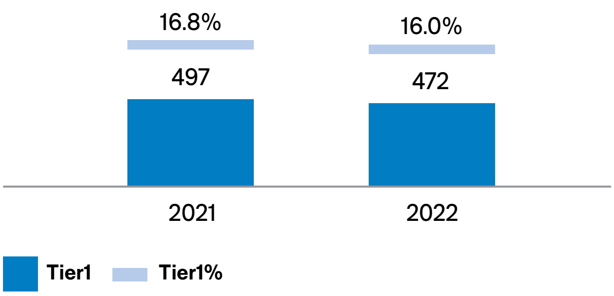


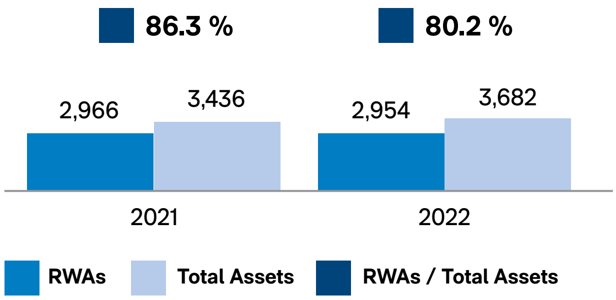
Our liquidity and funding position continued to sit at a comfortable level above the regulatory requirements. Loans to Deposits Ratios (LTD) reached 102.5% vs. a market average of 107%.

Total capital adequacy ratio reached 16.9% against a regulatory minimum of 12.25% (13.5% pre-covid relaxation measures). The bank continued to enjoy a strong capital position across all capital tiers. Through its active monitoring of risk-weighted assets, the bank managed to have a flat growth in its risk weight assets despite the strong growth in business activities.









Risk Management

The Bank is inherently exposed to various types of risks, as such; the Risk Management Division (RMD) identifies potential risks and has a plan for addressing them. RMD is set up as an independent function, wherein, the Chief Risk Officer has direct functional reporting to the Board Compliance & Risk Committee. The Division runs in co-ordination to achieve the Bank's strategy in a cohesive manner with other stakeholders in the Bank.

The RMD serves as a link between the Executive Management and the Board of Directors with regards to defining the level of risk the Bank is willing to accept through its Risk Appetite Framework and effectively monitors compliance against the framework. In this regard, the risk appetite framework sets the 'Tone at the Top' and is periodically reported to the Executive Management, Board Compliance and Risk Committee and the Board of Directors as per the Corporate Governance Framework of the Bank.

In addition, the Board is responsible for reviewing and approving the Bank's risk management strategy and policy. While the Executive Management is responsible for implementing the Board-approved risk management strategy and developing policies, controls, processes and procedures to identify and manage risks in the conduct of business.

Risk Management operates in conformance with leading international practices and regulatory guidelines through a comprehensive framework, approved policies and procedures and a specialized team dedicated to the below core areas to control and mitigate various risks incurred by the Bank;

1) Credit risk, being the risk of financial loss from the failure of customers to honor fully/partially the terms of their contract;

2) Market risk, being the risk to earnings from changes in market factors such as interest and foreign exchange rates, or liquidity & funding profiles;

3) Operational risk being the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition encompasses legal risk, but excludes strategic, reputational risk;

4) Information security risk, being the probable frequency of financial, reputational or other damage to information assets, arising from a cyber-attack or breach within the Bank's systems/network.

5) Fraud Risk identifies fraudulent conduct, which has been executed internally or externally and takes appropriate action.

The Bank will continue to take proactive steps to maintain asset quality and strengthen its liquidity position. In order to enhance its overall Risk Management framework, the Bank will continue to invest in new technologies to improve its resilience, and enhance its capability to respond to emerging risks and utilize its effective monitoring system to detect, report and advise corrective actions to be taken to mitigate the risk.

Business Continuity Management

The Bank has a dedicated Business Continuity Management (BCM) team under the umbrella of the Enterprise Risk Management (ERM) that has the primary responsibility of business continuity assurance by conducting various assessments, testing and spreading BCM Awareness.

From a Governance point of view, the Bank has a dedicated working group comprising of key stakeholders from the Executive Management that provide their inputs and direction to the team to ensure critical operations are efficiently running or recovered in the event of a disaster. A Crisis Management Committee (CMC) also exists at the Executive Management Level to immediately action upon and respond to critical incidents. An approved BCM Policy and Framework is in place to guide staff on all matters pertaining to BCM.

During the month of September 2022, when the country level blackout was experienced, the bank had taken the necessary steps to avoid a bigger impact to its business operations both in the Head Office building and its branches. The Business Continuity team managed the incident with significantly low impact with the following actions: The OAB Head Office facility building was operating using an Uninterrupted Power Supply (UPS) and the Diesel Generators with an adequate capacity of fuel to run the power for 12 hours to ensure the Data Centre remained operational.

We managed to shut down branches safely with the back-up of UPS with minimal impact due to non-availability of electricity. The Bank has also set up a state-of-the-art alternate BCP site to resume critical business activities under various scenarios. The tests also included the Bank's adaptability to use this site in the event of an actual scenario.

Developing Talent

The Bank continued to deliver multiple training programs that focused on building an agile institution that can adapt to a rapidly changing environment. In streamlining workflows across the company, we have created a dynamic culture that fosters creativity and innovative thinking.

Our employees are our main asset, which is why we continue to implement upskilling programmes for employees aimed at providing long-term learning and career growth within the Bank. We also seek out talented and ambitious Omani nationals, providing them with the appropriate training to prepare them for future leadership roles in the Bank, in line with Oman Vision 2040. In 2022, we provided 242 Omani students the opportunity to undergo various internships at the bank.

We are strongly committed to putting the right talent in the right roles to promote a strong performance culture. As a testament to this commitment, we introduced a rotation programme for employees across various departments and branches to develop skill-sets, enhance synergies and define clear career paths for employees. We also developed succession plans for Executive roles and critical positions to create a strong pipeline of future leaders and provide opportunities for growth within the organisation.

We were proud to have a number of our employees graduate from the prestigious Etimad leadership programme. Etimad seeks to empower Omanis in middle and senior management positions to assume leadership roles within the private sector.

We have also revised and enhanced our internal HR policy to attract and retain talent and foster healthier work environment.

Corporate Sustainability

OAB's sustainability strategy was designed to strengthen the Bank's social impact within its three main strategic pillars: Community partnerships, environmental responsibility and financial inclusion. The strategy was developed to boost the Bank's social contribution in line with its business growth.

As a testament to our commitment, the Bank issued its second GRI-certified sustainability report aligned with the United Nations Sustainable Development Goals and Oman Vision 2040. The report highlights the Bank's achievements on the Environmental, Social and Governance fronts in a detailed quantitative approach.

We also sponsored the Design Muscat 2022 event – a biennial international event held at the Scientific College of Design. It serves as a professional platform that enables practitioners, academicians and students to share their expertise and knowledge with other like-minded individuals.

The bank also sponsored the third edition of the Little Tourist Forum. The Ministry of Heritage and Tourism organised the two-week event, which included several workshops and tourism-related activities.

On Oman's Tree Day, we collaborated with the Environment Authority to plant ten million trees in line with the national initiative to protect and conserve our environment.

On Omani Youth Day, we organised an event to recognise several talented Omani photographers. The event was held to celebrate their contribution to the Bank's second eco-friendly desk calendar for 2022, highlighting photographs of Oman's unique wildlife.

We also launched a series of Financial Literacy videos as part of our financial inclusion efforts. The initiative aimed to equip Omani youth with the necessary financial skills and knowledge to make informed financial decisions. The series shed light on significant financial decisions that revolve around buying a car, a house, getting married, saving, and business management.

As a testament to our efforts towards supporting local communities, we were humbled to be honoured by the Ministry of Social Development (MoSD) with an award for its Corporate Social Responsibility.

In Conclusion

None of the successes we achieved this year could have taken place without the dedicated effort of colleagues all across the organisation. While there remains more to deliver, FY22 saw a good start against the strategic agenda we set out a year ago.

Auditor's Report on BASEL II - PILLAR III and BASEL III framework

ANNUAL REPORT

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Agreed-Upon Procedures Report on Oman Arab Bank SAOG's Basel II - Pillar III & Basel III Disclosures

To the Board of Directors of Oman Arab Bank SAOG ("the Bank")

Purpose of this Agreed-Upon Procedures Report

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

Responsibilities of the Bank

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

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

Practitioners' Responsibilities

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

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

Practitioners' Responsibilities (continued)

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

Professional Ethics and Quality Control

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

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

Procedures and Findings

We have performed the procedures described below, which were agreed upon in our engagement letter with the Bank on Basel II and III – Pillar III Disclosures:

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

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

Enclosures:
Oman Arab Bank SAOG Basel II – Pillar III and Basel III related disclosures

6 March 2023

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BASEL II - PILLAR III AND BASEL III related disclosures

ANNUAL REPORT

1. PURPOSE AND BASIS OF PREPARATION

The following disclosures are presented in accordance with the revised capital adequacy rules under Basel II & Basel III framework issued by the Central Bank of Oman (CBO) for the implementation of the Basel II accord. Basel II Accord consists of three mutually reinforcing Pillars, Pillar I - Minimum Capital Requirements, Pillar II - Supervisory Review Process and Pillar III - Market Discipline. Pillar III complements Pillar I and II. The disclosures aim to provide market participants information on the bank's application of Basel framework, capital position, risk exposure, risk management processes and the capital adequacy.

2. SCOPE OF APPLICATION

Oman Arab Bank SAOG (the Parent Company) owns 100% of Al IZZ Islamic Bank (AIB) (the Subsidiary). The disclosures provide information on the Parent Company and the Consolidated position of both entities. The qualitative and quantitative disclosures have been prepared to meet the minimum disclosure requirements as per the CBO Basel II framework (BM 1009) and Basel III framework under CP2 guidelines issued by the CBO.

3. CAPITAL STRUCTURE

A. Tier 1 Capital

The Bank's authorized share capital is RO 200,000,000 and issued share capital comprises 1,669,410,000 fully paid shares of RO 0.100 each. In accordance with Article 132 of the Omani Commercial Companies Law of 2019, the Bank is required to transfer 10% of its profit after tax for the year to the legal reserve until the accumulated balance of the reserve equals at least one third of the Bank's paid up share capital. General reserves have been created out of the Bank's retained earnings to meet any unforeseen contingency.

Additional Tier 1 Capital

a. On 29 December 2016, the Bank issued unsecured perpetual Tier 1 bonds of RO 30 million (30,000,000 units of RO 1 each through private placement). The bonds are listed in the Muscat Securities Market and are transferable through trading. The bonds carry a fixed coupon rate of 7.75% per annum payable semi-annually in arrears and treated as deduction from equity. Interest is non-cumulative and payable at Bank's discretion. The bonds form part of Tier 1 Capital of the Bank and comply with Basel-III and Central Bank of Oman regulation. These bonds have been fully repaid on 29 January 2022 at the First Call date.

b. On 17 October 2018, the Bank issued another series of unsecured perpetual Tier 1 bonds of RO 42.5 million (42,553,000 units of RO 1 each through private placement). The bonds carry a fixed coupon rate of 7.5% per annum payable semi-annually in arrears and treated as deduction from equity. Interest is non-cumulative and payable at Bank's discretion. The bonds are in pari-passu with earlier issue. The First Call date of these bonds is on 17 October 2023.

c. On 7 June 2021, the Bank issued unsecured perpetual Tier 1 bonds of USD 250 million (2,500,000 units of USD 100 each equivalent to RO 96.25 million through private placement). The bonds are listed in the International Securities Market (ISM) of London Stock Exchange and are transferable through trading. The bonds carry a fixed coupon rate of 7.625% per annum payable semi-annually in arrears and treated as deduction from equity. Interest is non-cumulative and payable at Bank's discretion. The bonds form part of Tier 1 Capital of the Bank and comply with Basel-III and Central Bank of Oman regulation. The First Call date of these bonds is on 4 June 2026.

Exercising the call option for any of the perpetual bonds is subject to obtaining the required regulatory approval.

B. Tier 2 Capital

Tier 2 Capital consists of eligible Expected Credit Loss (ECL) on loans, advances and financing to customers as required by the CBO and the cumulative fair value gains on eligible investments securities as allowed under the guidelines for Basel II by the CBO.

The eligible ECL is made for the loan impairment on the performing portion of the loans, advances and financing to customers against the losses incurred but not identified.

The Bank's capital structure is as follows:

	Consolidated 2022 RO' 000	Parent Company 2022 RO' 000
Paid up share capital	166,941	166,941
Share premium	36,565	36,565
Legal reserve	48,570	47,506
General reserve	25,560	25,560
Special reserve	-	-
Other disclosed reserves	(3,409)	(3,337)
Other intangibles	(3,739)	-
Retained earnings	71,355	62,719
Intangibles	(6,900)	-
Perpetual Bonds	138,803	138,803
Less allocated to Subsidiary	-	(107,144)
Less Investment in Capital instruments	(2,400)	(2,400)
Tier 1 Capital	**471,346**	**365,213**
Eligible ECL on loans, advances and financing to customers	30,760	27,310
Investment revaluation reserve (45% only)	112	102
Tier 2 Capital	**30,872**	**27,412**
Total Capital	**502,218**	**392,625**

4. CAPITAL ADEQUACY

A. Qualitative Disclosures

Basel II provides a range of options for determining the regulatory capital requirements for credit and operational risks. It allows the banks and the supervisors to select approaches that seem most appropriate for the level of sophistication of the banks' activities, financial market infrastructure and risk management practices.

The Bank has chosen the following approaches for determining the regulatory capital with the approval of Central Bank of Oman:

a. Standardized Approach for the credit risk with a simplified approach for the risk weighting of collaterals under the credit risk mitigation.

b. Basic Indicator approach for the operational risk.

The Bank's Board of Directors reviews the capital requirements based on the strategic plan of the Bank. This is reviewed periodically based on the market and economic conditions. While formulating the Bank's strategic plans, the Bank's management takes into account forward-looking factors such as changes in the economic, market and liquidity conditions. The Bank's current and future capital requirements are calculated in relation to its strategic business objectives. The strategic plan delineates the Bank's short-term and long-term capital needs, capital expenditures required for the foreseeable future, target capital levels, and capital sources. The Bank prepares its capital planning and operational budgeting on an annual basis.

Management considers that the Bank has adequate systems for monitoring and reporting risk exposures. The capital needs are assessed based on changes in the Bank's risk profile. The Board of Directors and the senior management receive regular reports or updates on the Bank's risk profile and capital needs through the Assets and Liabilities Committee (ALCO), Management Credit Committee (MCC) and directly from the Risk Management Department. This information is used to:

a. Evaluate the level and trend of material risks and their effect on capital requirements,

b. Evaluate the sensitivity and reasonableness of the main assumptions used in the capital measurement system,

c. Determine that the Bank holds sufficient capital against various risks,

d. Determine that the Bank meets its internal capital adequacy goals; and

e. Assess its future capital requirements based on the Bank's reported risk profile and in turn make necessary adjustments to the Bank's strategic plan.

B. Quantitative Disclosures

Risk weighted Assets and details of Capital Adequacy as at end of 2022:

		Consolidated			Parent Company		
		Gross Balance	Net Balance	Risk Weighted Assets	Gross Balance	Net Balance	Risk Weighted Assets
S No.	Details	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	On -Balance sheet Item	3,814,531	3,590,925	2,529,271	2,742,174	2,529,259	1,868,623
2	Off -Balance sheet Item	326,688	173,524	162,452	274,499	136,899	131,095
3	Derivatives	232,664	35,582	7,343	207,745	10,663	7,343
	Operations risk	28,566	28,566	215,348	-	-	168,625
	Trading book	-	-	41,826	-	-	13,263
4	**Total**	**4,402,449**	**3,828,597**	**2,956,240**	**3,224,418**	**2,676,821**	**2,188,949**
5	Tier 1 Capital	-	-	471,346	-	-	365,213
6	Tier 2 Capital	-	-	30,872	-	-	27,412
7	Tier 3 Capital	-	-	-	-	-	-
8	**Total Regulatory Capital**	**-**	**-**	**502,218**	**-**	**-**	**392,625**
8.1	Capital requirement for credit risk	-	-	330,636	-	-	245,865
8.2	Capital requirement for market risk	-	-	5,124	-	-	1,625
8.3	Capital requirement for operational risk	-	-	26,380	-	-	20,657
9	**Total required capital**	**-**	**-**	**362,140**	**-**	**-**	**268,147**
10	**Tier 1 Ratio**	**-**	**-**	**15.94%**	**-**	**-**	**16.68%**
11	**Total Capital Ratio**	**-**	**-**	**16.99%**	**-**	**-**	**17.94%**

5. BASEL III REGULATORY CAPITAL DISCLOSURE

The Basel III regulations adopted by the CBO aims at strengthening the capital and liquidity standards of the banks in Oman. The elements of the Basel III regulations consist of:

- Enhancing the definition of capital and strengthening the eligibility criteria for inclusion of capital instruments
- Raising the minimum capital requirements and introducing capital buffers for conservation and dealing with systemic risks in the form of Capital Conservation Buffer and Countercyclical Buffer
- Enhancing coverage of risk arising from derivatives, repos and securities financing
- Implementing the leverage ratio to control the build-up of leverage and mitigating the impact of excessive deleveraging
- Higher capital requirements for large and systemically important banks
- Implementing the Liquidity Coverage Ratio to ensure that the banks hold higher quality of liquid assets
- Implementing Net Stable Funding Ratio to ensure financing of activities with more stable source of funding

The requirements of Basel III were gradually implemented from 2013 and the higher capital requirements were implemented by 2015. The banks in Oman have to comply with the related disclosure requirements issued by CBO in the circular BM-1114 dated 16 November 2013. The transition period of phasing-in of regulatory adjustments of capital under Basel III in Oman would be from December 31, 2013 to December 31, 2018. During the transition period of phasing-in of regulatory deductions under Basel III the banks in Oman will use a modified version of disclosure of the components of capital.

A. Common Disclosure Template as at December 31, 2022

Table 1		Consolidated RO '000	Parent Company RO '000
Common Equity Tier 1 capital: instruments and reserves			
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	166,941	166,941
2	Retained earnings	71,355	62,719
3	Accumulated other comprehensive income (and other reserves)	110,695	109,631
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	-
	Public sector capital injections grandfathered until 1 January 2018	-	-
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	-
6	**Common Equity Tier 1 capital before regulatory adjustments**	**348,991**	**339,291**
Common Equity Tier 1 capital: regulatory adjustments			
7	Prudential valuation adjustments	(3,409)	(3,337)
8	Intangibles (net of related tax liability)	(6,900)	-
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(3,739)	-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-
11	Cash-flow hedge reserve	-	-
12	Shortfall of provisions to expected losses	-	-
13	Securitisation gain on sale (as set out in paragraph 14.9 of CP-1)	-	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities.	-	-

15	Defined-benefit pension fund net assets	-	-
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-	-
17	Reciprocal cross-holdings in common equity	-	-
18	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-
19	Significant investments in the common stock of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	(107,144)
20	Mortgage Servicing rights (amount above 10% threshold)	-	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-
22	Amount exceeding the 15% threshold	-	-
23	- of which: significant investments in the common stock of financials	-	-
24	- of which: mortgage servicing rights	-	-
25	- of which: deferred tax assets arising from temporary differences	-	-
26	National specific regulatory adjustments	-	-
27	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to Pre-Basel III Treatment	-	-
28	Perpetual Bonds		
29	**Total regulatory adjustments to Common equity Tier 1**	**(14,048)**	**(110,481)**
29	**Common Equity Tier 1 capital (CET1)**	**334,943**	**228,810**
Additional Tier 1 capital: instruments			
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	138,803	138,803
31	- of which: classified as equity under applicable accounting standards	-	-
32	- of which: classified as liabilities under applicable accounting standards	-	-
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-	-
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-	-
35	- of which: instruments issued by subsidiaries subject to phase out	-	-
36	**Additional Tier 1 capital before regulatory adjustments**	**138,803**	**138,803**
Additional Tier 1 capital: regulatory adjustments			
37	Investments in own Additional Tier 1 instruments	-	-
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	-
39	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	(2,400)	(2,400)
40	Significant investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-
41	National specific regulatory adjustments	-	-
	REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	-	-
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-
43	**Total regulatory adjustments to Additional Tier 1 capital**	**(2,400)**	**(2,400)**
44	**Additional Tier 1 capital (AT1)**	**136,403**	**136,403**

45	**Tier 1 capital (T1 = CET1 + AT1)**	**471,346**	**365,213**
Tier 2 capital: instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	112	102
47	Directly issued capital instruments subject to phase out from Tier 2	-	-
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	-
49	- of which: instruments issued by subsidiaries subject to phase out	-	-
50	Subordinated term debt	-	-
50	Eligible expected credit loss	30,760	27,310
51	**Tier 2 capital before regulatory adjustments**	**30,872**	**27,412**
Tier 2 capital: regulatory adjustments			
52	Investments in own Tier 2 instruments	-	-
53	Reciprocal cross-holdings in Tier 2 instruments	-	-
54	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	-
55	Significant investments in the capital banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-
56	National specific regulatory adjustments	-	-
57	**Total regulatory adjustments to Tier 2 capital**	-	-
58	**Tier 2 capital (T2)**	**30,872**	**27,412**
59	**Total capital (TC = T1 + T2)**	**502,218**	**392,625**
Risk Weighted Assets			
	Risk weighted assets in respect of amounts subject to pre-Basel III treatment	2,956,240	2,188,949
60	**Total risk weighted assets (60a+60b+60c)**	**2,956,240**	**2,188,949**
60a	- of which: Credit risk weighted assets	2,696,816	2,004,811
60b	- of which: Market risk weighted assets	41,826	13,263
60c	- of which: Operational risk weighted assets	215,348	168,625
Capital Ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	11.33%	10.45%
62	Tier 1 (as a percentage of risk weighted assets)	15.94%	16.68%
63	Total capital (as a percentage of risk weighted assets)	16.99%	17.94%
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB/D-SIB buffer requirement expressed as a percentage of risk weighted assets)	8.250%	8.250%
65	- of which: capital conservation buffer requirement	1.250%	1.250%
66	- of which: bank specific countercyclical buffer requirement	0%	0%
67	- of which: D-SIB/G-SIB buffer requirement	0%	0%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	4.33%	3.45%
National minima (if different from Basel III)			
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	7.00%	7.00%
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	9.00%	9.00%
71	National total capital minimum ratio (if different from Basel 3 minimum)	12.25%	12.25%
Amounts below the thresholds for deduction (before risk weighting)			

72	Non-significant investments in the capital of other financials	-	-
73	Significant investments in the common stock of financials	-	-
74	Mortgage servicing rights (net of related tax liability)	-	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-	-
Applicable caps on the inclusion of provisions in Tier 2			
76	Expected credit loss eligible for inclusion in Tier 2 in respect of exposures subject to standard approach (prior to application of cap)	30,760	27,310
77	Cap on inclusion of Expected credit loss in Tier 2 under standardised approach	1.25%	1.25%
78	Expected credit loss eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	-
79	Cap for inclusion of Expected credit loss in Tier 2 under internal ratings-based approach	-	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
80	Current cap on CET1 instruments subject to phase out arrangements	-	-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	-
82	Current cap on AT1 instruments subject to phase out arrangements	-	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	-
84	Current cap on T2 instruments subject to phase out arrangements	-	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	-

B. Reconciliation between published financial statements and regulatory capital adequacy workings

A reconciliation of the Bank's Statement of Financial Position with the regulatory capital elements is provided below using the three-step approach outlined by the Basel Committee:

Step 1: Disclosure of the reported statement of financial position under the regulatory scope of consolidation

This step involves disclosing how the balance sheet in the published financial statements changes when the regulatory scope of consolidation is applied. This disclosure is not made since there is no difference between the scope of regulatory and accounting consolidation.

Step 2: Expanding the lines of the regulatory statement of financial position to display all of the components used in the definition of capital disclosure template

Table 2. A	Consolidated		Parent Company	
	Financial position as in the published financial statements	Under regulatory scope of consolidation	Financial position as in the published financial statements	Under regulatory scope of consolidation
	As at 31 Dec 2022	As at 31 Dec 2022	As at 31 Dec 2022	As at 31 Dec 2022
Reconciliation	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Cash and balances with central bank	99,913	99,913	31,034	31,034
Due from banks	53,671	53,671	48,161	48,161
Loans and advances	3,067,063	3,067,063	2,164,984	2,164,984
Investment securities	331,656	331,656	268,426	268,426
Investment in subsidiary	-	-	107,144	107,144
Intangibles	6,900	6,900	-	-
Other assets	84,131	84,131	55,454	55,454
Property and equipment	38,496	38,496	35,659	35,659
Total assets	**3,681,830**	**3,681,830**	**2,710,862**	**2,710,862**
Due to banks	94,141	94,141	59,101	59,101
Customer deposits	2,992,180	2,992,180	2,089,284	2,089,284
Other liabilities	94,496	94,496	71,114	71,114
Taxation	3,412	3,412	3,412	3,412
Total liabilities	**3,184,229**	**3,184,229**	**2,222,911**	**2,222,911**
Paid-up share capital	166,941	166,941	166,941	166,941
Share Premium	36,565	36,565	36,565	36,565
Special Reserve	3,837	3,837	3,837	3,837
Legal reserve	48,570	48,570	47,506	47,506
General reserve	25,560	25,560	25,560	25,560
Retained earnings	71,355	71,355	62,719	62,719
Cumulative changes in fair value of investments	(3,160)	(3,160)	(3,110)	(3,110)
Impairment reserve	9,130	9,130	9,130	9,130
Total shareholders' equity	**358,798**	**358,798**	**349,148**	**349,148**
Perpetual Tier 1 Capital Bonds	**138,803**	**138,803**	**138,803**	**138,803**
Total liability and shareholders' funds	**3,681,830**	**3,681,830**	**2,710,862**	**2,710,862**

Table 2. B	Consolidated		Parent Company	
	Financial position as in the published financial statements	Under regulatory scope of consolidation	Financial position as in the published financial statements	Under regulatory scope of consolidation
	As at 31 Dec 2022	As at 31 Dec 2022	As at 31 Dec 2022	As at 31 Dec 2022
Assets Reconciliation	RO'000	RO'000	RO'000	RO'000
Cash and balances with central bank	**99,913**	**99,913**	**31,034**	**31,034**
Due from banks	**53,671**	**53,671**	**48,161**	**48,161**
Loans and advances, of which:	**3,067,063**	**3,067,063**	**2,164,984**	**2,164,984**
- To domestic banks	-	-	-	-
- To non-resident banks	-	-	-	-
- To domestic customers	2,210,629	2,210,629	2,210,629	2,210,629
- To non-resident customers for domestic operations	-	-	-	-
- To non-resident customers for operations abroad	-	-	-	-
- Loans and advances to SMEs	92,166	92,166	92,166	92,166
- Financing from Islamic banking	943,904	943,904	-	-
- Allowances for the credit losses, of which:	(179,636)	(179,636)	(137,811)	(137,811)
ECL allowance not qualifying for Tier 2	(179,636)	(148,876)	(137,811)	(110,501)
ECL allowance eligible for Tier 2	-	(30,760)	-	(27,310)
Investment securities, of which	**331,656**	**331,656**	**268,426**	**268,426**
- Fair value through Profit & Loss	441	441	441	441
- Fair value through other comprehensive income, of which:	104,491	104,491	59,356	59,356
Investment with AT-1 capital adjustment	2,400	2,400	2,400	2,400
Others	102,091	102,091	56,956	56,956
- Held to collect	226,724	226,724	208,629	208,629
Investment in subsidiary	**-**	**-**	**107,144**	**107,144**
Intangibles	**6,900**	**6,900**	**-**	**-**
Other assets, of which:	**84,131**	**84,131**	**55,454**	**55,454**
- Deferred tax asset with CET1 Adjustments	2,047	2,047	-	-
- Others	82,084	82,084	55,454	55,454
Property and equipment, of which:	**38,496**	**38,496**	**35,659**	**35,659**
- Property and equipment	36,804	36,804	35,659	35,659
- Other intangibles with CET1 Adjustments	1,692	1,692	-	-
Total assets	**3,681,830**	**3,681,830**	**2,710,862**	**2,710,862**

Table 2. B	Consolidated		Parent Company	
	Financial position as in the published financial statements	Under regulatory scope of consolidation	Financial position as in the published financial statements	Under regulatory scope of consolidation
	As at 31 Dec 2022	As at 31 Dec 2022	As at 31 Dec 2022	As at 31 Dec 2022
Capital and Liabilities Reconciliation	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Paid-up share capital, of which	**166,941**	**166,941**	**166,941**	**166,941**
- Amount eligible for CET1 – Paid up capital	166,941	166,941	166,941	166,941
- Amount eligible for AT1 – Perpetual bonds	**138,803**	**136,403**	**138,803**	**136,403**
Reserves & Surplus, of which:	**191,857**	**178,641**	**182,207**	**169,013**
- Share premium	36,565	36,565	36,565	36,565
- Legal reserve	48,570	48,570	47,506	47,506
- General reserve	25,560	25,560	25,560	25,560
- Retained earnings	71,355	71,355	62,719	62,719
- Proposed dividends	-	-	-	-
- Cumulative changes in fair value of investments, of which	(3,160)	(3,160)	(3,110)	(3,110)
Amount deductible from CET1 capital	-	(3,409)	-	(3,337)
Amount eligible for Tier 2 capital	-	112	-	102
Amount not eligible for Tier 2 capital	-	137	-	125
- Impairment reserve, of which:	**9,130**	**9,130**	**9,130**	**9,130**
Not eligible for Basel	-	9,130	-	9,130
- Special reserve, of which	**3,837**	**3,837**	**3,837**	**3,837**
Not eligible for Basel	-	3,837	-	3,837
Total capital	**497,601**	**481,985**	**487,951**	**472,357**
Deposits, of which:	**2,992,180**	**2,992,180**	**2,089,284**	**2,089,284**
- Deposits from banks	-	-	-	-
- Deposits from customers	2,089,284	2,089,284	2,089,284	2,089,284
- Deposits of Islamic Banking window	902,896	902,896	-	-
Borrowings, of which:	**94,141**	**94,141**	**59,101**	**59,101**
- From CBO	-	-	-	-
- From banks	94,141	94,141	59,101	59,101
- From other institutions & agencies	-	-	-	-
- Borrowings in the form of bonds, Debentures and sukuks	-	-	-	-
Other liabilities	**94,496**	**94,496**	**71,114**	**71,114**
Taxation	**3,412**	**3,412**	**3,412**	**3,412**
Total capital and liabilities	**3,681,830**	**3,666,214**	**2,710,862**	**2,695,268**

Step 3:

		Under regulatory scope of consolidation	
		Consolidated	Parent Company
		As at 31 Dec 2022	As at 31 Dec 2022
		RO'000	RO'000
Common Equity Tier 1 capital: instruments and reserves			
1	- Directly issued qualifying common share capital	166,941	166,941
2	- Retained earnings	71,355	62,719
3	- Accumulated other comprehensive income (and other reserves)	110,695	109,631
4	- Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	-
5	- Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	-
6	- Total regulatory adjustments to Common equity Tier 1	(14,048)	(110,291)
7	Common Equity Tier 1 capital (CET1)	334,943	228,810
8	Additional Tier 1 capital (AT1)	136,403	136,403
9	Tier 1 capital (T1 = CET1 + AT1)	471,346	365,213
Tier 2 capital: instruments and provisions			
10	Directly issued qualifying Tier 2 instruments	-	-
11	Eligible expected credit loss	30,760	27,310
12	Cumulative changes in fair value of investments eligible for Tier 2 capital	112	102
13	Tier 2 capital (T2)	30,872	27,412
	Total capital (TC = T1 + T2)	**502,218**	**392,625**

C. Main features template for capital instruments

1	Issuer	OMAN ARAB BANK	OMAN ARAB BANK	OMAN ARAB BANK
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	OM0000005260	OM0000006805	XS2346530244
3	Governing law(s) of the instrument Regulatory treatment	Oman Banking law	Oman Banking law	English law
4	Transitional Basel III rules	CET-1 Capital	Additional Tier -1 Capital	Additional Tier -1 Capital
5	Post-transitional Basel III rules	CET-1 Capital	Additional Tier -1 Capital	Additional Tier -1 Capital
6	Eligible at solo/group/group & solo	Solo	Solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Loan	Bonds	Bonds
8	Amount recognized in regulatory capital	OMR 166.9 Million	OMR 42.553 Million	USD 250 Million
9	Par value of instrument	OMR 166.9 Million	OMR 42.553 Million	USD 250 Million
10	Accounting classification	Shareholder's equity	Additional Tier 1	Additional Tier 1
11	Original date of issuance	Various	17/10/2018	27/05/2021
12	Perpetual or dated	Perpetual	Perpetual	Perpetual
13	Original maturity date	-	-	-
14	Issuer call subject to prior supervisory approval	-	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	-	First call date on 17 Oct 2023 at bank's sole discretion	First call date on 4 Jun 2026 at bank's sole discretion
16	Subsequent call dates, if applicable	-	Any interest reset date after the first call date	Any interest payment date after the first call date
Coupons / dividends				
17	Fixed or floating dividend/coupon	No coupon	Fixed coupon	Fixed coupon
18	Coupon rate and any related index	-	7.5%	7.625%
19	Existence of a dividend stopper	Yes	Yes	Yes
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	-	-
21	Existence of step up or other incentive to redeem	-	-	-
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion triggers	-	-	-
25	If convertible, fully or partially	-	-	-
26	If convertible, conversion rate	-	-	-
27	If convertible, mandatory or optional conversion	-	-	-
28	If convertible, specify instrument type convertible into	-	-	-
29	If convertible, specify issuer of instrument it converts into	-	-	-
30	Write-down feature	Yes	Yes	Yes
31	If write-down, write-down trigger(s)	Non-viability event	Non-viability event	Non-viability event
32	If write-down, full or partial	Full	full or partial	full or partial
33	If write-down, permanent or temporary	Permanent	Permanent	Permanent
34	If temporary write-down, description of write-up mechanism	-	-	-
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to all instruments and claims	Subordinate to depositors and general creditors	Subordinate to depositors and general creditors
36	Non-compliant transitioned features	-	-	-
37	If yes, specify non-compliant features	n/a	n/a	n/a

6. Leverage Ratio

The Basel III framework introduced a non-risk-based leverage ratio to act as a credible supplementary measure to the risk-based capital requirements. The regulatory minimum set by the CBO is 4.5%.

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

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

	Item	Consolidated	Parent Company
1	Total consolidated assets as per published financial statements	3,681,830	2,710,862
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-	-
4	Adjustments for derivative financial instruments	178,921	178,921
5	Adjustment for securities financing transactions (i.e., repos and similar secured lending)	-	-
6	Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	151,423	137,869
7	Other adjustments	(15,439)	(109,544)
8	**Leverage ratio exposure**	**3,996,735**	**2,918,108**

Table 2: Leverage ratio common disclosure template

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

	Item	Consolidated	Parent Company
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	3,681,830	2,710,862
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(15,439)	(109,544)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	3,666,391	2,601,318
	Derivative Exposures		
4	Replacement cost associated with all derivatives transactions (i.e., net of eligible cash variation margin)	178,921	178,921
5	Add-on amounts for PFE associated with all derivatives transactions	-	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-
8	(Exempted CCP leg of client-cleared trade exposures)	-	-
9	Adjusted effective notional amount of written credit derivatives	-	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
11	**Total derivative exposures (sum of lines 4 to 10)**	**178,921**	**178,921**
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14	CCR exposure for SFT assets	-	-
15	Agent transaction exposures	-	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	-	-
	Other Off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	393,240	272,192
18	(Adjustments for conversion to credit equivalent amounts)	(241,817)	(134,323)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**151,423**	**137,869**
	Capital and total exposures		
20	Tier 1 capital	471,346	365,213
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**3,996,735**	**2,918,108**
	Leverage Ratio		
22	**Basel III leverage ratio (%)**	**11.8**	**12.5**

7. CREDIT RISK EXPOSURE AND ASSESSMENT

A. Qualitative Disclosures

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally from lending activities, investment activities and other assets in the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments and financial guarantees.

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 is actively managed and rigorously monitored in accordance with well-defined credit policies and procedures. Prior to the approval of a credit proposal, a detailed credit risk assessment is carried out which includes an analysis of the obligor financial condition, market position, business environment and quality of management. The credit risk management and control are centralised in the credit risk management and credit review teams which is divided into corporate, financial institutions and retail groups. The credit risk in corporate and financial institutions portfolio is primarily managed by the Credit Review Department while the Retail Banking Department manages the credit risk with predefined programs. The Credit Risk Department reviews the credit risk independently and directly reports to the Compliance and Risk Management Committee of the Board of Directors. The risk management framework also includes policies with respect to problem recognition, early warning indicators, watch lists, classification parameters and risk rating.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and taking into consideration both internal and external indicators, expert credit assessment, guidelines issued by CBO and inclusion of forward-looking information. Besides assessing the qualitative characteristics, the Bank's assessment of probability of default of individual counterparties is mainly linked with the number of days the borrower was in default as defined by the CBO circular number BM 977 dated 25 September 2004. Past dues and impaired exposures are defined in accordance with the relevant CBO regulations. Bank has adopted the International Financial Reporting Standards (IFRS) 9 guidelines for estimation of Expected Credit Loss as per International Accounting Standards Board (IASB) and CBO guidelines on International Financial Reporting Standards (IFRS) 9 on Financial Instruments, effective from 1st January 2018.

In addition, the Bank assesses the adequacy of the security and financial performance of the borrowers in further downgrading the classification.

The Bank considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the bank in full, without recourse by the Bank to actions such as liquidating collateral; or the borrower is past due more than 90 days on any credit obligation to the Bank. In assessing whether a borrower is in default, the Bank considers both qualitative factors such as breaches of covenants and quantitative factors such as overdue status and non-payment on another obligation of the same issuer to the Bank.

Given the nature of the bank's exposures and availability of historical statistically reliable information, the bank derives the Through the Cycle (TTC) probability of default (PD) using internal historical experience. The Bank links TTC PDs with forward looking economic factors to drive PIT PD estimates for each rating category. The methodology takes into consideration forward looking economic forecasts under three scenarios (base case, bad case, and good case), historical economic data and TTC PDs for deriving PIT PDs. The relationship between the economic factors and default and loss rates have been developed using internal historical data and relevant external market data.

Credit Risk Management and Control

The Bank monitors, manages and controls credit risk exposures based on an internal credit rating system that rates individual obligors based on a certain rating scale. The internal credit rating is a measure of the creditworthiness of a single obligor, based on an assessment of the credit risk relating to senior unsecured, medium-term, foreign currency credit exposure. The primary objectives of the internal credit rating system are the maintenance of a single uniform standard for credit quality measurement, and to serve as the primary basis for Board-approved risk parameters and delegated credit authority limits.

The Bank manages, limits and controls concentrations of credit risk – in particular, to individual counterparties and groups, and to industries, sectors 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, Compliance and Risk Management committee of the Board of Directors and the Executive Committee of the Board of Directors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

(i) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is taking security for funds advanced, which is 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 premises, inventory and accounts receivable
- Lien on fixed deposits
- Cash margins
- Mortgages over residential and commercial properties
- Pledge of marketable shares and securities

The security requirement & coverage is assessed on a case to case basis for each exposure. The housing loans are secured by mortgage over the residential property. Credit cards and similar revolving credit facilities are generally unsecured. Additionally, in order to minimise the credit loss, the Bank seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

(ii) Assessment of the financial capabilities of the borrowers

The borrowers with balances above the limit specified are subject to the review of their audited financial statements. The relationship managers remain in close contact with the borrowers. The Bank assesses the financial performance of the borrowers by reviewing key performance ratios, including solvency and liquidity ratios. The annual reviews are performed by the relationship managers and are also reviewed by the Credit Review Department.

(iii) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments

Measurement of ECL

The key input parameters into the measurement of ECL are the probability of default (PD), loss given default (LGD) and exposure at default (EAD). These parameters are derived from internally developed statistical models, other historical data using both internal and external factors, and incorporates forward-looking information.

PD assessments are estimates at a certain date, and are calculated using the banks internal default data.

The PIT PD estimates are converted to cumulative PIT PDs for exposures that have tenors in excess of one year and that are assessed on lifetime PDs. The lifetime PDs are calculated by compounding the 12-month PIT PDs.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties, based on historical data using both internal and external factors.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amounts allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD is converted to balance sheet equivalents.

Subject to a maximum of 12-month PD for financial assets for which credit risk has not significantly increased, the bank measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk. Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics including instrument type, credit risk ratings and geographic location of the borrower.

The Bank calculates PIT PD estimates under three scenarios, a base case, bad case and good case. A probability weighted ECL is then calculated by assigning probabilities, based on current market conditions, to each scenario.

B. Quantitative Disclosures

Table 1: Gross credit risk exposures

		Consolidated		Parent Company	
		Average Gross Exposure	Total Gross Exposure	Average Gross Exposure	Total Gross Exposure
S No.	Type of credit exposure	RO'000	RO'000	RO'000	RO'000
1	Overdrafts	136,638	118,757	129,217	112,928
2	Personal Loans	1,157,644	1,200,444	787,488	811,428
3	Loans against Trust Receipts	83,661	68,137	83,661	68,137
4	Other Loans	1,677,968	1,825,225	1,168,901	1,276,166
5	Bills Purchased Discounted	37,104	34,136	37,104	34,136
	Total	**3,093,015**	**3,246,699**	**2,206,371**	**2,302,795**

Table 2: Geographic distribution of exposures

		Consolidated						
		Oman	Other GCC countries	OECD countries	India	Pakistan	Others	Total
S No.	Type of credit exposure	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Overdrafts	118,757	-	-	-	-	-	118,757
2	Personal Loans	1,200,444	-	-	-	-	-	1,200,444
3	Loans against Trust Receipts	68,137	-	-	-	-	-	68,137
4	Other Loans	1,825,225	-	-	-	-	-	1,825,225
5	Bills Purchased Discounted	34,136	-	-	-	-	-	34,136
	Total	**3,246,699**	**-**	**-**	**-**	**-**	**-**	**3,246,699**

		Parent Company						
		Oman	Other GCC countries	OECD countries	India	Pakistan	Others	Total
S No.	Type of credit exposure	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Overdrafts	112,928	-	-	-	-	-	112,928
2	Personal Loans	811,428	-	-	-	-	-	811,428
3	Loans against Trust Receipts	68,137	-	-	-	-	-	68,137
4	Other Loans	1,276,166	-	-	-	-	-	1,276,166
5	Bills Purchased Discounted	34,136	-	-	-	-	-	34,136
	Total	**2,302,795**	**-**	**-**	**-**	**-**	**-**	**2,302,795**

Table 3: Industry or counterparty type distribution of exposures

		Consolidated					
		Overdraft	Loans	Bills Purchased/ discounted	Others	Total	Off-balance sheet exposure
S No.	Economic Sector	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Import Trade	6,567	83,665	292	6,847	97,371	13,609
2	Export Trade	31	33	-	-	64	112,457
3	Wholesale & Retail Trade	13,059	109,893	107	12,925	135,984	19,781
4	Mining & Quarrying	21,285	126,784	-	4,330	152,399	12,052
5	Construction	24,293	194,796	30,697	31,232	281,018	75,644
6	Manufacturing	23,336	204,601	1,520	37,010	266,467	15,942
7	Electricity, gas & water	202	104,513	-	2,347	107,062	3,269
8	Transport & communication	1,540	170,259	79	5,803	177,681	2,571
9	Financial Institutions	2,475	141,960	-	1,860	146,295	-
10	Services	12,936	291,338	550	40,539	345,363	51,052
11	Personal Loans	-	874,528	-	325,917	1,200,445	-
12	Agriculture & Allied Activities	641	21,128	19	1,133	22,921	-
13	Government	1	-	-	-	1	86,864
14	Non-Resident Lending	-	2,134	-	-	2,134	-
15	All Others	12,391	260,259	872	37,972	311,494	-
	Total	**118,757**	**2,585,891**	**34,136**	**507,915**	**3,246,699**	**393,241**

		Parent Company					
		Overdraft	Loans	Bills Purchased/ discounted	Others	Total	Off-balance sheet exposure
S No.	Economic Sector	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Import Trade	5,728	72,378	292	-	78,398	13,609
2	Export Trade	31	33		-	64	112,457
3	Wholesale & Retail Trade	9,880	76,006	107	-	85,993	17,215
4	Mining & Quarrying	21,235	116,094	-	-	137,329	6,884
5	Construction	24,077	189,056	30,697	-	243,830	68,499
6	Manufacturing	23,336	171,599	1,520	-	196,455	14,674
7	Electricity, gas & water	202	103,466	-	-	103,668	1,393
8	Transport & communication	1,540	159,356	79	-	160,975	210
9	Financial Institutions	2,475	105,688	-	-	108,163	-
10	Services	12,176	146,789	550	-	159,515	23,329
11	Personal Loans	-	811,429	-	-	811,429	-
12	Agriculture & Allied Activities	641	5,894	19	-	6,554	-
13	Government	1	-	-	-	1	13,923
14	Non-Resident Lending	-	216	-	-	216	-
15	All Others	11,606	197,727	872	-	210,205	-
	Total	**112,928**	**2,155,731**	**34,136**	**-**	**2,302,795**	**272,193**

Table 4: Residual contractual maturity of credit exposure

		Consolidated					
S No.	Economic Sector	Overdraft RO'000	Loans RO'000	Bills purchased / discounted RO'000	Others RO'000	Total RO'000	Off-balance sheet exposure RO'000
1	Up to 1 month	9,134	151,854	30,599	15,192	206,779	14,861
2	1-3 months	9,153	94,948	2,149	18,013	124,263	77,340
3	3-6 months	9,258	131,614	275	33,947	175,094	8,368
4	6-9 months	9,196	52,507	75	24,545	86,323	76,955
5	9-12 months	9,094	90,400	1,038	9,105	109,637	62,998
6	1-3 years	23,126	336,190	-	81,898	441,214	27,995
7	3-5 years	23,088	309,286	-	76,059	408,433	14,980
8	Over 5 years	26,708	1,419,092	-	249,156	1,694,956	109,744
	Total	**118,757**	**2,585,891**	**34,136**	**507,915**	**3,246,699**	**393,241**

		Parent Company					
S No.	Economic Sector	Overdraft RO'000	Loans RO'000	Bills purchased / discounted RO'000	Others RO'000	Total RO'000	Off-balance sheet exposure RO'000
1	Up to 1 month	9,034	139,469	30,599	-	179,102	4,322
2	1-3 months	9,034	80,264	2,149	-	91,447	65,760
3	3-6 months	9,034	103,940	275	-	113,249	830
4	6-9 months	9,034	32,498	75	-	41,607	234
5	9-12 months	9,034	82,977	1,038	-	93,049	58,230
6	1-3 years	22,586	269,424	-	-	292,010	22,000
7	3-5 years	22,586	247,281	-	-	269,867	11,302
8	Over 5 years	22,586	1,199,878	-	-	1,222,464	109,515
	Total	**112,928**	**2,155,731**	**34,136**	**-**	**2,302,795**	**272,193**

Table 5: Loans and provisions by major industry or counterparty type

		Consolidated					
		Gross Loans	Of which Stage 3 loans	ECL held for Stage 1 and 2*	ECL held for Stage 3*	Stage 3 ECL Provided during the year#	Advances written off during the year
S No.	Economic Sector	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Import Trade	97,371	31,442	1,870	24,374	5,122	3
2	Export Trade	64	-	1	-	-	-
3	Wholesale & Retail Trade	135,984	15,318	1,447	9,360	3,625	6
4	Mining & Quarrying	152,399	842	14,034	421	282	-
5	Construction	281,018	53,307	15,561	34,427	11,577	92
6	Manufacturing	266,467	20,036	5,363	11,103	2,533	137
7	Electricity, gas & water	107,062	33	551	15	6	-
8	Transport & communication	177,681	765	768	560	134	4
9	Financial Institutions	148,213	2,756	1,100	2,531	85	-
10	Services	345,363	12,171	6,841	7,596	1,204	35
11	Personal Loans	1,200,445	17,639	5,777	9,320	4,023	3,830
12	Agriculture & Allied Activities	22,921	718	290	663	85	-
13	Government	1	-	-	-	-	-
14	Non-Resident Lending	216	-	10	17	-	-
15	All Others	311,494	10,754	15,696	8,607	4,895	2,493
	Total	**3,246,699**	**165,781**	**69,309**	**108,994**	**33,571**	**6,600**

		Parent Company					
		Gross Loans	Of which Stage 3 loans	ECL held for Stage 1 and 2*	ECL held for Stage 3*	Stage 3 ECL Provided during the year#	Advances written off during the year
S No.	Economic Sector	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Import Trade	78,398	24,499	1,690	20,526	4,723	3
2	Export Trade	64	-	1	0	-	-
3	Wholesale & Retail Trade	85,993	7,209	1,127	3,784	3,565	6
4	Mining & Quarrying	137,329	114	13,778	50	18	-
5	Construction	243,830	47,576	14,714	32,757	10,587	92
6	Manufacturing	196,455	13,711	2,873	6,442	2,243	137
7	Electricity, gas & water	103,668	33	537	15	6	-
8	Transport & communication	160,975	757	572	554	128	4
9	Financial Institutions	108,163	838	330	644	85	-
10	Services	159,515	5,293	4,320	3,074	1,022	35
11	Personal Loans	811,429	13,453	4,200	7,782	4,230	3,830
12	Agriculture & Allied Activities	6,554	718	213	663	85	-
13	Government	1	-	-	0	-	-
14	Non-Resident Lending	216	-	10	17	-	-
15	All Others	210,205	9,212	11,574	5,564	4,694	2,493
	Total	**2,302,795**	**123,413**	**55,939**	**81,872**	**31,386**	**6,600**

* ECL held includes management overlays and reserve interest.

Stage 3 ECL provided during the year does not include net recovery / release of RO 7.3 million.

Table 6: Geographic distribution of impaired loans

		Consolidated					
		Gross Loans	Of which Stage 3 loans	ECL held for Stage 1 and 2	ECL held for Stage 3	Stage 3 ECL Provided during the year1	Advances written off during the year
S No.	Country	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Oman	3,246,699	165,781	68,022	106,472	33,571	6,600
2	Other GCC countries	-	-	-	-	-	-
3	OECD countries	-	-	-	-	-	-
4	India	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-
6	Others	-	-	-	-	-	-
	Total	**3,246,699**	**165,781**	**68,022**	**106,472**	**33,571**	**6,600**

		Parent Company					
		Gross Loans	Of which Stage 3 loans	ECL held for Stage 1 and 2	ECL held for Stage 3	Stage 3 ECL Provided during the year1	Advances written off during the year
S No.	Country	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
1	Oman	2,302,795	123,413	55,939	81,872	31,386	6,600
2	Other GCC countries	-	-	-	-	-	-
3	OECD countries	-	-	-	-	-	-
4	India	-	-	-	-	-	-
5	Pakistan	-	-	-	-	-	-
6	Others	-	-	-	-	-	-
	Total	**2,302,795**	**123,413**	**55,939**	**81,872**	**31,386**	**6,600**

Table 7: Movement in gross loans

		Consolidated			
		Stage 1	Stage 2	Stage 3	Total
		RO'000	RO'000	RO'000	RO'000
1	Opening Balance	2,181,974	574,457	138,026	2,894,457
2	Migration / changes (+/-)	(39,230)	23,746	15,484	-
3	New Loans	736,447	329,753	21,019	1,087,219
4	Repayment of Loans	(424,901)	(301,330)	(2,146)	(728,377)
5	Loans written off	-	-	6,600	6,600
6	Closing Balance	2,454,290	626,626	165,783	3,246,699
7	Expected credit loss held	9,768	59,305	110,563	179,636

		Parent Company			
		Stage 1	Stage 2	Stage 3	Total
		RO'000	RO'000	RO'000	RO'000
1	Opening Balance	1,470,735	487,812	106,527	2,065,074
2	Migration / changes (+/-)	(32,888)	23,147	9,741	-
3	New Loans	640,391	308,976	15,891	965,258
4	Repayment of Loans	(424,901)	(293,890)	(2,146)	(720,937)
5	Loans written off	-	-	6,600	6,600
6	Closing Balance	1,653,337	526,045	123,413	2,302,795
7	Expected credit loss held	6,324	49,615	81,872	137,811

8. DISCLOSURE FOR PORTFOLIO SUBJECT TO STANDARDISED APPROACH

A. Qualitative Disclosures

The Bank uses the ratings by Moody's Investor Services for the credit ratings for the purpose of determining the risk weight to be assigned to the exposure for on-balance sheet inter-bank exposure as well as off-balance sheet items such as Letters of Credit, Guarantees and forward contracts. In the absence of a rating by the Moodys' Investor Service, the Bank uses the ratings, if any, from other rating agencies which are recognized by the Central Bank of Oman. The claims on corporate are assigned 100% risk weight except for the claims with eligible financial collaterals/d the Bank uses the simple approach for recognizing the collaterals in banking book with the approval of Central Bank of Oman. The Bank's retail loan portfolio is assigned a 100% risk weight except the loans secured by residential mortgage and short term retail loans, which meet the conditions of CBO, for which risk weight assigned is 35% and 75% respectively.

B. Quantitative Disclosure

Table 1: Net exposure after risk mitigation subject to Standardized Approach

		Consolidated							
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
S No.	**Risk Bucket**	**0%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Total**
1	Sovereigns (Rated)	515,618	-	-	-	-	-	-	515,618
2	Banks (Rated)	-	11,808	-	41,982	-	16,497	-	70,287
3	Corporate	-	-	-	-	71,061	1,225,740	-	1,296,801
4	Retail	-	-	-	-	20,879	463,110	-	483,989
5	Secured by residential property	-	-	618,494	-	-	64,558	-	683,052
6	Secured by commercial property	-	-	-	-	-	328,851	-	328,851
7	Past due loans	-	-	-	-	-	55,565	-	55,565
8	Other assets	90,590	-	-	-	-	152,508	-	243,098
9	Un-drawn exposure	-	2,990	8,105	13,470	-	73,287	-	97,852
	Total	**606,208**	**14,798**	**626,599**	**55,452**	**91,940**	**2,380,116**	**-**	**3,775,113**

		Parent Company							
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
S No.	**Risk Bucket**	**0%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Total**
1	Sovereigns (Rated)	388,697	-	-	-	-	-	-	388,697
2	Banks (Rated)	-	10,087	-	38,106	-	16,407	-	64,600
3	Corporate	-	-	-	-	71,061	770,951	-	842,012
4	Retail	-	-	-	-	20,879	404,666	-	425,545
5	Secured by residential property	-	-	307,873	-	-	64,558	-	372,431
6	Secured by commercial property	-	-	-	-	-	328,851	-	328,851
7	Past due loans	-	-	-	-	-	40,494	-	40,494
8	Other assets	21,711	-	-	-	-	131,254	-	152,965
9	Un-drawn exposure	-	2,990	-	13,470	-	44,767	-	61,227
	Total	**410,408**	**13,077**	**307,873**	**51,576**	**91,940**	**1,801,948**	**-**	**2,676,822**

9. CREDIT RISK MITIGATION UNDER STANDARDISED APPROACH

A. Qualitative Disclosures

The following provides some of the specific credit risk mitigation measures employed by the Bank:

i) Collateral

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 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 premises, inventory and accounts receivable;
- Lien on fixed deposits;
- Cash margins;
- Mortgages over residential and commercial properties and
- Pledge of marketable shares and securities;

The housing loans are secured by mortgage over the residential property. Credit cards and similar revolving credit facilities are unsecured. Additionally, in order to minimize the credit loss, the Bank seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

ii) Assessment of the financial capabilities of the borrowers

The borrowers with balances above the limit specified are subject to the review of their audited financial statements. The Bank assesses the financial performance of the borrowers by reviewing key performance ratios, including solvency and liquidity ratios. The annual reviews are performed by the relationship managers and are also reviewed by the Credit Review Department.

iii) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions - are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

B. Quantitative Disclosures

	Consolidated			Parent Company		
	Loans against shares	Loans with cash margin	Total	Loans against shares	Loans with cash margin	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Exposure covered by eligible financial collateral	66,596	31,569	**98,165**	66,596	20,878	**87,474**
Value of the eligible collateral	66,596	43,114	**109,710**	66,596	32,341	**98,937**

10. MARKET RISK IN TRADING BOOK

A. Qualitative Disclosures

The Bank takes on exposures to market risk which is the risk that the fair value or the future cash flows of the financial assets carried at fair value will fluctuate because of changes in market prices. Market risks arise from the open positions in interest rate, currency and equity products, all of which are exposed to changes in interest rates, credit spreads, equity prices and foreign exchange rates. The market risks are monitored by the Treasury Division and the Risk Management Department. Management is confident that the Bank has proper risk management policies in place to ensure that interest risk, liquidity risk and foreign exchange risk are mitigated considering the macroeconomic indicators affecting the banking business.

The Bank manages its market risk in the trading book using tools such as position limits and stop loss limits.

Currency risk arises where the value of a financial instrument changes due to changes in foreign exchange rates. In order to manage currency risk exposure, the Bank enters into ready, spot and forward transactions in the inter-bank market as per documented policies approved by the Board of Directors.

The Bank's foreign exchange exposure comprises of forward contracts, foreign currencies cash in hand, balances with banks abroad, foreign placements and other assets and liabilities denominated in foreign currency. The management manages the risk by monitoring net open position in line with limits set by the management and entering into forward contracts based on the underlying commercial transactions with the customers. Additionally, appropriate segregation of duties exists between the front and back-office functions while compliance with the net open position is independently monitored on an ongoing basis by the management and the Assets and Liabilities Committee (ALCO).

Equity Position risk occurs due to change in the market value of the Bank's portfolio as a result of diminution in the market value of the equity securities. The responsibility of management of equity position risk rests with the Treasury Division of the Bank. The Bank does not hold trading position in equities. The Bank's portfolio is marked to market on regular basis and the difference in the book value and market value are adjusted against revaluation reserve. The Bank also conducts regular stress test on equity position risk and assesses its impact on profitability and capital adequacy.

Commodity Risk occurs due to volatility in the prices of the commodities. Presently the Bank has no exposure to the commodity market.

Capital charge for the entire market risk exposure is computed as per the standardized approach in accordance with the guidelines issued by CBO in its circular BM 1009. The Bank adopts duration method in measuring interest rate risk in respect of debt securities held in trading book. The Bank does not hold any trading position in equities and in commodities necessitating capital charge to cover the market risk. Foreign exchange risk capital charge is computed on the three-month average of the sum of net short positions or net long positions, whichever is higher of the foreign currency positions held by the Bank.

B. Quantitative Disclosures

Bank's investments include equity securities which are publicly traded on the Muscat Securities Market (MSM). The Bank's equity and total comprehensive income at 31 December 2022 may decrease by 0.04% Consolidated and 0.03% Parent (2021 Consolidated – 0.03%, Parent – 0.03%) due to decrease by 10% in the MSM - 30 Index and the GCC market indices, with all the other variables held constant. The subsidiary has no investment in equity securities publicly traded on MSM.

11. INTEREST RATE RISK IN BANKING BOOK

A. Qualitative Disclosures

Interest rate risk is the risk that the value of a financial instrument carried at fair value will fluctuate due to changes in the market interest rates. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amount of interest-based assets and liabilities that mature or re-price in a given period. The Bank manages this risk by matching/re-pricing of assets and liabilities. The Bank is not excessively exposed to interest rate risk as substantial portion of its assets and liabilities are re-priced frequently. The Bank's Assets and Liabilities Committee (ALCO) monitors and manages the interest rate risk with the objective of limiting the potential adverse effects on the Bank's profitability.

For managing its interest rate risk in the banking book, the Bank stipulates limits on open interest rate sensitive gaps for maturities up to 1 year and also monthly calculates Earnings at Risk (EaR) impact on its Net Interest Income (NII) from 100bps change in interest rates on open interest rate gaps for maturities up to 1 year. The EaR limit is stipulated as a certain percentage of the NII of the Bank for the year.

B. Quantitative Disclosures

The EAR as at 31 December 2022 is 2.5% (2021 – 2.9%).

The table below summarises the Bank's exposure to the interest rate risks. It includes the Bank's financial instruments at the carrying amount, categorised by the earlier of the contractual re-pricing and maturity dates.

Consolidated 2022	Average effective interest rate %	Within 3 months RO'000	4 to 6 months RO'000	7 to 12 months RO'000	> 1 to 5 years RO'000	Over 5 years RO'000	Non interest bearing RO'000	Total RO'000
Cash and balances with central bank	1.00	24,356	-	-	-	1,025	74,532	99,913
Due from banks	1.76	32,362	10,000	-	-	-	11,309	53,671
Loans and advances	5.18	1,337,212	477,750	322,247	774,943	154,911	-	3,067,063
Investment securities	5.20	189	-	15,469	162,806	151,297	1,895	331,656
Intangible assets	-	-	-	-	-	-	6,900	6,900
Other assets	-	23,313	-	-	-	-	60,818	84,131
Property and equipment	-	-	-	-	-	-	38,496	38,496
Total assets	**-**	**1,417,432**	**487,750**	**337,716**	**937,749**	**307,233**	**193,950**	**3,681,830**
Due to banks	1.79	88,382	-	-	-	-	5,759	94,141
Customer deposits	2.76	1,183,871	168,044	603,602	486,662	-	550,001	2,992,180
Other liabilities	-	3,032	-	-	-	-	91,464	94,496
Taxation	-	-	-	-	-	-	3,412	3,412
Total liabilities	**-**	**1,275,285**	**168,044**	**603,602**	**486,662**	**-**	**650,636**	**3,184,229**
Total interest sensitivity gap	-	142,147	319,706	(265,886)	451,087	307,233	(456,686)	497,601
Cumulative interest sensitivity gap	-	142,147	461,853	195,967	647,054	954,287	497,601	-

Parent Company 2022	Average effective interest rate %	Within 3 months RO'000	4 to 6 months RO'000	7 to 12 months RO'000	> 1 to 5 years RO'000	Over 5 years RO'000	Non interest bearing RO'000	Total RO'000
Cash and balances with central bank	1.00	1,621	-	-	-	500	28,913	31,034
Due from banks	1.78	26,852	10,000	-	-	-	11,309	48,161
Loans and advances	5.19	1,096,753	194,900	129,241	708,880	35,210	-	2,164,984
Investment securities	5.27	-	-	15,469	103,102	148,448	1,407	268,426
Investment in subsidiary	-	-	-	-	-	-	107,144	107,144
Other assets	-	23,312	-	-	-	-	32,142	55,454
Property and equipment	-	-	-	-	-	-	35,659	35,659
Total assets	**-**	**1,148,538**	**204,900**	**144,710**	**811,982**	**184,158**	**216,574**	**2,710,862**
Due to banks	1.91	53,342	-	-	-	-	5,759	59,101
Customer deposits	2.51	889,168	130,803	303,213	263,403	-	502,697	2,089,284
Other liabilities	-	3,032	-	-	-	-	68,082	71,114
Taxation	-	-	-	-	-	-	3,412	3,412
Total liabilities	**-**	**945,542**	**130,803**	**303,213**	**263,403**	**-**	**579,950**	**2,222,911**
Total interest sensitivity gap	-	202,996	74,097	(158,503)	548,579	184,158	(363,376)	487,951
Cumulative interest sensitivity gap	-	202,996	277,093	118,590	667,169	851,327	487,951	-

12. OPERATIONAL RISK

A. Qualitative Disclosures

Basel Committee on Banking Supervision has defined operational risk as “the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.” This definition includes legal risk, but excludes strategic and reputational risk. Legal risk includes, but is not limited to, exposure to fines, penalties, punitive damages resulting from supervisory actions, as well as private settlements.

Basel II has provided three different approaches viz., Basic Indicator approach (BIA), The standardized approach (TSA) and Advanced measurement approach to compute the capital charge of Operational Risk. The Bank has adopted the BIA for computing the capital charge for Operational Risk as per CBO guidelines. The approach requires the Bank to provide 15% of the average gross income for the last three years as capital charge for operational risk.

The Bank has systems for collecting the data relating to operational risk incidents. The measurement of the operational risk requires historical data for at least 3 years in order to perform the calculations.

Bank undertakes Risk Control and Self-Assessment exercise by which the inherent risk in various processes of each business unit is identified and control against these risks are assessed for their design and effectiveness. The residual risk (i.e., inherent risk after controls) provides the potential loss amount and based on residual risk, the controls are improved further.

Bank is also identifying and monitoring the Key Risk Indicators (KRIs) for each business unit. Each KRI has a defined threshold limit, and an escalation criterion is also attached to it. A breach in threshold of the KRI escalates the risk to the higher authority. All the Operational Risk Management tools are configured in Operational Risk Management System.

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.

B. Quantitative Disclosures

The Risk Weighted Assets for the operational risk using the Basic Indicator Approach is RO 215 Million at 31 December 2022 (Parent Company: 2022 RO 169 million).

13. LIQUIDITY RISK

A. Qualitative Disclosures

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. It includes the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Bank's funding activities are based on a range of instruments including deposits, other liabilities and assigned capital. Consequently, funding flexibility is increased and dependence on any one source of funds is reduced. 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.

B. Quantitative Disclosures

The Bank manages the liquidity risk based on estimated maturities using the guidelines provided by the CBO for the estimates. The table below represents the cash flows receivable to and payable by the Bank under derivative and non-derivative assets and liabilities by estimated remaining maturities at the balance sheet date.

			Consolidated		
	< 3 months	> 3 to 12 months	> 1 to 5 years	> 5 years	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with central bank	72,874	8,293	12,174	6,572	**99,913**
Due from banks	33,703	19,968	-	-	**53,671**
Loans and advances	295,643	416,541	849,716	1,505,163	**3,067,063**
Investment securities	441	19,659	153,692	157,864	**331,656**
Investment in subsidiary	-	-	-	-	**-**
Intangibles	-	-	-	6,900	**6,900**
Other assets	46,521	27,734	9,876	-	**84,131**
Property and equipment	-	-	-	38,496	**38,496**
Total assets	**449,182**	**492,195**	**1,025,458**	**1,714,995**	**3,681,830**
Due to banks	94,141	-	-	-	**94,141**
Customer deposits	259,865	886,744	1,020,593	824,978	**2,992,180**
Other liabilities	43,596	17,584	33,309	7	**94,496**
Taxation	3,412	-	-	-	**3,412**
Total liabilities	**401,014**	**904,328**	**1,053,902**	**824,985**	**3,184,229**
Liquidity gap	**48,168**	**(412,133)**	**(28,444)**	**890,010**	**497,601**

	Parent Company				
	< 3 months	> 3 to 12 months	> 1 to 5 years	> 5 years	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with central bank	30,353	59	60	562	**31,034**
Due from banks	28,193	19,968	-	-	**48,161**
Loans and advances	270,548	225,675	561,878	1,106,883	**2,164,984**
Investment securities	441	19,470	93,987	154,528	**268,426**
Investment in subsidiary	-	-	-	107,144	**107,144**
Intangibles	-	-	-	-	**-**
Other assets	39,894	7,875	7,685	-	**55,454**
Property and equipment	-	-	-	35,659	**35,659**
Total assets	**369,429**	**273,047**	**663,610**	**1,404,776**	**2,710,862**
Due to banks	59,101	-	-	-	**59,101**
Customer deposits	223,898	610,435	614,081	640,870	**2,089,284**
Other liabilities	43,596	17,584	9,927	7	**71,114**
Taxation	3,412	-	-	-	**3,412**
Total liabilities	**330,007**	**628,019**	**624,008**	**640,877**	**2,222,911**
Liquidity gap	**39,422**	**(354,972)**	**39,602**	**763,899**	**487,951**

13.1 Basel III Ratios

Liquidity Coverage Ratio (LCR): The LCR measures the stock of High-Quality Liquid Assets (HQLA) against net short-term obligations (30 days).

Net Stable Funding Ratio (NSFR): NSFR ensures that the Bank diversify its funding sources and reduce their dependency on short-term wholesale markets. The ratio compares the stock of Stable Funding against Required Funding.

The summary of the Basel III liquidity ratios is as follows:

	Consolidated	Parent Company	Regulatory Minimum
	As at 31 December 2022	As at 31 December 2022	
LCR	**127%**	**130%**	**100%**
NSFR	**111%**	**112%**	**100%**

The detailed LCR disclosures are provided below:

		Consolidated	
		Total Unweighted Value (average)	**Total Weighted Value (average)**
High Quality Liquid Assets			
1	**Total High Quality Liquid Assets (HQLA)**	**-**	**384,188**
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	936,797	66,664
3	- Stable deposits	177,841	5,848
4	- Less stable deposits	758,956	60,816
5	Unsecured wholesale funding, of which:	934,057	349,928
6	- Operational deposits (all counterparties) and deposits in networks of cooperative banks	622,424	197,380
7	- Non-operational deposits (all counterparties)	301,436	142,351
8	- Unsecured debt	10,197	10,197
9	- Secured wholesale funding		-
10	Additional requirements, of which	16,974	1,697
11	- Outflows related to derivative exposures and other collateral requirements	-	-
12	- Outflows related to loss of funding on debt products	-	-
13	- Credit and liquidity facilities	16,974	1,697
14	Other contractual funding obligations	-	-
15	Other contingent funding obligations	281,348	17,828
16	**TOTAL CASH OUTFLOWS**	**-**	**436,118**
Cash Inflows			
17	Secured lending (e.g., reverse repos)	-	-
18	Inflows from fully performing exposures	188,986	110,050
19	Other cash inflows	170,011	24,102
20	**TOTAL CASH INFLOWS**	**358,997**	**134,152**
			Total Adjusted Value
21	**TOTAL HQLA**		384,188
22	**TOTAL NET CASH OUTFLOWS**		301,966
23	**LIQUIDITY COVERAGE RATIO (%)**		**127**

		Parent Company	
		Total Unweighted Value (average)	**Total Weighted Value (average)**
High Quality Liquid Assets			
1	Total High Quality Liquid Assets (HQLA)	**-**	**275,941**
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	576,889	45,753
3	- Stable deposits	177,841	5,848
4	- Less stable deposits	399,048	39,905
5	Unsecured wholesale funding, of which:	654,066	233,262
6	- Operational deposits (all counterparties) and deposits in networks of cooperative banks	616,771	195,966
7	- Non-operational deposits (all counterparties)	37,296	37,296
8	- Unsecured debt	-	-
9	- Secured wholesale funding	-	-
10	Additional requirements, of which	1,899	190
11	- Outflows related to derivative exposures and other collateral requirements	-	-
12	- Outflows related to loss of funding on debt products	-	-
13	- Credit and liquidity facilities	1899	190
14	Other contractual funding obligations	-	-
15	Other contingent funding obligations	281,348	14,067
16	**TOTAL CASH OUTFLOWS**	-	293,272
Cash Inflows			
17	Secured lending (e.g., reverse repos)		
18	Inflows from fully performing exposures	113,653	56,826
19	Other cash inflows	167,630	24,102
20	**TOTAL CASH INFLOWS**	281,283	80,928
			Total Adjusted Value
21	**TOTAL HQLA**		275,941
22	**TOTAL NET CASH OUTFLOWS**		212,344
23	**LIQUIDITY COVERAGE RATIO (%)**		130

The detailed NSFR disclosures are provided below:

		Consolidated				
		Unweighted value by residual maturity				
	ASF Item	No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted Value
1	**Capital:**	502,218	-	-	-	502,218
2	Regulatory capital	502,218	-	-	-	502,218
3	Other capital instruments	-	-	-	-	-
4	**Retail deposits and deposits from small business customers**	208,585	29,347	20,712	770,586	945,621
5	Stable deposits	-	-	-	181,439	172,367
6	Less stable deposits	208,585	29,347	20,712	589,147	773,254
7	**Wholesale funding:**	581,986	494,220	295,513	120,840	806,700
8	Operational deposits	3,430	342,194	-	-	172,812
9	Other wholesale funding	578,556	152,025	295,513	120,840	633,887
10	Liabilities with matching interdependent assets					
11	**Other liabilities:**					
12	NSFR derivative liabilities					
13	All other liabilities and equity not included above	-	-	-	593,884	483,264
14	**Total ASF**					2,737,803
	RSF Item	**No maturity**	**< 6 months**	**6 months to < 1yr**	**≥ 1yr**	**Weighted Value**
15	Total NSFR high-quality liquid assets (HQLA)					
16	Deposits held at other financial institutions for operational purposes	68,879	-	-	-	5,654
17	**Performing loans and securities:**	25,266	385,089	260,895	2,442,541	2,174,101
18	Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	61,921	3,096
19	Performing loans to financial institutions secured by non- Level 1 HQLA and unsecured performing loans to financial institutions	-	60,517	11,877	-	15,016
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which	25,266	324,572	249,017	1,555,675	1,619,774
21	-With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk	-	-	-	65,000	42,250
22	Performing residential mortgages, of which:	-	-	-	759,945	493,964
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	-	-	759,945	493,964
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities					
25	Assets with matching interdependent liabilities					
26	**Other Assets:**	121,754	9,078	123,669	-	265,700
27	Physical traded commodities, including gold					
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs					
29	NSFR derivative assets					
30	NSFR derivative liabilities before deduction of variation margin posted					
31	All other assets not included in the above categories	121,754	9,078	123,669	-	265,700
32	Off-balance sheet items		0	0	159,683	21,704
33	**Total RSF**					2,467,160
34	**Net Stable Funding Ratio (%)**					111

		Parent Company				
		Unweighted value by residual maturity				
	ASF Item	**No maturity**	**< 6 months**	**6 months to < 1yr**	**≥ 1yr**	**Weighted Value**
1	**Capital:**	499,769	-	-	-	499,769
2	Regulatory capital	499,769	-	-	-	499,769
3	Other capital instruments	-	-	-	-	-
4	**Retail deposits and deposits from small business customers**	-	-	-	668,166	610,422
5	Stable deposits				181,439	172,367
6	Less stable deposits				486,727	438,055
7	**Wholesale funding:**	226,174	460,787	262,081	-	474,521
8	Operational deposits	-	342,194			171,097
9	Other wholesale funding	226,174	118,593	262,081		303,424
10	Liabilities with matching interdependent assets					
11	**Other liabilities:**					
12	NSFR derivative liabilities					
13	All other liabilities and equity not included above	-	-	-	593,884	483,264
14	**Total ASF**					2,067,976
	RSF Item	**No maturity**	**< 6 months**	**6 months to < 1yr**	**≥ 1yr**	**Weighted Value**
15	Total NSFR high-quality liquid assets (HQLA)					
16	Deposits held at other financial institutions for operational purposes					5,654
17	**Performing loans and securities:**	22,752	379,439	129,644	1,658,151	1,564,000
18	Performing loans to financial institutions secured by Level 1 HQLA					
19	Performing loans to financial institutions secured by non- Level 1 HQLA and unsecured performing loans to financial institutions		60,517	11,877	-	15,016
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which	22,752	318,922	117,767	1,207,323	1,255,945
21	-With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk					
22	Performing residential mortgages, of which:				450,828	293,038
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk				450,828	293,038
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities					
25	Assets with matching interdependent liabilities					
26	**Other Assets:**	228,898	9,078	5,939	-	255,114
27	Physical traded commodities, including gold					
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs					
29	NSFR derivative assets					
30	NSFR derivative liabilities before deduction of variation margin posted					
31	All other assets not included in the above categories	228,898	9,078	5,939		255,114
32	Off-balance sheet items					13,720
33	**Total RSF**					1,838,489
34	**Net Stable Funding Ratio (%)**					112

Basel III capital and liquidity disclosures are prepared in accordance with CBO Circular BM 1114 'Regulatory Capital and Composition of Capital Disclosure Requirements under Basel III' issued on 17 November 2013, CBO circular dated March 20, 2018 and BM 1127 'Basel III – Framework on Liquidity Coverage Ratio (LCR) and LCR disclosure standard" issued on 24 December 2014, respectively. The NSFR disclosure has been prepared in accordance to CBO Circular reference BM 1147 dated 26 October 2016. The Bank's disclosure on leverage was prepared as per CBO circular on leverage ratio, issued on 27 August 2017 and CBO circular No. BM 1157 on Implementation of Basel III Leverage Ratio Standard dated 30 December 2018.

Sulaiman Hamad Al Harthi
Chief Executive Officer

Independent Auditor's Report to the Shareholders on Financial Statements

ANNUAL REPORT

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Independent auditors' report

To the Shareholders of Oman Arab Bank SAOG

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matters (continued)

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

See notes 3.2, 4.1, 7 and 39 to the consolidated and separate financial statements.

The key audit matter	How the matter was addressed in our audit
We focused on this area because: of the significance of loans, advances and financing representing 83% of the Group [Bank's: 80%] of total assets; impairment allowance on loans, advances and financing subject to credit risk involves: complex estimates and judgement over both timing and recognition of impairment including susceptibility to management bias; use of statistical models and methodologies for determination of expected credit losses. The Bank exercises significant judgments and makes a number of assumptions in developing its expected credit loss ("ECL") model which is determined as a function of the assessment of the probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD") associated with the underlying financial assets subject to ECL; and complex disclosure requirements regarding credit quality of the portfolio including explanation of key judgments and material inputs used in determination of expected credit losses: The need to measure ECLs on an unbiased forward-looking basis incorporating a range of economic conditions. Significant management judgment is applied in determining the economic scenarios used and the probability weights applied to them; and	Our procedures, amongst others, included: Evaluating the appropriateness of the accounting policies adopted based on the requirements of IFRS 9, regulatory guidance, our business understanding and industry practice. Confirming our understanding of management's processes, systems and controls over the ECL process. Control testing We performed process walkthroughs to identify the key systems, applications and controls associated with the ECL calculation process. Key aspects of our control testing involved the following: Testing controls over the transfer of data between underlying source systems and the ECL model that the Bank operates. Performing a detailed credit risk assessment for a sample of performing corporate loans, advances and financing to test controls over the credit rating and monitoring process. Testing controls over the review and approval of post model adjustments and management overlays and the governance process over such overlays. Testing controls over the modelling process, including governance over model monitoring, validation and approval. Tests of details Key aspects of our testing involved: Reviewing a sample of credit files for performing accounts and evaluating the financial performance of the borrower, source of repayment and eligible collateral and on this basis assess the appropriateness of credit rating and staging. Sample testing over key data inputs used in estimating the ECL and assessing the completeness, accuracy and relevance of data used.

Key Audit Matters (continued)	
Impairment allowance on loans, advances and financing subject to credit risk	
See notes 3.2, 4.1, 7 and 39 to the consolidated and separate financial statements.	
Adjustments to the ECL model results are made by management to address known impairment model limitations or emerging trends or risks. The assumptions regarding the economic outlook are more uncertain due to COVID-19 which, combined with government response (e.g., deferral programs, government stimulus package and restructuring of certain loans, advances and financing of the Bank), increases the level of judgement required by the Bank in calculating the ECL.	Re-performing key elements of the Bank's model calculations and assessing performance results for accuracy. Sample testing over factors used to determine whether significant increase in credit risk has been appropriately identified. Selecting a sample of post model adjustments and management overlays in order to assess the reasonableness of the adjustments by challenging key assumptions, testing the underlying calculation and tracing a sample back to source data. Assessing the adequacy of provisions against individually impaired loans, advances and financing (stage 3) in accordance IFRS 9. Use of specialists For the relevant portfolios examined, we have involved KPMG specialist to assist us in challenging key management assumptions used in estimating expected credit losses. Key aspects of their involvement included the following: We involved our Information Technology Risk Management (IRM) specialists to test the relevant General IT and Application Controls over key systems used for data extraction as part of the ECL calculation process. We involved our Financial Risk Management (FRM) specialists in: Evaluating the appropriateness of the Bank's ECL methodologies (including the staging criteria used); On a test check basis, re-performing the calculation of certain components of the ECL model (including the staging criteria); Evaluating the appropriateness of the Bank's methodology for determining the economic scenarios used and the probability weights applied to them; and Evaluating the overall reasonableness of the management forward-looking estimates by comparing it to external market data and our understanding of the underlying sector and macroeconomic trends.

Key Audit Matters (continued)	
Impairment allowance on loans, advances and financing subject to credit risk	
See notes 3.2, 4.1, 7 and 39 to the consolidated and separate financial statements.	
	Disclosures We assessed the adequacy of the Bank's disclosure in relation to use of significant estimates and judgement and credit quality of loans, advances and financing by reference to the requirements of IFRS 9.

Other Information

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

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

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

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

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

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

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

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

Those charged with Governance are responsible for overseeing the Group's and the Bank's financial reporting process.

Auditors’ Responsibilities for the Audit of the Consolidated and Separate Financial Statements

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

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

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

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

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

— Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements.

We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

Ravikanth Petluri

6 March 2023

KPMG

KPMG LLC

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

CR No. 1358131
Tax Card No. 8063052

Financial Statements

ANNUAL REPORT

STATEMENT OF FINANCIAL POSITION
as at 31 December 2022

		Consolidated		Parent Company	
		31-Dec-22	31-Dec-21	31-Dec-22	31-Dec-21
	Note	RO'000	RO'000	RO'000	RO'000
Cash and balances with central bank	5	**99,913**	188,904	**31,034**	105,954
Due from banks	6	**53,671**	50,972	**48,161**	54,480
Loans, advances and financing to customers	7	**3,067,063**	2,753,434	**2,164,984**	1,961,011
Investment securities	8	**331,656**	302,496	**268,426**	240,031
Investment in subsidiary	9	**-**	-	**107,144**	107,144
Property and equipment	10	**38,496**	43,303	**35,659**	40,337
Intangible assets	11	**6,900**	7,210	**-**	-
Other assets	12	**84,131**	89,340	**55,454**	59,358
Total assets		**3,681,830**	3,435,659	**2,710,862**	2,568,315
Due to banks	13	**94,141**	13,359	**59,101**	13,359
Customer deposits	14	**2,992,180**	2,810,412	**2,089,284**	1,965,197
Other liabilities	15	**94,496**	84,498	**71,114**	66,064
Subordinated loans	16	**-**	-	**-**	-
Taxation	17	**3,412**	3,051	**3,412**	3,051
Total liabilities		**3,184,229**	2,911,320	**2,222,911**	2,047,671
Share capital	18	**166,941**	166,941	**166,941**	166,941
Share premium	20	**36,565**	36,565	**36,565**	36,565
Legal reserve	21	**48,570**	46,921	**47,506**	46,482
General reserve	22	**25,560**	25,560	**25,560**	25,560
Subordinated loans reserve	23	**-**	-	**-**	-
Special reserve	24	**3,837**	3,837	**3,837**	3,837
Fair value reserve		**(3,160)**	(1,081)	**(3,110)**	(1,017)
Impairment reserve	39	**9,130**	9,130	**9,130**	9,130
Retained earnings		**71,355**	67,663	**62,719**	64,343
Shareholders' equity		**358,798**	355,536	**349,148**	351,841
Perpetual Tier 1 capital bonds	25	**138,803**	168,803	**138,803**	168,803
Total equity		**497,601**	524,339	**487,951**	520,644
Total equity and liabilities		**3,681,830**	3,435,659	**2,710,862**	2,568,315
Net assets value per share (RO)	34	**0.215**	0.213	**0.209**	0.211
Contingent liabilities and commitments	35	**393,241**	451,183	**272,193**	344,920

The financial statements were authorised on 6 March 2023 for issue in accordance with a resolution of the Board of Directors and signed by:

Chairman

Director

Chief Executive Officer

The accompanying notes from 1 to 43 form an integral part of these consolidated and separate financial statements.

Statement of Comprehensive Income
for the year ended 31 December 2022

		Consolidated		Parent Company	
		2022	2021	2022	2021
	Note	RO'000	RO'000	RO'000	RO'000
Interest income	26	**127,085**	119,054	**127,100**	119,058
Interest expense	27	**(52,616)**	(49,613)	**(52,616)**	(49,613)
Net interest income		**74,469**	69,441	**74,484**	69,445
Net income from Islamic financing	28	**25,683**	21,221	**-**	-
Net fee and commission income	29	**17,836**	12,514	**14,204**	9,371
Net income from investment securities	30	**223**	3,338	**223**	3,338
Other operating income	31	**4,365**	11,481	**3,773**	9,908
Total income		**122,576**	117,995	**92,684**	92,062
Operating expenses	32	**(74,776)**	(74,780)	**(55,181)**	(56,856)
Net allowances for credit losses	39.1.2	**(30,344)**	(35,214)	**(26,871)**	(31,179)
Profit before tax		**17,456**	8,001	**10,632**	4,027
Income tax expense	17	**(1,275)**	(920)	**(392)**	(983)
Net Profit for the year		**16,181**	7,081	**10,240**	3,044
Other comprehensive (loss) / income					
Items that will not be reclassified to profit or loss in the subsequent years					
- Equity investment at FVOCI – net change in fair value		**36**	197	**17**	197
Items that are or may be reclassified to profit or loss in the subsequent years					
- Debt investment at FVOCI – net change in fair value		**(2,168)**	(571)	**(2,163)**	(238)
Other comprehensive loss for the year		**(2,132)**	(374)	**(2,146)**	(41)
Total comprehensive income for the year		**14,049**	6,707	**8,094**	3,003
Earnings per share:					
Basic and diluted (RO)	33	**0.003**	(0.002)	**(0.0003)**	(0.004)

The accompanying notes from 1 to 43 form an integral part of these consolidated and separate financial statements.

Statement of Changes in Equity
for the year ended 31 December 2022

Consolidated	Notes	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	General reserve RO'000	Subordinated loan reserve RO'000	Special reserve RO'000	Fair value reserve RO'000	Impairment reserve RO'000	Retained earnings RO'000	Sub total RO'000	Perpetual Tier 1 capital bonds RO'000	Total RO'000
Balance at 1 January 2021		166,941	36,565	46,178	25,560	20,000	3,837	(1,793)	9,130	52,606	359,024	72,553	431,577
Net Profit for the year		-	-	-	-	-	-	-	-	7,081	7,081	-	7,081
Unrealised loss on FVOCI investments		-	-	-	-	-	-	(374)	-	-	(374)	-	(374)
Realised loss on FVOCI investments		-	-	-	-	-	-	1,086	-	(1,086)	-	-	-
Total comprehensive income		-	-	-	-	-	-	712	-	5,995	6,707	-	6,707
Dividends paid	19	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to legal reserve	21	-	-	743	-	-	-	-	-	(743)	-	-	-
Additional Tier 1 capital bonds	25	-	-	-	-	-	-	-	-	-	-	96,250	96,250
Issuance cost of Perpetual Tier 1 capital	25	-	-	-	-	-	-	-	-	(1,008)	(1,008)	-	(1,008)
Interest on Perpetual Tier 1 capital bonds	25	-	-	-	-	-	-	-	-	(9,187)	(9,187)	-	(9,187)
Transfer to retained earnings		-	-	-	-	(20,000)	-	-	-	20,000	-	-	-
At 31 December 2021		166,941	36,565	46,921	25,560	-	3,837	(1,081)	9,130	67,663	355,536	168,803	524,339

The accompanying notes from 1 to 43 form an integral part of these consolidated and separate financial statements.

Statement of Changes in Equity
for the year ended 31 December 2022

Consolidated	Notes	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	General reserve RO'000	Subordi-nated loan reserve RO'000	Special reserve RO'000	Fair value reserve RO'000	Impair-ment reserve RO'000	Retained earnings RO'000	Sub total RO'000	Perpetual Tier 1 capital bonds RO'000	Total RO'000
Balance at 1 January 2022		166,941	36,565	46,921	25,560	-	3,837	(1,081)	9,130	67,663	355,536	168,803	524,339
Net Profit for the year		-	-	-	-	-	-	-	-	16,181	16,181	-	16,181
Unrealised loss on FVOCI investments		-	-	-	-	-	-	(2,132)	-	-	(2,132)	-	(2,132)
Realised loss on FVOCI investments		-	-	-	-	-	-	53	-	(53)	-	-	-
Total comprehensive income		-	-	-	-	-	-	(2,079)	-	16,128	14,049	-	14,049
Dividends paid	19	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to legal reserve	21	-	-	1,649	-	-	-	-	-	(1,649)	-	-	-
Redemption of Tier 1 bonds	25	-	-	-	-	-	-	-	-	-	-	(30,000)	(30,000)
Additional Tier 1 capital bonds	25	-	-	-	-	-	-	-	-	-	-	-	-
Issuance cost of Perpetual Tier 1 capital	25	-	-	-	-	-	-	-	-	(62)	(62)	-	(62)
Interest on Perpetual Tier 1 capital bonds	25	-	-	-	-	-	-	-	-	(10,725)	(10,725)	-	(10,725)
Transfer to retained earnings		-	-	-	-	-	-	-	-	-	-	-	-
At 31 December 2022		166,941	36,565	48,570	25,560	-	3,837	(3,160)	9,130	71,355	358,798	138,803	497,601

The accompanying notes from 1 to 43 form an integral part of these consolidated and separate financial statements.

Statement of Changes in Equity
for the year ended 31 December 2022

Parent Company	Notes	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	General reserve RO'000	Subordi-nated loan reserve RO'000	Special reserve RO'000	Fair value reserve RO'000	Impair-ment reserve RO'000	Retained earnings RO'000	Sub total RO'000	Perpetual Tier 1 capital bonds RO'000	Total RO'000
Balance at 1 January 2021		166,941	36,565	46,178	25,560	20,000	3,837	(2,062)	9,130	52,884	359,033	72,553	431,586
Net Profit for the year		-	-	-	-	-	-	-	-	3,044	3,044	-	3,044
Unrealised loss on FVOCI investments		-	-	-	-	-	-	(41)	-	-	(41)		(41)
Realised loss on FVOCI investments		-	-	-	-	-	-	1,086	-	(1,086)	-	-	-
Total comprehensive income		-	-	-	-	-	-	1,045	-	1,958	3,003	-	3,003
Dividends paid	19	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to legal reserve	21	-	-	304	-	-	-	-	-	(304)	-	-	-
Additional Tier 1 capital bonds	25	-	-	-	-	-	-	-	-	-	-	96,250	96,250
Issuance cost of Perpetual Tier 1 capital	25	-	-	-	-	-	-	-	-	(1,008)	(1,008)	-	(1,008)
Interest on Perpetual Tier 1 capital bonds	25	-	-	-	-	-	-	-	-	(9,187)	(9,187)	-	(9,187)
Transfer to retained earnings		-	-	-	-	(20,000)	-	-	-	20,000	-	-	-
At 31 December 2021		166,941	36,565	46,482	25,560	-	3,837	(1,017)	9,130	64,343	351,841	168,803	520,644

The accompanying notes from 1 to 43 form an integral part of these consolidated and separate financial statements.

Statement of Changes in Equity
for the year ended 31 December 2022

Parent Company	Notes	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	General reserve RO'000	Subordinated loan reserve RO'000	Special reserve RO'000	Fair value reserve RO'000	Impairment reserve RO'000	Retained earnings RO'000	Sub total RO'000	Perpetual Tier 1 capital bonds RO'000	Total RO'000
Balance at 1 January 2022		166,941	36,565	46,482	25,560	-	3,837	(1,017)	9,130	64,343	351,841	168,803	520,644
Net Profit for the year		-	-	-	-	-	-	-	-	10,240	10,240	-	10,240
Unrealised loss on FVOCI investments		-	-	-	-	-	-	2,146)	-	-	(2,146)	-	(2,146)
Realised loss on FVOCI investments		-	-	-	-	-	-	53	-	(53)	-	-	-
Total comprehensive income		-	-	-	-	-	-	(2,093)	-	10,187	8,094	-	8,094
Dividends paid	19	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to legal reserve	21	-	-	1,024	-	-	-	-	-	(1,024)	-	-	-
Redemption of Tier 1 bonds	25	-	-	-	-	-	-	-	-	-	-	(30,000)	(30,000)
Additional Tier 1 capital bonds	25	-	-	-	-	-	-	-	-	-	-	-	-
Issuance cost of Perpetual Tier 1 capital	25	-	-	-	-	-	-	-	-	(62)	(62)	-	(62)
Interest on Perpetual Tier 1 capital bonds	25	-	-	-	-	-	-	-	-	(10,725)	(10,725)	-	(10,725)
Transfer to retained earnings		-	-	-	-	-	-	-	-	-	-	-	-
At 31 December 2022		166,941	36,565	47,506	25,560	-	3,837	(3,110)	9,130	62,719	349,148	138,803	487,951

The accompanying notes from 1 to 43 form an integral part of these consolidated and separate financial statements.

Statement of Cash Flows
for the year ended 31 December 2022

	Notes	Consolidated 31-Dec-22 RO'000	Consolidated 31-Dec-21 RO'000	Parent Company 31-Dec-22 RO'000	Parent Company 31-Dec-21 RO'000
Operating activities:					
Profit before tax		**17,456**	8,001	**10,632**	4,027
Adjustments:					
Depreciation	32	**9,229**	10,202	**8,110**	8,475
Amortization	32	**310**	465		-
Impairment for credit losses		**30,344**	35,214	**26,871**	31,179
Income from investments at amortized cost	26, 28	**(15,974)**	(13,949)	**(12,933)**	(10,892)
Dividend income	30	**(256)**	(149)	**(256)**	(149)
Profit on sale of amortised cost investments	30	**-**	(3,120)	**-**	(3,120)
Bargain purchase gain	31b	**-**	(1,170)	**-**	-
Interest on subordinated loan	27	**-**	452	**-**	452
Changes in fair value of financial assets at FVTPL	30	**33**	(69)	**33**	(69)
Operating profit before working capital changes		**41,142**	35,877	**32,457**	29,903
Loans, advances and financing to customers		**(344,663)**	(144,187)	**(230,575)**	(54,208)
Due from banks		**-**	3,096	**-**	3,096
Other assets		**5,254**	(17,186)	**3,904**	(10,130)
Deposits from customers		**181,768**	55,102	**124,087**	(65,565)
Other liabilities		**9,983**	7,403	**5,078**	6,433
Cash used in operations		**(106,516)**	(59,895)	**(65,049)**	(90,471)
Tax paid		**-**	(2,405)	**-**	(2,405)
Net cash used in operating activities		**(106,516)**	(62,300)	**(65,049)**	(92,876)
Investing activities:					
Purchase of investments		**(39,531)**	(103,070)	**(35,584)**	(103,070)
Proceeds from sale of investments		**7,800**	42,709	**4,600**	41,592
Income from investments at amortized cost		**15,974**	13,949	**12,933**	10,892
Purchase of property and equipment		**(4,308)**	(6,785)	**(3,391)**	(6,218)
Dividend Income		**256**	149	**256**	149
Net cash used in investing activities		**(19,809)**	(53,048)	**(21,186)**	(56,655)
Financing activities:					
Proceeds from perpetual Tier 1 capital bonds		**-**	96,250	**-**	96,250
Perpetual Tier 1 capital bonds repayment		**(30,000)**	-	**(30,000)**	-
Subordinated loan repayment		**-**	(20,000)	**-**	(20,000)
Interest on subordinated loan		**-**	(452)	**-**	(452)
Interest on Perpetual Tier 1 capital bonds		**(10,725)**	(9,187)	**(10,725)**	(9,187)
Additional Tier 1 issuance cost		**(62)**	(1,008)	**(62)**	(1,008)
Dividends paid		**-**	-	**-**	-
Net cash (used in) / generated from financing activities		**(40,787)**	65,603	(40,787)	65,603
Net decrease in cash and cash equivalents		**(167,112)**	(49,745)	**(127,022)**	(83,928)
Cash and cash equivalents at the beginning of the year		**215,566**	265,311	**136,648**	220,576
Cash and cash equivalents at the end of the year	36	**48,454**	215,566	**9,626**	136,648

The accompanying notes from 1 to 43 form an integral part of these consolidated and separate financial statements.

Notes to the Financial Statements
for the year ended 31 December 2022

1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

Oman Arab Bank SAOG (the Parent Company or the Bank) was incorporated in the Sultanate of Oman on 1 October 1984 as a closed joint stock company (SAOC). On 6 July 2020, Oman Arab Bank SAOC acquired Al Izz Islamic Bank SAOC (AIB) and become a public joint stock company (SAOG) and was listed on the Muscat Stock Exchange (MSX). The Parent Company is principally engaged in commercial and investment banking activities through a network of branches in the Sultanate of Oman. The registered head office of the Bank is North Al Ghoubra, P.O. Box 2240, Al-Udhayabah, Postal Code 130, Muscat, Sultanate of Oman. The Parent Company was a subsidiary of Oman International Development and Investment Company SAOG up to 29 June 2020. On 30 June 2020, Oman Arab Bank SAOG became a subsidiary of Arab Bank PLC, an entity listed in Jordan.

The consolidated financial statements as at and for the year ended 31 December 2022 comprises the results of the Parent Company and Al Izz Islamic Bank (AIB) (the Subsidiary). The details of the subsidiary are provided in note 9.

The Subsidiary prepares its own separate set of financial statements in accordance with Financial Accounting Standards ("FAS") issued by Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Sharia Rules and Principles as determined by the Sharia Supervisory Board (the "SSB") and other applicable requirements of the CBO. The Subsidiary's financial statements are then converted into International Financial Reporting Standards (IFRS) compliant financial statements and included in these consolidated financial statements.

The Parent Company and the Subsidiary together are referred to as 'the Group' or 'the Bank'.

2. BASIS OF PREPARATION

2.1. Statement of compliance

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

The CMA requires that all Public Joint Stock Companies to disclose the financial statements of the Parent Company in a separate column in the consolidated financial statements (via circular E/2/2007 from 21 January 2007).

The Bank presents its statement of financial position in descending order of liquidity, as this presentation is more appropriate to the Bank's operations.

2.2. Basis of measurement

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

2.3. Functional and presentation currency

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

2. BASIS OF PREPARATION (CONTINUED)

2.4. Use of estimates and judgments

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

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

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

2.5. New and amended standards and interpretations to IFRS relevant to the Bank

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 is RO 0.275 million and the deductible temporary difference in relation to the lease liability is RO 0.222 million, resulting in a net deferred tax liability of RO 0.053 million (see Note 17). Under the amendments, the Bank will present a separate deferred tax liability of RO 0.275 million and a deferred tax asset of RO 0.222 million. There will be no impact on retained earnings on adoption of the amendments.

2. BASIS OF PREPARATION (CONTINUED)

2.6. Standards issued but not yet effective (continued)

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).
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16).
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).

2.7. Consolidation

The consolidated financial statements comprise the financial statements of Oman Arab Bank SAOG ("Parent Company") and its fully owned subsidiary as at 31 December 2022. The Bank owns 100% of the equity in AIB and has control of the subsidiary. IFRS 10 introduces a control model that focuses on whether the Bank has power over the investee, exposure or rights to variable returns from its investment with the investee and the ability to use its power to affect those returns.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

a) Business combinations

The Group accounts for business combination using the acquisition method, when the acquired set of activities meet the definition of a business and control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identified net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in the statement of profit or loss immediately. Transaction cost are expensed as incurred, except if related to the issue of debt or equity securities.

b) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statement from the date on which control commences until the date when control ceases. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group acquires control until the date when the Group ceases to control the subsidiary.

2. BASIS OF PREPARATION (CONTINUED)

2.7. Consolidation (continued)

c) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

d) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

e) Non-controlling interests (NCI)

NCI are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all the years presented in these financial statements. The significant accounting policies adopted in preparation of these financial statements are as follows:

3.1. Financial Instruments

3.1.1. Recognition

All financial instruments are recognised initially at fair value plus or minus, for instruments not measured at FVTPL, transaction costs that are directly attributable to the acquisition or issuance. For FVTPL instruments, the transaction costs are expensed into profit or loss. Fair value is the price that would be received to sell an asset or paid to transfer a liability (transaction price) in an orderly transaction between market participants at the measurement date. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the difference, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Loans and advances, deposits, debt securities issued and subordinated liabilities are initially recognised 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.

All regular way purchases and sales of financial assets are recognised on the settlement date, i.e., the date the asset is delivered to or received from the counterparty. Regular way purchases or sales of financial assets are those that require delivery of assets within the time frame generally established by regulation or convention in the marketplace.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1. Financial Instruments (continued)

3.1.2. Classification and measurement

Financial assets are classified into one of the following categories:

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

a) Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions. Example of these assets are most of loans & advances, due from banks and some debt securities.

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payment of Principal and Interest ("SPPI").

These instruments are initially measured at fair value plus direct transaction cost and subsequently at amortised cost using the effective interest rate method.

b) Debt securities measured at FVOCI

A financial asset is measured at FVOCI only if it meets both of the following conditions. This category comprises primary debt securities.

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

Gains and losses for these securities 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;
- Expected credit loss (ECL) and reversals; and
- Foreign exchange gains and losses.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1. Financial Instruments (continued)

3.1.2. Classification and measurement (continued)

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 management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. 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 Group's original expectations, the Group 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 where 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.

Cash Flow Characteristic Test – 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 and for other basic lending risks and costs (e.g., liquidity risk and administrative costs), as well as profit margin.

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

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

The Bank holds a portfolio of 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 the minimum 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1. Financial Instruments (continued)

3.1.2. Classification and measurement (continued)

c) Equity investments at FVTPL

All equity investments are measured at fair value through profit or loss, except for those investments for which the bank has elected to present value changes in other comprehensive income at initial recognition (see point d below). 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.

d) Equity instruments at FVOCI

At initial recognition, the bank may elect to classify some equity instruments, which are not held for trading, as equity instruments measured at FVOCI. This election is made on an instruments-by instrument basis, available only at initial recognition and is irrevocable. Gains and losses on these equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

e) Financial instruments designated at FVTPL

Financial assets and financial liabilities in this category are those that are held for trading and have been either designated by the bank upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. The bank can only designate 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, available only at initial recognition and is irrevocable.

The designation removes or significantly reduces an accounting mismatch;
When a group of financial assets and liabilities or a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; and
Where the financial liability contains one or more non-closely related embedded derivatives.

f) Financial guarantees, letters of credit and undrawn loan commitments

Financial guarantees are initially recognised in the financial statements at fair value (with provisions), 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 income statement in 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1. Financial Instruments (continued)

3.1.2. Classification and measurement (continued)

g) 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 re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Bank designates certain derivatives as either:

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 profit or loss within 'Other operating income'.

Fair value hedge

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 hedge

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)

3.1. Financial Instruments (continued)

3.1.2 Classification and measurement (continued)

h) Financial liabilities

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

3.1.3. Reclassifications

Financial assets should not be reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

3.1.4. Derecognition

a) 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 when:

- The rights to receive cash flows from the financial asset have expired; or
- The bank has transferred its contractual 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:
  - The bank has transferred substantially all the risks and rewards of the asset; or
  - 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 and has retained control of the asset, the asset continues to be recognised only to the extent of the bank's continuing involvement in the asset. In such 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 the Group could be required to repay. If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Pass-through arrangements are transactions whereby the bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates.
- The bank cannot sell or pledge the original asset other than as security to the eventual recipients.
- The bank must remit any cash flows it collects on behalf of the eventual recipients without material delay.

In addition, the bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1. Financial Instruments (continued)

3.1.4. Derecognition (continued)

a) Financial assets (continued)

De-recognition due to substantial modification of terms and conditions

If the terms of a financial asset are modified, 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 such case, the original financial asset is derecognised and a new financial asset is recognised at fair value. An example to that would be a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes unless the new loan is deemed to be purchased or originated credit impaired ("POCI").

When assessing whether to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan.
- Introduction of an equity feature.
- Change in counterparty.
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss (see point 3.1.5 below), to the extent that an impairment loss has not already been recorded.

b) Financial liabilities

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

3.1.5. Modifications of financial assets and financial liabilities

a) Financial assets

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. 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.

If the terms of a financial asset are modified because of financial difficulties of the borrower and the asset is not derecognised, then impairment of the asset is measured using the pre-modification interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1. Financial Instruments (continued)

3.1.5. Modification of financial assets and financial liabilities (continued)

b) Financial liabilities

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. 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.

3.1.6. Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

3.1.7. Amortised cost measurement

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

3.1.8. Fair value measurement

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1. Financial Instruments (continued)

3.1.8. Fair value measurement (continued)

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

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

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

At each reporting date, the Bank analyses the movements in the values of assets and liabilities which are required to be re-measured. For this analysis, the Bank verifies the major inputs applied in the latest valuation by agreeing the information in the Valuation computation to contracts and other relevant documents. The Bank also compares 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.

3.2. Impairment

Loss allowances are recognised for ECL on the following financial instruments where they are not measured at FVTPL:

- Financial assets measured at amortised cost;
- Debt investments measured at FVOCI;
- Loan commitments when there is a present obligation to extend credit; and
- Financial guarantee contracts issued.

a) 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;
- Unutilized 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2. Impairment (continued)

b) General approach

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 (SICR) 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 LTECL that represent the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12-month ECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

Reasonable and supportable information, that is relevant and available without undue cost or effort, is considered when assessing whether a financial instrument's credit risk has increased significantly since initial recognition. This includes both quantitative and qualitative information and analysis, based on the historical experience and expert credit assessment and including forward-looking information.

All financial assets are classified into Stage 1, Stage 2, and Stage 3, as described below:

Stage 1:

Financial instruments for which 12-month ECL are recognised are referred to as 'Stage 1 financial instruments'. Financial instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit-impaired. 12-month ECL are the portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Stage 2:

Financial instruments for which lifetime ECL are recognised but that are not credit-impaired are referred to as 'Stage 2 financial instruments'. Financial instruments allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired. Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure.

Stage 3:

Financial instruments for which lifetime ECL are recognised and that are credit-impaired are referred to as 'Stage 3 financial instruments'.

c) The calculation of ECL

ECL is calculated based on 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 to the bank in accordance with the contract and the cash flows that the bank expects to receive. The key elements for the ECL calculations are as follows:

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2. Impairment (continued)

(c) The calculation of ECL (continued)

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

ECL is then calculated based on the below:
- 12 month ECL = 12 month PD X LGD X EAD
- Lifetime ECL = Lifetime PD X LGD X EAD

d) Restructured financial assets

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

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

e) Credit-impaired financial assets

At each reporting date, financial assets carried at amortised cost and debt financial assets carried at FVOCI are assessed if they 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2. Impairment (continued)

f) 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; 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 and included in other liabilities.

g) Experienced credit judgement

The Bank's ECL allowance methodology requires the Group to use its experienced credit judgement to incorporate the estimated impact of factors not captured in the modelled ECL results, in all reporting years.

h) 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.

3.2.1. Impairment of financial assets

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:
- The Bank's internal credit grading model
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime Expected Credit Losses (LTECL) basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD)
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

The bank reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the profit or loss, the Bank makes judgements as to whether there is any observable data indicating an impairment followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified within that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers and or national or local economic conditions that correlate with defaults on assets in the Bank. The management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2. Impairment (continued)

3.2.1. Impairment of financial assets (continued)

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed yearly to reduce any difference between loss estimates and actual loss experience. For individually significant loans and advances which are impaired, the necessary impairment loss is considered based on the future cash flow estimates. Individually significant loans and advances which are not impaired and all individually insignificant loans and advances are then assessed collectively considering historical experience and observable data on a portfolio basis, in groups of assets with similar risk characteristics to determine whether collective impairment loss to be made. In determining collective impairment loss, the Bank takes into account several factors including credit quality, concentration risk, levels of past due, sector performance, available collateral and macro-economic conditions.

3.2.2. Impairment of non-financial assets

The bank assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the bank estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the profit or loss.

3.3. Renegotiated loans and modification of loans

Where possible, the bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate. Modification of loans is accounted according to IFRS 9. IFRS 9 contains guidance on non-substantial modifications and the accounting in such cases. It states that costs or fees incurred are adjusted against the instruments are amortised over the remaining term. Adjustments to amortised cost in such cases should be recognised in profit or loss, according to which the liability should be restated to its revised future cash flows discounted by the original EIR. For substantial modification, the initial liability has to be extinguished and a new liability recognised at its fair value as of the date of the modification, using the effective market interest rate. The difference between this initial fair value of the new liability and the carrying amount of the liability derecognised is recognised as a gain or loss upon extinguishment. All fees incurred are immediately expensed.

3.4. 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. Restricted bank balances and deposits which are not available to meet Bank's short-term commitments are excluded from cash and cash equivalents.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5. Due from banks

These are stated at amortised cost, less any amounts written off and provisions for impairment. Due from banks include Nostro balances, placements and loans to banks.

3.6. Investment in subsidiary

In Parent Company financial statements, investment in subsidiary is stated at cost, less any impairment in the value of the investments. Dividend income from subsidiary is accounted in the year in which entitlement is established.

3.7. Repurchase and resale agreements

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

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

3.8. Collateral pending sale

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

3.9. Fiduciary assets

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

3.10. Property and equipment

Property and equipment are initially recorded at cost and are subsequently carried at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation on the assets except land is calculated using the straight-line basis to allocate their cost over the estimated useful lives, as follows:

Item	Years
Building	25
Leasehold improvements	Shorter of lease period or 5-10
Equipment, furniture and fixtures	5-10
Computer equipment and Software	5
Motor vehicles	5

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the profit or loss when the expense is incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the profit or loss as an expense as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11. Leases

The bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a year of time in exchange for consideration.

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset.

a) Bank as a lessee

The bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

b) Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term. Leases are recorded as liabilities, at the present value of the future lease payments, along with an asset reflecting the right of use asset (ROU) over the lease term.

- Lease terms, lease payments to be made over time and incremental borrowing rate will be identified from lease agreements.
- The right of use asset will be depreciated to zero based on the useful life of the leased asset. This may or may not be the same date as the accounting lease end date.
- The right-of-use assets are subject to impairment in line with the Bank's policy as described in Impairment of non-financial assets.
- Lease term: The lease term is within the range between the non-cancellable period and the enforceable period. It is typically for 1 to 5 years. The lease term is the non-cancellable period of the lease together with:
  - Optional renewable periods if the bank is reasonably certain to extend; and
  - Periods after an optional termination date if the lessee is reasonably certain not to terminate early.
- Lease payments: A lessee includes the following payments relating to the use of the underlying asset in the measurement of the lease liability:
  - Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
  - Variable lease payments that depend on an index or a rate;
  - Amounts expected to be payable by the lessee under residual value guarantees;
  - The exercise price of a purchase option that the lessee is reasonably certain to exercise; and
  - Payments for terminating the lease if the lease term reflects early termination.
- Any fixed payments by the bank for property taxes and insurance are considered part of overall contract consideration to be allocated among the lease and non-lease components.
- Banks allocate the contract consideration to each lease and non-lease component based on its relative standalone price. Any variable payments that are not based on a rate or an index are excluded from the calculation of the overall contract consideration.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11. Leases (continued)

b) Right-of-use assets (continued)

- The impact of property taxes and insurance paid by the lessee depends on whether they are fixed or variable. If a lessee pays the actual amount of property taxes and insurance that are not in substance fixed and the payments are not based on an index or a rate, they are accounted for similar to other variable lease payments i.e., excluded from contract consideration and excluded from lease payments used for classification and initial measurement by both the lessee and the lessor. On the other hand, if a lessee pays a fixed amount of property taxes and insurance as part of rent payments, such payments are included in contract consideration and allocated to the lease and non-lease components by the lessee and lessor.

The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. When calculating the incremental borrowing rate, a lessee should consider the following:

- The rate calculated should be the rate at which the entity could borrow. The rate should not reflect the cost of equity finance and, as such, it would be inappropriate to use a WACC (or any other rate including a component 'cost of capital' alongside the cost of debt). Similarly, it would be inappropriate to use a transfer pricing rate (used for tax transfer pricing adjustments) because these are typically 'risk-free'. However, there might be scenarios in which these rates can be used as a starting point, provided that appropriate adjustments are made.
- The rate should reflect the amount that the entity could borrow over the term of the lease. It should be the rate at which an entity would borrow to acquire an asset of similar value to the right-of-use asset, rather than to acquire the entire underlying asset. An exception would be where the lease term is for substantially all of the life of the underlying asset.
- The rate should reflect that of a secured borrowing for a similar asset (being the right-of-use asset, not the underlying asset), rather than an unsecured borrowing or general line of credit.
- The rate should reflect the credit standing of the entity and the rate at which it would borrow in a similar economic environment.

If bank assess that the lease agreement will go on for longer period, than in the lease agreement i.e., the lease agreement will be extended then bank uses reasonably certain lease term to record ROU asset and lease Liability.

c) Lease modification

A lease modification is a change in the scope of a lease, or the consideration for a lease that was not part of its original terms and conditions. From a lease liability perspective, the key inputs that can be modified are:
- Lease payments
- Lease term

Lease Modification identified will be accounted for separately by using the deferral amount or term so that the lease in essence produce the same result as it would have if such modification was there from start of the lease period.

d) Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the year in which the event or condition that triggers the payment occurs.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11. Leases (continued)

e) Bank as a lessor

Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the year in which they are earned.

As of 31 December 2022 and 2021, the Bank is not a lessor in any of the lease arrangements.

3.12. 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.

3.13. Deposits

Deposits from banks and customers and subordinated liabilities are the Bank's sources of funding. All money market and customer deposits are carried at amortised cost using EIR.

3.14. Employee benefits

3.14.1. 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.

3.14.2. Short term benefits

Employee entitlements to annual leave and leave passage are recognized when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the reporting date.

3.14.3. Voluntary end of service benefits

Voluntary end of service benefits are recognised as an expense when the Bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if it is probable that the offer made by the Bank will be accepted, and the number of acceptances can be estimated reliably.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15. Provisions

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

3.16. Taxation

Income tax expense comprises current and deferred tax. Taxation is provided in accordance with Omani fiscal regulations.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustments to tax payable in respect of previous years.

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

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

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

3.17. Borrowings

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

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

3.18. Dividends on ordinary shares

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

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

3.19. 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 year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20. Directors' remuneration

The Board of Directors' remuneration is governed by the Commercial Companies Law of the Sultanate of Oman and the regulations issued by the Capital Market Authority. The Annual General Meeting determine and approve the remuneration and the sitting fees for the Board of Directors and its sub-committees within the limits specified in the aforementioned regulations.

3.21. Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank currently operates only in the Sultanate of Oman. The Bank's primary format for reporting segmental information is business segments, based upon management and internal reporting structure which are regularly reviewed by the Bank's chief operating decision maker (CODM). The Bank's main business segments are corporate, retail banking and Islamic financing.

3.22. Foreign currencies translation

Transactions in foreign currencies are translated into the respective functional currency using the spot exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange at the reporting date. Any resulting exchange differences are included in 'other income' in the statement of comprehensive income.

The non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date the fair value is determined. Foreign exchange differences arising on translation are recognised in the profit or loss, except for non-monetary financial assets, 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. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

3.23. Revenue and expense 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 should be met before revenue is recognised.

3.23.1. Interest income and expense

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.23. Revenue and expense recognition (continued)

3.23.1. Interest income and expense (continued)

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.

The 'amortised cost' of a financial asset or a financial liability is the amount at which the financial asset or the 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 or impairment 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.

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.

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.

Interest income and expense presented in the statement of profit or loss and OCI include:

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- Interest on debt instruments measured at FVOCI calculated on an effective interest basis;
- 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; and
- The effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.23. Revenue and expense recognition (continued)

3.23.2. Fee and commission income

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 to the customers, and are accounted for in accordance with IFRS 15 'Revenue from Contracts with Customers'. The standard introduces a five-step approach to revenue recognition.

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

The products and services of the bank covered under IFRS 15 along with its nature, timing of satisfaction of performance obligations and significant payment terms are as follows:

Products and services	Nature, timing of satisfaction of performance obligations and significant payment terms	Revenue Recognition
Transaction based services	Services provided include opening, closing and maintenance of accounts, cheque issuance, clearing, deposit and payments transactions, provision of overdraft facilities, foreign currency transactions, remittances, safe deposit lockers, cards, e-channel services like interchange and merchant services generated from card issuance and usage. Transaction-based fees are charged to the customer's account when the transaction takes place.	Revenue is recognized on completion of service or proportionate completion basis on satisfaction of performance obligation as per the terms of contract.
Trade services	The services cover issuance of letter of credit or guarantee, negotiations and other trade transactions. Trade services fees are charged to the customer's account when the services are provided or over the period of contract in line with the terms and conditions of contract.	Revenue is recognised on service completion basis or time proportionate basis over the period of contract.
Syndication and other loan related services	The services include processing for credit, setting up credit limits, documentation, security and agency services and prepayment and closure of credit facilities. Syndication and other loan related services charges are charged to the customer's account when the services are provided or over the period of contract in line with the terms and conditions of contract.	Revenue is recognised on completion of service basis or on time proportion basis.
Advisory services	Advisory services include advising for debt syndications, financial structuring etc. Advisory fees are charged to the customer's account on milestone completion basis or over the period of contract in line with the terms and conditions of contract.	Revenue is recognized on satisfaction of performance obligation at a point in time or over a period of time or on achievement of agreed milestones as per contract.

Fees integral to the effective interest rate (EIR) are included in the EIR calculation, and are recognised over the life of the financial instrument. This include fees integral to the origination of a financial instrument (fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability) and commitment fees (if it is probable that the bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination). The bank does not designate loan commitments as financial liabilities at fair value through profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.23. Revenue and expense recognition (continued)

3.23.2. Fee and commission income (continued)

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the bank retains no part of the loan package for itself, or retains a part at the same effective interest rate as for the other participants.

Fees and commissions arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis or based on a right to receive. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria. Wealth management fees, financial planning and custody services are recorded reliably over the period that the service is provided.

3.23.3. Dividend income

Dividend income is recognized when the right to receive payment is established.

3.24. Perpetual bonds

Perpetual Tier 1 Capital Securities of the Bank are recognised under equity and the corresponding distribution on those instruments are accounted for in the retained earnings. 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. The Tier 1 securities do not have a fixed redemption or final maturity date and are redeemable by the Bank at its sole discretion on the first call date or thereafter on interest payment or reset date, as mentioned in the contract.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires the management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years. The Bank's significant accounting estimates were on:

4.1. Impairment losses on financial assets

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows from collateral when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by number of factors, changes in which can result in different levels of allowances.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

4.1. Impairment losses on financial assets (continued)

The Bank's ECL calculations are outputs of complex models with number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime Expected Credit Losses (LTECL) basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on Probability of Default (PD), Exposure At Default (EAD) and Loss Given Default (LGD)
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the profit or loss, the Bank makes judgements as to whether there is any observable data indicating an impairment followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified within that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers and or national or local economic conditions that correlate with defaults on assets in the Bank. The management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed periodically to reduce any difference between loss estimates and actual loss experience. For individually significant loans and advances which are impaired, the necessary impairment loss is considered based on the future cash flow estimates. Individually significant loans and advances which are not impaired and all individually insignificant loans and advances are then assessed collectively considering historical experience and observable data on a portfolio basis, in groups of assets with similar risk characteristics to determine whether collective impairment loss to be made. In determining collective impairment loss, the Bank takes into account several factors including credit quality, concentration risk, levels of past due, sector performance, available collateral and macro-economic conditions.

4.2. Taxes

Uncertainties exist with respect to the interpretation of tax regulations and the amount and timing of future taxable income. The Bank establishes provisions, based on reasonable estimates, for 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 Bank and the relevant tax authority.

4.3. Going concern

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

4.4. Impact of COVID-19

Certain judgments were involved in determining the ECL impact of COVID-19 deferrals. For more information see Note 39.1.3.

4.5. Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the each reporting year. The Group uses expected cash flow analysis for various financial assets that are not traded in active markets.

4.6. Determination of lease term

The Group considers all facts and circumstances when determining the lease term. Extension options (or years that fall after the termination options) are included in the lease term only if there is reasonable certainty that the lease will be extended (or not terminated). The Bank considers the enforceability and nature of the extension clause in the lease agreement, the value of leasehold improvements, penalties levied, costs and business disruptions that would occur, should a change of location occur as factors to determine the lease term.

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

5. CASH AND BALANCES WITH CENTRAL BANK

	Consolidated		Parent Company	
	2022	2021	2022	2021
	RO' 000	RO' 000	RO' 000	RO' 000
Cash in hand	**27,769**	32,735	**21,711**	25,900
Balances with the Central Bank of Oman:				
- Clearing account	**46,763**	155,144	**7,202**	79,554
- Placements	**24,356**	-	**1,621**	-
- Capital deposit	**1,025**	1,025	**500**	500
Total	**99,913**	188,904	**31,034**	105,954

i) The capital deposit cannot be withdrawn without the approval of the Central Bank of Oman. The capital deposit earns an annual interest at 1.5% p.a. (2021:1.5%) for the Parent Company. The CBO does not pay any interest to the Islamic Banks in Oman; therefore, no such interest was earned by the Subsidiary during the year.

ii) During the year, average minimum balance to be kept with Central Bank of Oman as statutory reserves was RO 86 million (Consolidated), RO 60 million (Parent Company); [2021: RO 79 million (Consolidated), RO 58 million (Parent Company)].

iii) Cash and balances with Central Bank is classified under stage 1 as per IFRS 9. However, there are no expected credit losses and hence no provision has been recognised.

6. DUE FROM BANKS

	Consolidated		Parent Company	
	2022	2021	2022	2021
	RO' 000	RO' 000	RO' 000	RO' 000
Placements	**39,884**	29,902	**36,884**	35,677
Current accounts	**13,823**	21,144	**11,309**	18,876
Due from banks and other money market placements	**53,707**	51,046	**48,193**	54,553
Less: allowance for credit losses	**(36)**	(74)	**(32)**	(73)
Total	**53,671**	50,972	**48,161**	54,480

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

	Consolidated		Parent Company	
	2022	2021	2022	2021
	RO' 000	RO' 000	RO' 000	RO' 000
Balance at the beginning of the year	**74**	41	**73**	40
Charge / (release) during the year	**(38)**	33	**(41)**	33
Balance at the end of the year	**36**	74	**32**	73

At 31 December 2022, 61% (2021: 65%) of the Ba nk's placements were with banks rated in the range of Aa1 to Ba3 (2021: A1 to Baa2) and 37% (2021: 18%) of the placements were with Oman Housing Bank SAOC, which is owned by Government.

The credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and the year-end staging classification is disclosed in note 39 to the financial statements.

7. LOANS, ADVANCES AND FINANCING TO CUSTOMERS

	Consolidated		Parent Company	
	2022	2021	2022	2021
	RO' 000	RO' 000	RO' 000	RO' 000
Term loans	**1,344,302**	1,149,247	**1,344,302**	1,149,247
Overdrafts	**112,928**	137,630	**112,928**	137,630
Bills discounted	**34,136**	42,253	**34,136**	42,253
Islamic finance	**554,888**	478,063	**-**	-
Corporate loans	**2,046,254**	1,807,193	**1,491,366**	1,329,130
Consumer loans	**434,171**	396,536	**434,171**	396,536
Mortgage loans	**372,431**	333,744	**372,431**	333,744
Overdrafts	**988**	1,986	**988**	1,986
Credit cards	**3,839**	3,678	**3,839**	3,678
Islamic finance	**389,016**	351,320	**-**	-
Retail loans	**1,200,445**	1,087,264	**811,429**	735,944
Gross loans, advances and financing to customers	**3,246,699**	2,894,457	**2,302,795**	2,065,074
Allowance for credit losses	**149,712**	122,398	**111,978**	88,197
Contractual interest not recognised	**29,924**	18,625	**25,833**	15,866
Less: allowance for credit losses and suspended interest	**(179,636)**	(141,023)	**(137,811)**	(104,063)
Net loans, advances and financing to customers	**3,067,063**	2,753,434	**2,164,984**	1,961,011

7. LOANS, ADVANCES AND FINANCING TO CUSTOMERS (CONTINUED)

The movements in the allowance for the credit losses and contractual interest not recognised on loans, advances and financing to customers were as follows:

Consolidated	Allowance for credit losses	Contractual interest not recognised	Total
2022	RO' 000	RO' 000	RO' 000
Balance at 1 January 2022	**122,398**	**18,625**	**141,023**
Provided during the year	**35,274**	**17,223**	**52,497**
Amounts written off during the year	**(2,821)**	**(3,779)**	**(6,600)**
Amounts released / recovered during the year	**(5,139)**	**(2,145)**	**(7,284)**
Balance at 31 December 2022	**149,712**	**29,924**	**179,636**
2021	RO' 000	RO' 000	RO' 000
Balance at 1 January 2021	90,375	11,961	102,336
Provided during the year	38,206	10,439	48,645
Amounts written off during the year	(2,121)	(2,843)	(4,964)
Amounts released / recovered during the year	(4,062)	(932)	(4,994)
Balance at 31 December 2021	122,398	18,625	141,023

Parent Company	Allowance for credit losses	Contractual interest not recognised	Total
2022	RO' 000	RO' 000	RO' 000
Balance at 1 January 2022	**88,197**	**15,866**	**104,063**
Provided during the year	**31,741**	**15,891**	**47,632**
Amounts written off during the year	**(2,821)**	**(3,779)**	**(6,600)**
Amounts released / recovered during the year	**(5,139)**	**(2,145)**	**(7,284)**
Balance at 31 December 2022	**111,978**	**25,833**	**137,811**
2021	RO' 000	RO' 000	RO' 000
Balance at 1 January 2021	60,316	9,997	70,313
Provided during the year	34,064	9,644	43,708
Amounts written off during the year	(2,121)	(2,843)	(4,964)
Amounts released / recovered during the year	(4,062)	(932)	(4,994)
Balance at 31 December 2021	88,197	15,866	104,063

7. LOANS, ADVANCES AND FINANCING TO CUSTOMERS (CONTINUED)

	Consolidated		Parent Company	
	2022	2021	2022	2021
	RO' 000	RO' 000	RO' 000	RO' 000
Performing loans, advances and financings	3,080,916	2,756,431	2,179,382	1,958,547
Allowance for the credit losses on performing loans	69,073	50,936	55,939	39,151
Non-performing loans, advances and financings on which interest was not accrued	165,783	138,026	123,413	106,527
Allowance for the credit losses on non-performing loans	110,563	90,087	81,872	64,912

The analysis of the Islamic financing activities is as follows:

	Corporate	Retail	Total
2022	RO'000	RO'000	RO'000
Musharaka	**217,727**	**204,284**	**422,011**
Murabaha	**72,601**	**58,456**	**131,057**
Ijarah Muntahia Bittamleek	**82,190**	**121,687**	**203,877**
Wakala	**182,370**	**2,000**	**184,370**
Others	**-**	**2,589**	**2,589**
Balance at 31 December 2022	**554,888**	**388,016**	**943,904**
2021	RO'000	RO'000	RO'000
Musharaka	177,689	152,843	330,532
Murabaha	52,243	58,770	111,013
Ijarah Muntahia Bittamleek	99,833	135,556	235,389
Wakala	148,298	2,000	150,298
Others	-	2,151	2,151
Balance at 31 December 2021	478,063	351,320	829,383

8. INVESTMENT SECURITIES

	Consolidated		Parent Company	
	2022	2021	2022	2021
	RO'000	RO'000	RO'000	RO'000
- Banking and investment sector	**252**	293	**252**	293
Quoted investments – Oman	**252**	293	**252**	293
- Banking and investment sector	**189**	180	**189**	180
Quoted investments – Foreign	**189**	180	**189**	180
Investments measured at FVTPL	**441**	473	**441**	**473**
- Banking and investment sector	**2,409**	5,007	**2,409**	5,007
- Manufacturing sector	**240**	194	**240**	194
- Service sector	**533**	464	**533**	464
Quoted investments – Oman	**3,182**	5,665	**3,182**	5,665
- Banking and investment sector	**-**	168	**-**	168
- Service sector	**424**	-	**-**	-
Quoted investments – Foreign	**424**	168	**-**	168
- Banking and investment sector	**-**	-	**-**	-
- Service sector	**248**	169	**184**	169
Unquoted investments – Oman	**248**	169	**184**	169
Equity investments measured at FVOCI	**3,854**	6,002	**3,366**	6,002
- Government Sukuk	**43,826**	41,074	**-**	-
- Government Development Bonds (GDBs)	**32,895**	22,737	**32,895**	22,737
- Banking and investment sector	**24,079**	19,159	**23,256**	15,857
Debt investments measured at FVOCI	**100,800**	82,970	**56,151**	38,594
Investments measured at FVOCI	**104,654**	88,972	**59,517**	44,596
- Government Development Bonds (GDBs)	**196,003**	182,499	**196,003**	182,499
- Government Sukuk	**18,095**	18,095	**-**	-
- Service sector	**-**	-	**-**	-
Quoted investments – Oman	**214,098**	200,594	**196,003**	182,499
- Service sector	**12,702**	12,739	**12,702**	12,739
Quoted investments – Foreign	**12,702**	12,739	**12,702**	12,739
Investments measured at amortized cost	**226,800**	213,333	**208,705**	195,238
Total financial investments	**331,895**	302,778	**268,663**	240,307
Less: allowance for credit losses	**(239)**	(282)	**(237)**	(276)
Net financial investments	**331,656**	302,496	**268,426**	240,031

8. INVESTMENT SECURITIES (CONTINUED)

Consolidated	FVOCI Equity Investments	FVOCI Debt Investments	Amortised Cost	FVTPL	Total
2022	RO'000	RO'000	RO'000	RO'000	RO'000
At 1 January 2022	**6,002**	**82,970**	**213,333**	**473**	**302,778**
Additions	**469**	**23,536**	**15,526**	**-**	**39,531**
Disposals and redemption	**(2,600)**	**(3,200)**	**(2,000)**	**-**	**(7,800)**
Gain / (Loss) from change in fair value	**(17)**	**(2,506)**	**(59)**	**(32)**	**(2,614)**
Gross financial investments	**3,854**	**100,800**	**226,800**	**441**	**331,895**
Less: allowance for credit losses	**-**	**(163)**	**(76)**	**-**	**(239)**
At 31 December 2022	**3,854**	**100,637**	**226,724**	**441**	**331,656**
2021	RO'000	RO'000	RO'000	RO'000	RO'000
At 1 January 2021	4,815	45,400	190,070	403	240,688
Additions	7,595	38,832	56,642	1	103,070
Disposals and redemption	(6,605)	(691)	(33,379)	-	(40,675)
Gain / (Loss) from change in fair value	197	(571)	-	69	(305)
Gross financial investments	6,002	82,970	213,333	473	302,778
Less: allowance for credit losses	-	(182)	(100)	-	(282)
At 31 December 2021	6,002	82,788	213,233	473	302,496

Parent Company	FVOCI Equity Investments	FVOCI Debt Investments	Amortised Cost	FVTPL	Total
2022	RO'000	RO'000	RO'000	RO'000	RO'000
At 1 January 2022	**6,002**	**38,594**	**195,238**	**473**	**240,307**
Additions	**-**	**20,058**	**15,526**	**-**	**35,584**
Disposals and redemption	**(2,600)**	**-**	**(2,000)**	**-**	**(4,600)**
Gain / (Loss) from change in fair value	**(36)**	**(2,501)**	**(59)**	**(32)**	**(2,628)**
Gross financial investments	**3,366**	**56,151**	**208,705**	**441**	**268,663**
Less: allowance for credit losses	**-**	**(161)**	**(76)**	**-**	**(237)**
At 31 December 2022	**3,366**	**55,990**	**208,629**	**441**	**268,426**
2021	RO'000	RO'000	RO'000	RO'000	RO'000
At 1 January 2021	4,389	-	171,975	403	176,767
Additions	7,595	38,832	56,642	1	103,070
Disposals and redemption	(6,179)	-	(33,379)	-	(39,558)
Gain / (Loss) from change in fair value	197	(238)	-	69	28
Gross financial investments	6,002	38,594	195,238	473	240,307
Less: allowance for credit losses	-	(176)	(100)	-	(276)
At 31 December 2021	6,002	38,418	195,138	473	240,031

8. INVESTMENT SECURITIES (CONTINUED)

The fair value hierarchy of the financial investments is as follows:

Consolidated 2022	Level 1 RO'000	Level 2 RO'000	Level 3 RO'000	Total RO'000
- Quoted investments	**441**	**-**	**-**	**441**
Investment measured at FVTPL	**441**	**-**	**-**	**441**
- Quoted investments	**3,182**	**-**	**-**	**3,182**
- Unquoted investments	**-**	**-**	**248**	**248**
Equity investment measured at FVOCI	**3,182**	**-**	**248**	**3,854**
- Quoted investments	**56,151**	**44,649**	**-**	**100,800**
Debt investments measured at FVOCI	**56,151**	**44,649**	**-**	**100,800**

Consolidated 2021	Level 1 RO'000	Level 2 RO'000	Level 3 RO'000	Total RO'000
- Quoted investments	473	-	-	473
Investment measured at FVTPL	473	-	-	473
- Quoted investments	5,665	-	-	5,665
- Unquoted investments	-	-	337	337
Equity investment measured at FVOCI	5,665	-	337	6,002
- Quoted investments	38,594	44,376	-	82,970
Debt investments measured at FVOCI	38,594	44,376	-	82,970

Parent Company 2022	Level 1 RO'000	Level 2 RO'000	Level 3 RO'000	Total RO'000
- Quoted investments	**441**	**-**	**-**	**441**
Investment measured at FVTPL	**441**	**-**	**-**	**441**
- Quoted investments	**3,182**	**-**	**-**	**3,182**
- Unquoted investments	**-**	**-**	**184**	**184**
Equity investment measured at FVOCI	**3,182**	**-**	**184**	**3,366**
- Quoted investments	**56,151**	**-**	**-**	**56,151**
Debt investments measured at FVOCI	**56,151**	**-**	**-**	**56,151**

Parent Company 2021	Level 1 RO'000	Level 2 RO'000	Level 3 RO'000	Total RO'000
- Quoted investments	473	-	-	473
Investment measured at FVTPL	473	-	-	473
- Quoted investments	5,665	-	-	5,665
- Unquoted investments	-	-	337	337
Equity investment measured at FVOCI	5,665	-	337	6,002
- Quoted investments	38,594	-	-	38,594
Debt investments measured at FVOCI	38,594	-	-	38,594

8. INVESTMENT SECURITIES (CONTINUED)

Movement in allowances for the credit losses for debt securities:

	Consolidated		Parent Company	
	2022	2021	2022	2021
	RO'000	RO'000	RO'000	RO'000
Beginning of the year	**282**	470	**276**	67
(Release) / charge during the year	**(43)**	(188)	**(39)**	209
Balance at the end of the year	**239**	282	**237**	276

All debt securities at amortized cost outstanding as of 31 December 2022 are classified under stage 1 (2021: stage 1). The Group has assumed LGD of 0% on GDBs amounting to RO 228,898 thousand (2021: RO 205,236 thousand) and Government Sukuks amounting to RO 61,921 thousand (2021: RO 59,169 thousand).

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

	2022		2021	
	Carrying value	Bank's portfolio	Carrying value	Bank's portfolio
	RO'000	%	RO'000	%
Consolidated				
Government Development Bonds and sukuks	**290,819**	**88%**	264,405	87%
Parent Company				
Government Development Bonds and sukuks	**228,898**	**85%**	205,236	85%

During the years ended 31 December 2022 and 2021, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

9. INVESTMENT IN SUBSIDIARY

The Bank has the following investment in a subsidiary.

		2022		2021	
Name of Subsidiary	Country of Incorporation	RO'000	%	RO'000	%
Alizz Islamic Bank SAOC	Sultanate of Oman	**107,144**	**100%**	107,144	100%

The key balance sheet and income statement items of the subsidiary are as follows:

	2022	2021
Statement of financial position items	RO'000	RO'000
Total assets	**1,072,261**	974,147
Total liabilities	**961,318**	869,469
Total equity	**110,943**	104,678
	2022	2021
Income statement items	**RO'000**	RO'000
Operating income	**29,892**	24,763
Operating expenses	**19,285**	17,459
Profit after tax	**6,251**	4,382

Finalisation of purchase price allocation (PPA)

In 2020, the Bank recorded a provisional goodwill related to the acquisition of AIB amounting RO 6.5 million, being the difference between the consideration amount and net assets acquired, in accordance with IFRS 3 "Business Combination". The PPA exercise was finalized in 2021 resulting in derecognition of the provisional goodwill due to recognition of identifiable intangible assets namely core deposits intangible (CDI), banking license and brand in addition to recognising a bargain purchase gain of RO 1.17 million (note 31b).

The adjustment on finalisation of PPA exercise is as follows:

	RO' 000
Consideration transferred at acquisition during 2020	68,886
Less: Net assets recognised on provisional PPA exercise in 2020	(62,381)
Goodwill recorded on basis of provisional PPA exercise in 2020 (A)	6,505
Increase in net assets acquiring based on final PPA exercise in 2021 (B)	7,675
Bargain purchase gain recognized during 2021 (note 31b) (B-A)	1,170

Notes to the Financial Statements
for the year ended 31 December 2022

10. PROPERTY AND EQUIPMENT

Consolidated	Land & buildings RO'000	Computer equipment RO'000	Furniture & fixtures RO'000	Motor vehicles RO'000	Work in progress RO '000	Right of use RO '000	Total RO'000
Cost							
At 1 January 2021	25,785	26,348	17,262	319	9,302	9,349	88,365
Additions	-	86	104	-	5,589	1,006	6,785
Transfers	334	12,570	1,146	-	(14,050)	-	-
Adjustments	36	17	-	-	(14)	-	39
At 31 December 2021	26,155	39,021	18,512	319	827	10,355	95,189
Additions	-	459	154	-	3,719	222	4,554
Transfers	271	2,419	461	-	(3,151)	-	-
Disposals	-	-	-	(76)	-	(207)	(283)
At 31 December 2022	26,426	41,899	19,127	243	1,395	10,370	99,460
Depreciation							
At 1 January 2021	4,578	19,869	13,397	286	-	3,630	41,760
Charge for the year	781	4,820	1,856	14	-	2,731	10,202
Adjustments	74	(104)	(46)	-	-	-	(76)
At 31 December 2021	5,433	24,585	15,207	300	-	6,361	51,886
Charge for the year	774	4,868	1,546	8	-	2,033	9,229
Disposals	-	-	-	(76)	-	-	(76)
Adjustments	-	-	(2)	-	-	(73)	(75)
At 31 December 2022	6,207	29,453	16,751	232	-	8,321	60,964
Net book value							
At 31 December 2021	20,722	14,436	3,305	19	827	3,994	43,303
At 31 December 2022	20,219	12,446	2,376	11	1,395	2,049	38,496

Parent Company	Land & buildings RO'000	Computer equipment RO'000	Furniture & fixtures RO'000	Motor vehicles RO'000	Work in progress RO '000	Right of use RO'000	Total RO'000
Cost							
At 1 January 2021	25,785	18,468	12,360	319	9,258	8,609	74,799
Additions	-	-	-	-	5,468	750	6,218
Transfers	334	12,481	1,146	-	(13,961)	-	-
Adjustments	36	-	3	-	-	-	39
At 31 December 2021	26,155	30,949	13,509	319	765	9,359	81,056
Additions	-	-	-	-	3,637	-	3,637
Transfers	271	2,419	399	-	(3,089)	-	-
Disposals	-	-	-	(76)	-	(207)	(283)
At 31 December 2022	26,426	33,368	13,908	243	1,313	9,152	84,410
Depreciation							
At 1 January 2021	4,578	14,288	9,724	286	-	3,444	32,320
Charge for the year	781	4,216	1,469	14	-	1,995	8,475
Adjustments	74	(104)	(46)	-	-	-	(76)
At 31 December 2021	5,433	18,400	11,147	300	-	5,439	40,719
Charge for the year	774	4,272	1,180	8	-	1,876	8,110
Disposals	-	-	-	(76)	-	-	(76)
Adjustments	-	-	(2)	-	-	-	(2)
At 31 December 2022	6,207	22,672	12,325	232	-	7,315	48,751
Net book value							
At 31 December 2021	20,722	12,549	2,362	19	765	3,920	40,337
At 31 December 2022	20,219	10,696	1,583	11	1,313	1,837	35,659

11. INTANGIBLE ASSETS

On 30 June 2020, Oman Arab Bank acquired 100% of AIB and AIB became a wholly owned subsidiary. Following the finalisation of the PPA (note 9), the following assets were recognised in 2021.

	Consolidated		Parent Company	
	2022	2021	2022	2021
	RO'000	RO'000	RO'000	RO'000
Core deposits	**3,102**	3,102	-	-
Banking license	**3,573**	3,573	-	-
Brand	**1,000**	1,000	-	-
Total	**7,675**	7,675	**-**	-
Less: accumulated amortization	**(775)**	(465)	-	-
Net intangible assets	**6,900**	7,210	**-**	-

The core deposits intangible (CDI) is estimated to have a useful life of 10 years and is amortised based on a straight line method.

12. OTHER ASSETS

	Consolidated		Parent Company	
	2022	2021	2022	2021
	RO'000	RO'000	RO'000	RO'000
Customers' indebtedness against acceptances	**13,700**	20,468	**13,700**	20,468
Fees receivable	**2,147**	2,119	**2,147**	2,119
Interest receivable	**46,540**	41,919	**23,312**	16,899
Prepayments	**1,826**	2,519	**978**	1,927
Positive fair value of derivatives	**1,944**	1,856	**1,944**	1,856
Deferred tax asset	**2,047**	2,930	**-**	-
Others	**15,927**	17,529	**13,373**	16,089
Total	**84,131**	89,340	**55,454**	59,358

Others include repossessed properties of RO 3.5 million (2021 – RO 4.4 million) which will be sold as soon as practicable.

13. DUE TO BANKS

	Consolidated		Parent Company	
	2022	2021	2022	2021
	RO'000	RO'000	RO'000	RO'000
Current accounts	**5,308**	3,151	**5,308**	3,151
Borrowings	**88,833**	10,208	**53,793**	10,208
Total	**94,141**	13,359	**59,101**	13,359

14. CUSTOMER DEPOSITS

	Consolidated		Parent Company	
	2022	2021	2022	2021
a) By type	RO'000	RO'000	RO'000	RO'000
Term deposits	**1,410,556**	1,274,137	**982,922**	912,537
Demand and call accounts	**1,034,812**	970,868	**758,752**	698,334
Saving accounts	**546,812**	565,407	**347,610**	354,326
Total	**2,992,180**	2,810,412	**2,089,284**	1,965,197
b) By sector	**RO'000**	RO'000	**RO'000**	RO'000
Private	**2,197,742**	2,081,949	**1,622,412**	1,530,722
Government	**794,438**	728,463	**466,872**	434,475
Total	**2,992,180**	2,810,412	**2,089,284**	1,965,197

15. OTHER LIABILITIES

	Consolidated		Parent Company	
	2022	2021	2022	2021
	RO'000	RO'000	RO'000	RO'000
Liabilities against acceptances	**13,700**	20,468	**13,700**	20,468
Interest payable	**34,487**	26,873	**24,230**	18,496
Accrued expenses and other payables	**21,434**	16,262	**18,605**	13,240
Cheques and trade settlement payable	**4,250**	3,158	**3,032**	2,107
Staff end of service benefits	**965**	874	**674**	613
Interest and commission received in advance	**3,683**	2,310	**3,683**	2,310
Negative fair value of derivatives	**1,736**	1,396	**1,736**	1,396
Deferred tax liability	**198**	168	**198**	168
Provision for loan commitments, financial guarantees and acceptances	**3,687**	3,397	**3,218**	2,869
Others	**8,654**	5,307	**556**	242
Lease liabilities	**1,702**	4,285	**1,482**	4,155
Total	**94,496**	84,498	**71,114**	66,064

15.1. Staff end of service benefits

	Consolidated		Parent Company	
	2022	2021	2022	2021
	RO'000	RO'000	RO'000	RO'000
At 1 January	**874**	1,131	**613**	873
Charge for the year	**215**	217	**131**	132
Payment to employees during the year	**(124)**	(474)	**(70)**	(392)
At 31 December	**965**	874	**674**	613

15. OTHER LIABILITIES (CONTINUED)

15.2. Movement in provision for loan commitments, financial guarantees and acceptances

	Consolidated		Parent Company	
	2022	2021	2022	2021
	RO'000	RO'000	RO'000	RO'000
Beginning of the year	**3,397**	2,169	**2,869**	1,937
Charge during the year	**290**	1,228	**349**	932
Balance at the end of the year	**3,687**	3,397	**3,218**	2,869

16. SUBORDINATED LOANS

In November 2015, the Bank obtained a subordinated loan of RO 20 million, which complied with Basel III requirements for Tier 2 capital, for a tenor of five years and six months. The loan carried a fixed rate of 5.5% per annum, payable semi-annually with the principal payable on maturity. In 2021, the subordinated loan got matured and the Bank has repaid the loan in full.

17. TAXATION

	Consolidated		Parent Company	
	2022	2021	2022	2021
	RO'000	RO'000	RO'000	RO'000
Statement of profit or loss:				
Current tax:				
- Current year charge	**1,710**	483	**1,710**	483
- Prior years charge / (reversal)	**(1,348)**	740	**(1,348)**	740
Deferred tax:				
- Current year	**30**	-	**30**	-
- Prior years (income) / charge	**883**	(303)	**-**	(240)
Tax expense for the year	**1,275**	920	**392**	983
Statement of financial position:				
Provision for taxation	**3,412**	3,051	**3,412**	3,051
Deferred tax liability	**(198)**	(168)	**(198)**	(168)
Deferred tax asset	**2,047**	2,930	**-**	-
Deferred tax liability:				
At 1 January	**(168)**	(408)	**(168)**	(408)
Credit / (charge) for the year	**(30)**	240	**(30)**	240
At 31 December	**(198)**	(168)	**(198)**	(168)
Deferred tax asset:				
At 1 January	**2,930**	2,867	**-**	-
Credit / (charge) for the year	**(883)**	63	**-**	-
At 31 December	**2,047**	2,930	**-**	-

17. TAXATION (CONTINUED)

Consolidated	At 1 January 2022	Charge for the year	At 31 December 2022
Property, plant and equipment	**(202)**	**57**	**(145)**
Unrealised loss on FVTPL investments	**(2)**	**1**	**(1)**
Right-of-use assets and lease liabilities	**36**	**(88)**	**(52)**
Deferred tax liability	**(168)**	**(30)**	**(198)**
Property, plant and equipment	**(250)**	**172**	**(80)**
Carried forward taxable losses	**3,180**	**(1,055)**	**2,125**
Deferred tax asset	**2,930**	**(883)**	**2,047**

Parent Company	At 1 January 2022	Charge for the year	At 31 December 2022
Property, plant and equipment	**(202)**	**57**	**(145)**
Unrealised loss on FVTPL investments	**(2)**	**1**	**(1)**
Right-of-use assets and lease liabilities	**36**	**(88)**	**(52)**
Deferred tax liability	**(168)**	**(30)**	**(198)**

Details of taxable losses available recognised by the subsidiary are as below:

	2022 RO'000	2021 RO'000
Available until 31 December 2022 (declared)	**-**	3,559
Available until 31 December 2024 (declared)	**6,531**	9,988
Available until 31 December 2025 (declared)	**7,639**	7,654

The Bank is liable for income tax in accordance with the income tax laws of the Sultanate of Oman. The tax rate applicable to the Bank is 15% (2021: 15%). For determining the tax expense for the year, the accounting profit for the year has been adjusted for tax purposes.

	Consolidated		Parent Company	
	2022	2021	2022	2021
	RO'000	RO'000	RO'000	RO'000
Profit before tax	**17,456**	8,001	**10,632**	4,027
Tax at the applicable rate of 15%	**2,618**	1,200	**1,595**	604
Tax effect of income that is not taxable and expenses that are not deductible in determining taxable profit	**157**	(1,020)	**145**	(361)
Prior year	**(1,500)**	740	**(1,348)**	740
Tax expense for the year	**1,275**	920	**392**	983

Status of tax assessments (Parent Company)

The tax assessment up to and including 2020 has been completed by the Tax Authority. The tax returns for 2021 to 2022 have not yet been assessed by the Tax Authority.

Status of tax assessments (Subsidiary)

The tax assessment up to and including 2020 has been completed by the Tax Authority. The tax returns for 2021 to 2022 have not yet been assessed by the Tax Authority.

18. SHARE CAPITAL

The authorised share capital of the Bank is 2,000,000,000 shares of 100 baisa each (2021: 2,000,000,000).The issued share capital of the Bank is 1,669,410,000 shares (2021: 1,669,410,000). The paid up share capital of the Bank is RO 166.941 million. The Bank's shares are listed in Muscat Stock Exchange.

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

31 December 2022	Shareholding %	Number of shares	RO'000
Arab Bank PLC	49%	818,010,900	81,801
Oman International Development & Investment Co. SAOG	31%	517,382,480	51,738
Various parties, including Trusts	20%	334,016,620	33,402
Total	**100%**	**1,669,410,000**	**166,941**

19. PROPOSED DIVIDEND

Dividend is not accounted for until it has been approved at the Annual General Meeting (AGM). The Board of Directors has not proposed cash dividend for the year ended 31 December 2022 (2021: nil).

20. SHARE PREMIUM

Share premium represents the premium collected on issuance of shares through public offer, rights issue, and conversion of mandatory convertible bonds during the prior years. The balance in share premium is not available for distribution.

21. LEGAL RESERVE

In accordance with Article 132 of the Commercial Companies Law of 2019, annual appropriations of 10% of net profit are made to the legal reserve until the accumulated balance of the reserve is equal to one-third of the Bank's paid up share capital. This reserve is not available for distribution.

22. GENERAL RESERVE

The Bank has established the general reserve to meet any unforeseen contingencies. No transfers were made from / to general reserve during the 2022 and 2021.

23. SUBORDINATED LOANS RESERVE

The subordinated loans reserve has been created in accordance with guidelines of the CBO through a transfer of 20% of the loan amount from the net profit for the year. In 2021, a subordinated loan of RO 20 million was repaid (refer note 16) and subsequently the reserve related to this loan was transferred back to the retained earnings.

24. SPECIAL RESERVE

In 2015, the Parent Company sold its old head office (HO) premises at Ruwi, following its move to the new HO at Al Ghoubra. The profit on sale amounting to RO 2.4 million was set aside as a special reserve and was not available for distribution without prior approval of the CBO. In 2022, this amount has been utilised as special reserve for restructured cases assigned for ECL based on the approval from CBO. The Bank has special reserve of RO 3.8 million for restructured accounts in accordance with the CBO guidelines. The reserve created is not available for distribution or the inclusion in the calculation of the regulatory capital.

25. PERPETUAL TIER 1 CAPITAL BONDS

On 29 December 2016, the Bank issued unsecured perpetual Tier 1 bonds of RO 30 million (30,000,000 units of RO 1 each through private placement). The bonds are listed on the Muscat Securities Market and are transferable through trading. The bonds carry a fixed coupon rate of 7.75 per cent per annum payable semi-annually in arrears. Interest is treated as a deduction from equity. Interest is non-cumulative and payable at Bank's discretion. The bonds form part of Tier 1 Capital of the Bank and comply with Basel-III and the CBO regulations. On 29 January 2022 (first call date), the Bank has fully redeemed these bonds.

On 17 October 2018, the Bank issued another series of unsecured perpetual Tier 1 bonds of RO 42.5 million (42,553,000 units of RO 1 each through private placement). The bonds carry a fixed coupon rate of 7.5 per cent per annum payable semi-annually in arrears. Interest is treated as a deduction from equity. Interest is non-cumulative and payable at Bank's discretion. The bonds are in pari-passu with earlier issue.

On 7 June 2021, the Bank issued unsecured perpetual Tier 1 bonds of USD 250 million equivalent to RO 96.25 million. The bonds are listed on the International Security Market (ISM) of the London Stock Exchange. The bonds carry a fixed coupon rate of 7.625 per cent per annum payable semi-annually in arrears. Interest is treated as a deduction from equity. Interest is non-cumulative and payable at Bank's discretion. The bonds form part of Tier 1 Capital of the Bank and comply with Basel-III and the CBO regulations.

The Tier 1 bonds 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 bonds do not have a fixed or final maturity date and are redeemable by the Bank at its sole discretion. The bond issued in 2018 has First Call date on 17 October 2023 or on any interest reset date thereafter subject to the prior consent of the regulatory authority. The bond issued in 2021 has First Call date on 04 June 2026 or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

26. INTEREST INCOME

	Consolidated		Parent Company	
	2022	2021	2022	2021
	RO'000	RO'000	RO'000	RO'000
Loans and advances	**113,018**	107,863	**113,018**	107,863
Oman Government Development Bonds and Sukuk	**12,933**	10,892	**12,933**	10,892
Placements with banks	**1,134**	299	**1,149**	303
Total	**127,085**	119,054	**127,100**	119,058

27. INTEREST EXPENSE

	Consolidated		Parent Company	
	2022	2021	2022	2021
	RO'000	RO'000	RO'000	RO'000
Time deposits	**38,498**	37,237	**38,498**	37,237
Subordinated loans	**-**	452	**-**	452
Call accounts	**8,935**	6,699	**8,935**	6,699
Bank borrowings	**1,037**	1,416	**1,037**	1,416
Savings accounts	**3,548**	3,441	**3,548**	3,441
Interest cost on lease liabilities	**133**	222	**133**	222
Others	**465**	146	**465**	146
Total	**52,616**	49,613	**52,616**	49,613

28. NET INCOME FROM ISLAMIC FINANCING

	Consolidated		Parent Company	
	2022	2021	2022	2021
	RO'000	RO'000	RO'000	RO'000
Income from Islamic financing	**48,503**	44,443	-	-
Income from Government Sukuk	**3,041**	3,057	-	-
Profit paid on participatory deposits	**(25,861)**	(26,279)	-	-
Total	**25,683**	21,221	**-**	-

29. NET FEE AND COMMISSION INCOME

	Consolidated		Parent Company	
	2022	2021	2022	2021
	RO'000	RO'000	RO'000	RO'000
Fee and commission income	**26,059**	18,719	**21,752**	14,837
Fee and commission expense	**(8,223)**	(6,205)	**(7,548)**	(5,466)
Total	**17,836**	12,514	**14,204**	9,371

29.1. Net fees and commission income comprises of:

	Consolidated		Parent Company	
	2022	2021	2022	2021
	RO'000	RO'000	RO'000	RO'000
Transactional income	**7,215**	5,066	**6,103**	4,303
Trade income	**3,245**	3,342	**2,813**	2,828
Loans related income	**7,376**	4,106	**5,288**	2,240
Total	**17,836**	12,514	**14,204**	9,371

30. NET INCOME FROM INVESTMENT SECURITIES

	Consolidated		Parent Company	
	2022	2021	2022	2021
	RO'000	RO'000	RO'000	RO'000
Fair value changes	**(33)**	69	**(33)**	69
Profit on sale of amortized cost investments	**-**	3,120	**-**	3,120
Dividend income	**256**	149	**256**	149
Total	**223**	3,338	**223**	3,338

31. OTHER OPERATING INCOME

	Consolidated		Parent Company	
	2022	2021	2022	2021
	RO'000	RO'000	RO'000	RO'000
Exchange income	**4,112**	4,055	**3,520**	3,652
Insurance claim against insurance recovery (note 31a)	**193**	5,938	**193**	5,938
Other income (note 31b)	**60**	1,488	**60**	318
Total	**4,365**	11,481	**3,773**	9,908

31. OTHER OPERATING INCOME (CONTINUED)

31a The Bank reported an operational loss on account of forgery and embezzlement in the financial statements as at and for the year ended 31 December 2020. The Bank filed criminal complaint with the concerned authorities and also filed a claim with the insurance company under Banker's Blanket Bond insurance policy of the Bank. During the year 2021, the Bank received the insurance claim amount from the loss adjuster. Accordingly, the Bank recognised income against the amount of the insurance claim under other operating income.

31b Other income includes RO 1.17 million representing a bargain purchase gain recognized in 2021 following the finalization of the PPA exercise (note 9).

32. OPERATING EXPENSES

	Consolidated		Parent Company	
	2022	2021	2022	2021
	RO'000	RO'000	RO'000	RO'000
Staff costs (refer 32.1)	**42,247**	42,161	**29,906**	30,544
Other operating expenses	**22,695**	21,681	**16,970**	17,638
Depreciation	**9,229**	10,202	**8,110**	8,475
Amortization	**310**	465	**-**	-
Directors' remuneration	**295**	271	**195**	199
Total	**74,776**	74,780	**55,181**	56,856

32.1. Staff costs

	Consolidated		Parent Company	
	2022	2021	2022	2021
	RO'000	RO'000	RO'000	RO'000
Salaries	**23,125**	22,615	**16,798**	16,339
Allowances	**10,422**	9,903	**5,499**	5,525
Social security costs	**3,095**	3,030	**2,213**	2,152
End of service benefits	**215**	217	**131**	132
Other costs	**5,390**	6,396	**5,265**	6,396
Total	**42,247**	42,161	**29,906**	30,544
Headcount (number of FTE)	**1,474**	1,540	**1,095**	1,164

33. EARNINGS PER SHARE

The basic earnings per share (EPS) is the outcome of dividing the profit for the year attributable to the ordinary shareholders by the weighted average number of shares outstanding.

	Consolidated		Parent Company	
	2022	2021	2022	2021
	RO'000	RO'000	RO'000	RO'000
Profit for the year	**16,181**	7,081	**10,240**	3,044
Less: Interest distribution of Perpetual Tier 1 capital bonds	**(10,725)**	(9,187)	**(10,725)**	(9,187)
Less: Additional Tier 1 bonds issuance cost	**(62)**	(1,008)	**(62)**	(1,008)
Profit / (loss) for the year attributable to shareholders	**5,394**	(3,114)	**(547)**	(7,151)
Weighted average number of shares outstanding during the year	**1,669,410,000**	1,669,410,000	**1,669,410,000**	1,669,410,000
Basic earning / (loss) per share (RO)	**0.003**	(0.002)	**(0.0003)**	(0.004)

	Weighted average number of shares outstanding
1 January 2021 to 31 December 2022	1,669,410,000
Weighted average as at 31 December 2022	1,669,410,000

The diluted EPS was equal to the basic EPS for both periods as the Bank has not issued any instruments, which would have an impact on earnings per share when exercised.

34. NET ASSETS PER SHARE

The calculation of net assets per share is based on net assets as at 31 December 2022 attributable to ordinary shareholders of RO 166,941 million (2021: RO 166,941 million) and on 1,669,410,000 ordinary shares (2021 – 1,669,410,000 ordinary shares) being the number of shares outstanding as at 31 December 2022.

	Consolidated		Parent Company	
	2022	2021	2022	2021
Total equity (RO'000)	**358,798**	355,536	**349,148**	351,841
Number of shares (in thousands)	**1,669,410**	1,669,410	**1,669,410**	1,669,410
Net assets per share	**0.215**	0.213	**0.209**	0.211

35. CONTINGENT LIABILITIES AND COMMITMENTS

a) Letters of credit and guarantees

The Bank is a party to financial instrument with off-balance sheet credit risk in the normal course of business to meet the financing needs of its customers. These financial instruments include standby letters of credit, financial guarantees to third parties, commitments to extend credit and others. The Bank's exposure to credit loss in the event of non-performance by the other party to such financial instruments is represented by the contract value or the notional amount of the instrument. However, generally the credit risk on these transactions is lower than the contract value or the notional amount.

The risk involved is essentially the same as the credit risk involved in extending loan facilities and therefore these transactions are subject to the same credit organisation, portfolio maintenance and collateral requirements for customers applying for loans and advances.

35. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

a) Letters of credit and guarantees (Continued)

The outstanding contract value or the notional amounts of these instruments at 31 December were as follows:

	Consolidated		Parent Company	
	2022	2021	2022	2021
	RO'000	RO'000	RO'000	RO'000
Letters of credit	**127,451**	163,773	**35,277**	83,165
Guarantees	**197,325**	213,284	**168,451**	187,629
Financial guarantees	**68,465**	74,126	**68,465**	74,126
Total	**393,241**	451,183	**272,193**	344,920

As at 31 December 2022, the unutilised commitment of facilities of RO 469,784 thousand (Consolidated), RO 431,148 thousand (Parent Company); [(2021 RO 434,069 thousand (Consolidated), RO 397,015 thousand (Parent Company)].

Letters of credit and guarantees amounting to RO 112,440 thousand (2021: 180,982 thousand) were counter guaranteed by other banks in the Parent Company. As of reporting date the subsidiary has no material letters of credit and guarantees that were counter guaranteed by other banks.

i) The allowances for credit losses for commitments and financial guarantees is included under note 15.2.

ii) Contingent liabilities include RO 4,772 thousand (Consolidated), RO 4,339 thousand (Parent Company); [2021 RO 5,562 thousand (Consolidated), RO 5,320 thousand (Parent Company)] relating to non-performing loans.

Credit-related financial instruments include unutilised commitments to extend credit, standby letters of credit and guarantees which are designed to meet the financing requirements of customers. The credit risk on these transactions is generally less than the contractual amount. The notional principal amounts of outstanding credit-related contingent items and the risk-weighted exposures calculated were as follows:

	Consolidated			
	2022		2021	
	Notional principal amount	Risk weighted exposure	Notional principal amount	Risk weighted exposure
	RO'000	**RO'000**	RO'000	RO'000
Guarantees	**265,790**	**128,320**	287,410	145,480
Letters of credit	**127,451**	**30,142**	163,773	4,289
Total	**393,241**	**158,462**	451,183	149,769

	Parent Company			
	2022		2021	
	Notional principal amount	Risk weighted exposure	Notional principal amount	Risk weighted exposure
	RO'000	RO'000	RO'000	RO'000
Guarantees	**236,916**	**124,009**	261,755	132,652
Letters of credit	**35,277**	**5,933**	83,165	2,756
Total	**272,193**	**129,942**	344,920	135,408

35. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

b) Capital commitments

As at 31 December 2022, outstanding capital commitments in respect of premises, equipment and software purchases were RO 1.9 million (2021: RO 5.8 million).

c) Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, the Bank had certain unresolved legal claims which are not expected to have any significant implication on the Bank's financial statements (2021: Nil).

36. CASH AND CASH EQUIVALENTS

	Consolidated		Parent Company	
	2022	2021	2022	2021
	RO'000	RO'000	RO'000	RO'000
Cash and balances with the Central Bank of Oman (CBO) (note 5)	**99,913**	188,904	**31,034**	105,954
Due from banks (note 6)	**43,707**	41,046	**38,193**	44,553
Less: due to banks (note 13)	**(94,141)**	(13,359)	**(59,101)**	(13,359)
Restricted deposits included under balances with the CBO	**(1,025)**	(1,025)	**(500)**	(500)
Total	**48,454**	215,566	**9,626**	136,648

37. DERIVATIVE FINANCIAL INSTRUMENTS

At the reporting date, there were outstanding forward foreign exchange contracts, all maturing within one year, entered into on behalf of customers for the sale and purchase of foreign currencies. These financial instruments have been recognised at prices in active markets for identical assets or liabilities.

Also, the Bank has entered into IRS (Interest Rate Swaps) on behalf of its clients and has fully covered the position on back-to-back basis, leaving no open position on the Bank's books. An IRS is an agreement between two counterparties to exchange a stream of fixed interest payments for floating (variable) interest payments on a specified notional amount. A floating rate borrower can fix his floating liabilities payment by entering into payer swap, in which he pays the fixed rate.

The Bank is not exposed to entire notional amount of IRS, rather, its risk is limited only to the amount of differential interest payment which the client may not honour at the time of settlement. These fair values and the notional contracted amounts related to the Parent Company are summarised below. As of reporting date, Subsidiary has no derivative instruments.

37. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

2022	Positive fair value RO'000	Negative fair value RO'000	Notional amount RO'000	Within 3 months RO'000	3 – 12 months RO'000	More than 1 year RO'000
Purchase contracts	**275**	**-**	**178,921**	**121,865**	**57,056**	**-**
Sale contracts		**(226)**	**(178,872)**	**(121,857)**	**(57,015)**	**-**
Interest rate swaps	**1,669**	**(1,510)**	**28,824**	**-**	**-**	**28,824**
Total	**1,944**	**(1,736)**	**28,873**	**8**	**41**	**28,824**
2021	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Purchase contracts	346	-	202,225	175,260	26,965	-
Sale contracts	-	(240)	(202,119)	(175,237)	(26,882)	-
Interest rate swaps	1,510	(1,156)	36,953	-	-	36,953
Total	1,856	(1,396)	37,059	23	83	36,953

Derivative financial instruments are classified as level 2 in the fair value hierarchy.

38. RELATED PARTY TRANSACTIONS

a) Technical and administrative services with major shareholders

During the year ended 31 December 2022, the cost of technical and administrative services provided to Arab Bank Plc amounted to RO 48,543 (2021: RO 21,243).

b) Other related party transactions

In the ordinary course of business, the Bank conducts transactions with its Directors, shareholders, senior management and companies which have significant interest, on manually agreed terms with the approval of the Board of Directors. The aggregate amounts of balances with such related parties are as follows:

Consolidated 2022	Subsidiary RO'000	Major shareholders RO'000	Others RO'000	Total RO'000
Loans and advances	-	**24,012**	**133,445**	**157,457**
Customers' deposits	-	**4,219**	**37,536**	**41,755**
Due from banks	-	**18,106**	**-**	**18,106**
Other assets	-	**-**	**750**	**750**
Due to banks	-	**22,086**	**-**	**22,086**
Stand by line of credit	-	**57,750**	**-**	**57,750**
Letters of credit, guarantees and acceptances	-	**80,010**	**6,772**	**86,782**
2021	RO'000	RO'000	RO'000	RO'000
Loans and advances	-	24,029	117,379	141,408
Customers' deposits	-	22,619	46,345	68,964
Due from banks	-	8,876	-	8,876
Other assets	-	-	229	229
Due to banks	-	6,358	-	6,358
Stand by line of credit	-	48,125	-	48,125
Letters of credit, guarantees and acceptances	-	94,241	3,449	97,690

38. RELATED PARTY TRANSACTIONS (CONTINUED)

b) Other related party transactions (continued)

Parent Company	Subsidiary	Major shareholders	Others	Total
2022	RO'000	RO'000	RO'000	RO'000
Loans and advances	-	24,012	101,726	125,738
Customers' deposits	-	4,219	37,120	41,339
Due from banks	-	18,106	-	18,106
Other asset		-	-	-
Due to banks	-	22,086	-	22,086
Stand by line of credit	-	57,750	-	57,750
Letters of credit, guarantees and acceptances	-	80,010	6,772	86,782
2021	RO'000	RO'000	RO'000	RO'000
Loans and advances	-	24,029	102,596	126,625
Customers' deposits	-	22,619	44,045	66,664
Due from banks	5,775	8,876	-	14,651
Other asset	45	-	-	45
Due to banks	-	6,358	-	6,358
Stand by line of credit	-	48,125	-	48,125
Letters of credit, guarantees and acceptances	-	94,241	3,449	97,690

The movement analysis of loans and advances with related parties is as follows:

	Consolidated		Parent Company	
	2022	2021	2022	2021
	RO'000	RO'000	RO'000	RO'000
At 1 January	**141,408**	119,164	**126,625**	107,358
Disbursed during the year	**573,591**	484,704	**556,655**	481,727
Paid during the year	**(557,542)**	(462,460)	**(557,542)**	(462,460)
At 31 December	**157,457**	141,408	**125,738**	126,625

None of the loans and advances given to related parties were identified as credit impaired. In accordance with IFRS 9, ECL held against these exposures amounted to RO 1.957 million (Consolidated), RO 1.801 million (Parent Company) [2021: RO 1.013 million (Consolidated), RO 1.002 million (Parent Company)].

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

Consolidated	Subsidiary	Major shareholders	Others	Total
2022	RO'000	RO'000	RO'000	RO'000
Interest and commission income	-	1,186	7,930	9,116
Interest expense	-	849	1,110	1,959
2021	RO'000	RO'000	RO'000	RO'000
Interest and commission income	-	1,206	5,683	6,889
Interest expense	-	912	1,469	2,381

38. RELATED PARTY TRANSACTIONS (CONTINUED)

b) Other related party transactions (continued)

Parent Company	Subsidiary	Major shareholders	Others	Total
2022	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Interest and commission income	**15**	**1,186**	**6,405**	**7,606**
Interest expense	**-**	**849**	**1,110**	**1,959**
2021	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Interest and commission income	4	1,206	4,889	6,099
Interest expense	-	912	1,405	2,317

c) Key management compensation

The Directors' remuneration is set out in Note 32. The remuneration of other members of key management during the year was as follows:

	Consolidated		Parent Company	
	2022	2021	2022	2021
	RO'000	RO'000	RO'000	RO'000
Salaries and other short-term benefits	**3,282**	2,556	**2,234**	1,632
End of service benefits	**187**	155	**165**	134
Total	**3,469**	2,711	**2,399**	1,766

39. FINANCIAL 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 principal types of risks that the Bank faces are credit risk, liquidity risk, market risk and operational risk. The Board of Directors defines risk limits and sets suitable policies in this regard for management of credit risk, liquidity risk as well as market risk in both the trading and the banking book of the Bank. Risk Management is carried out by the Risk Management Department in accordance with documented policies approved by the Board of Directors.

The Bank's Management Risk Committee (MRC), comprising the Bank's most senior risk professionals provides oversight to the Risk Management Division, review & oversee the Bank's risk profile and determines the actions required to maintain the risk profile within the approved appetite. It also monitor's and report's the progress of any action plans taken as and when required to maintain the objective. The risk management control process is based on a detailed structure of policies, procedures and limits, and comprehensive risk measurement and management information systems for the control, monitoring and reporting of risks.

39.1. Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally from lending, investment activities and other assets in the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments and financial guarantees.

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 is actively managed and rigorously monitored in accordance with well-defined credit policies and procedures.

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1. Credit risk (continued)

Prior to the approval of a credit proposal, a detailed credit risk assessment is carried out which includes an analysis of the obligor financial condition, market position, business environment and quality of management. The credit risk management and control are centralised in the credit risk management team which is divided into corporate, financial institutions and retail groups. The credit risk in corporate, retail and financial institutions portfolio is primarily managed by the Credit Review Department.

The Risk Management Department reviews the portfolio credit risk independently and directly reports to the Board Compliance and Risk Committee. The risk management framework also includes policies with respect to problem recognition, watch lists, classification parameters and risk rating adjustments.

i) Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and taking into consideration both internal and external indicators, expert credit assessment, guidelines issued by CBO and inclusion of forward-looking information. The Bank also, in limited circumstances and with proper justifications and specific approval from the Chief Risk Officer, does not treat certain events as significant increases in credit risk to continue classifying a financing exposure under Stage 1 (this is in line with CBO circular BM 1149). Besides assessing the qualitative characteristics, the Bank's assessment of probability of default of individual counterparties is mainly linked with the number of days the borrower was in default as defined by the CBO circular number BM 977 dated 25 September 2004. In addition, the Bank assesses the operational performance and financial position of the borrowers to consider downgrading the classification.

Debt investment securities are considered to have low credit risk when their credit risk rating is equivalent to an investment grade rating or a debt investment security with similar credit risk characteristics. The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in the probability of default (PDs) and qualitative factors, including whether the exposure has been watch-listed, whether the exposure is more than 30 days past due and as a backstop based on delinquency.

ii) Definition of default

The Bank considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the bank in full, without recourse by the Bank to actions such as liquidating collateral; or the borrower is past due more than 90 days on any credit obligation to the Bank. In assessing whether a borrower is in default, the Bank considers both qualitative factors such as breaches of covenants and quantitative factors such as overdue status and non-payment on another obligation of the same issuer to the Bank.

iii) 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 assessed based on historical default experience. The Bank links TTC PDs with forward looking economic factors to drive PIT PD estimates for each rating category. The methodology takes into consideration recent and forward looking economic forecasts under three scenarios (base case, bad case, and good case), historical economic data, and TTC PDs for deriving PIT PDs. The relationship between the economic factors and default and loss rates has been developed using internal historical data and relevant external market data.

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1. Credit risk (continued)

iv) Measurement of ECL

The key input parameters into the measurement of ECL are the probability of default (PD), loss given default (LGD) and exposure at default (EAD). These parameters are derived from internally developed statistical models, other historical data using both internal and external factors, and incorporates forward-looking information.

PD estimates are estimates at a certain date and are calculated using the banks internal default data.

The PIT PD estimates are converted to cumulative PIT PDs for exposures that have tenors in excess of one year and that are assessed on lifetime PDs.

LGD is the likely loss, if there is a default. The bank estimates LGD parameters based on the Basel guidelines for corporate exposures and the history of recovery rates of claims against defaulted retail exposures, based on historical data. The Bank has applied a LGD of 0% on Government Development Bonds (GDB) & Treasury Bills (T-Bills) issued by Government of Oman which are classified as investments under Held to Collect & Held to Collect and Sale business model. The Bank has also applied a LGD of 0% on loans, advances and financing to customers aggregating to RO 239,185 thousand (Consolidated), RO 163,494 thousand (Parent); [(2021: RO 91,390 thousand (Consolidated), RO 20,726 thousand (Parent)] as of 31 December 2022 which are guaranteed by the Government of Oman or collateralized by way of bank deposits / cash margin.

EAD represents the expected exposure at the time of default. The bank derives the EAD from the current exposure to the counterparty and potential changes to the current amounts allowed under the contract including amortisation. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

Subject to a maximum of 12-month PD for financial assets for which credit risk has not significantly increased, the bank measures ECL considering the risk of default over the maximum contractual year over which it is exposed to credit risk. Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics including instrument type, credit risk ratings and geographic location of the borrower.

The Bank calculates PIT PD estimates under three scenarios, a base case, bad case and good case. A probability weighted ECL is then calculated by assigning probabilities, based on current market conditions, to each scenario. At 31 December 2022, the probabilities assigned to the base case, bad case and good case scenarios were in the ratio of 66.6%:5.6%:27.8% (2021: 50%:25%:25%) respectively.

v) Credit risk profile

The Bank monitors, manages and controls credit risk exposures based on an internal credit rating system that rates individual obligors based on a certain rating scale. The internal credit rating is a measure of the creditworthiness of a single obligor, based on an assessment of the credit risk relating to senior unsecured credit exposure. The primary objectives of the internal credit rating system are the maintenance of a single uniform standard for credit quality measurement, and to serve as the primary basis for Board-approved risk parameters and delegated credit authority limits.

Notes to the Financial Statements
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39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1 Credit risk (continued)

v) Credit risk profile (continued)

The internal ratings map as follows:

Internal rating grade	Internal classification
Rating grade 1	High
Rating grade 2	High
Rating grade 3	High
Rating grade 4	High
Rating grade 5	High
Rating grade 6	Standard
Rating grade 7	Standard
Rating grade 8	Standard
Rating grade 9	Standard
Rating grade 10	Satisfactory
SM	Satisfactory
Classified	
SS	Sub-standard
DD	Doubtful
LS	Loss

The credit risk profile, based on internal credit ratings, was as follows:

Consolidated 2022	Due from banks RO'000	Investment securities RO'000	Loans and advances including interest receivable RO'000	Credit related contingent items including acceptances RO'000
Stage 1 (12-month ECL):				
High	**35,601**	**62,744**	**1,274,900**	**261,495**
Standard	**18,106**	**264,856**	**972,029**	**358,744**
Satisfactory	-	-	**227,387**	**94,913**
Gross carrying amount	**53,707**	**327,600**	**2,474,316**	**715,152**
Stage 2 (Lifetime ECL but not credit-impaired):				
High	-	-	**37,457**	**27,571**
Standard	-	-	**147,884**	**59,531**
Satisfactory	-	-	**441,286**	**31,981**
Gross carrying amount	-	-	**626,627**	**119,083**
Stage 3 (Lifetime ECL and credit-impaired):				
Sub-Standard	-	-	**12,712**	**106**
Doubtful	-	-	**19,527**	**928**
Loss	-	-	**133,544**	**3,738**
Gross carrying amount	-	-	**165,783**	**4,772**
Provisions for impairment:				
Stage 1	**36**	**239**	**9,768**	**426**
Stage 2	-	-	**59,305**	**101**
Stage 3	-	-	**110,563**	**3,160**
Total	**36**	**239**	**179,636**	**3,687**

Notes to the Financial Statements
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39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1. Credit risk (continued)

v) Credit risk profile (continued)

Consolidated 2021	Due from banks RO'000	Investment securities RO'000	Loans and advances including interest receivable RO'000	Credit related contingent items including acceptances RO'000
Stage 1 (12-month ECL)				
High	26,432	-	583,812	218,576
Standard	24,614	296,303	1,250,602	337,868
Satisfactory	-	-	385,505	208,988
Gross carrying amount	51,046	296,303	2,219,919	765,432
Stage 2 (Lifetime ECL but not credit-impaired)				
High	-	-	21,169	34,463
Standard	-	-	143,168	40,661
Satisfactory	-	-	418,041	59,602
Gross carrying amount	-	-	582,378	134,726
Stage 3 (Lifetime ECL and credit-impaired)				
Sub-Standard	-	-	2,728	970
Doubtful	-	-	12,275	50
Loss	-	-	123,023	4,542
Gross carrying amount	-	-	138,026	5,562
Provisions for impairment:				
Stage 1	74	282	9,215	551
Stage 2	-	-	41,959	358
Stage 3	-	-	89,849	2,488
Total	74	282	141,023	3,397

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1. Credit risk (continued)

v) Credit risk profile (continued)

2022 Parent Company	Due from banks RO'000	Investment securities RO'000	Loans and advances including interest receivable RO'000	Credit related contingent items including acceptances RO'000
Stage 1 (12-month ECL)				
High	30,087	-	646,126	159,847
Standard	18,106	264,856	854,977	347,444
Satisfactory	-	-	172,260	88,000
Gross carrying amount	48,193	264,856	1,673,363	595,291
Stage 2 (Lifetime ECL but not credit-impaired)				
High	-	-	15,846	26,993
Standard	-	-	127,644	58,974
Satisfactory	-	-	382,556	31,444
Gross carrying amount	-	-	526,046	117,411
Stage 3 (Lifetime ECL and credit-impaired)				
Sub-Standard	-	-	11,658	50
Doubtful	-	-	11,197	783
Loss	-	-	100,558	3,506
Gross Carrying amount	-	-	123,413	4,339
Provisions for impairment:				
Stage 1	32	237	6,324	201
Stage 2	-	-	49,615	67
Stage 3	-	-	81,872	2,950
Total	32	237	137,811	3,218

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1. Credit risk (continued)

v) Credit risk profile (continued)

2021 Parent Company	Due from banks RO'000	Investment securities RO'000	Loans and advances including interest receivable RO'000	Credit related contingent items including acceptances RO'000
Stage 1 (12-month ECL)				
High	26,432	-	581,671	218,576
Standard	28,121	233,832	562,404	234,337
Satisfactory	-	-	347,492	172,097
Gross carrying amount	54,553	233,832	1,491,567	625,010
Stage 2 (Lifetime ECL but not credit-impaired)				
High	-	-	21,169	34,463
Standard	-	-	92,252	38,009
Satisfactory	-	-	374,405	59,601
Gross carrying amount	-	-	487,826	132,073
Stage 3 (Lifetime ECL and credit-impaired)				
Sub-Standard	-	-	2,090	970
Doubtful	-	-	5,547	40
Loss	-	-	98,890	4,310
Gross carrying amount	-	-	106,527	5,320
Provisions for impairment:				
Stage 1	73	276	7,311	323
Stage 2	-	-	31,840	138
Stage 3	-	-	64,912	2,408
Total	73	276	104,063	2,869

vi) Economic variable assumptions

The following tables set out the key drivers of expected loss and the assumptions used for the Bank's base case estimate, ECLs based on the base case, plus the effect of the use of multiple economic scenarios, as at 31 December 2022.

2022	ECL scenario and assigned weightage	Present	Year 1	Year 2	Year 3	Year 4
	Base (66.6%)	**(2.83%)**	**2.36%**	**5.84%**	**3.45%**	**3.45%**
GDP growth (% change)	Good (27.8%)	**1.53%**	**5.28%**	**7.30%**	**3.45%**	**3.45%**
	Bad (5.6%)	**(5.45%)**	**0.62%**	**4.97%**	**3.45%**	**3.45%**
	Base (66.6%)	**26.90%**	**43.40%**	**33.50%**	**33.50%**	**33.50%**
Oil revenue (% of GDP)	Good (27.8%)	**41.18%**	**52.92%**	**38.27%**	**33.50%**	**33.50%**
	Bad (5.6%)	**18.36%**	**37.71%**	**30.65%**	**33.50%**	**33.50%**

2021	ECL scenario and assigned weightage	Present	Year 1	Year 2	Year 3	Year 4
	Base (50%)	(0.83%)	(4.37%)	1.23%	2.93%	2.79%
GDP growth (% change)	Good (25%)	4.46%	(0.85%)	3.00%	2.93%	2.79%
	Bad (25%)	(3.39%)	(6.08%)	0.38%	2.93%	2.79%
	Base (50%)	20.04%	30.74%	31.18%	26.71%	26.71%
Oil revenue (% of GDP)	Good (25%)	37.31%	42.25%	36.95%	26.71%	26.71%
	Bad (25%)	11.66%	25.15%	28.38%	26.71%	26.71%

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1. Credit risk (continued)

vi) Economic variable assumptions (continued)

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Bank's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

39.1.1. Risk mitigation policies

The Bank manages limits and controls concentrations of credit risk – in particular, to individual counterparties and groups, and to 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 Risk Committee and Risk Management committee of the Board of Directors and the Board of Directors.

The exposure to any one borrower including banks is further restricted by sub-limits covering on- and off-balance sheet exposures. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

a) Collateral

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 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 premises, inventory and accounts receivable
- lien on fixed deposits
- cash margins
- mortgages over residential and commercial properties
- pledge of marketable shares and securities

Longer-term finance and lending to corporate entities are generally secured. The housing loans are secured by mortgage over the residential property. Additionally, in order to minimise the credit loss, the Bank seeks additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1. Credit risk (continued)

39.1.1 Risk mitigation policies (continued)

b) Assessment of the financial capabilities of the borrowers

The borrowers with balances above the limit specified are subject to the review of their audited financial statements. The relationship managers remain in close contact with the borrowers. The Bank assesses the financial performance of the borrowers by reviewing key performance ratios, including solvency and liquidity ratios. The annual reviews are performed by the relationship managers and are also reviewed by the Credit Review Division.

c) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. The concentration of credit related commitments by industry sector at the year-end is set out in Note 39.1.2(g).

An analysis of the loans and advances for which collaterals or other credit enhancements are held is as follows:

	Performing loans (neither past due nor impaired)	Loans Past due and not impaired	Non-performing loans	Total
Consolidated	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Loans and advances with collateral available	1,689,733	145,735	73,889	1,909,357
Loans and advances with guarantees available	233,567	33,678	1,163	268,408
Total as at 31 December 2022	**1,923,300**	**179,413**	**75,052**	**2,177,765**
Percentage of exposure with collateral and guarantees	67%	91%	45%	67%
Parent Company	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Loans and advances with collateral available	1,412,916	124,022	52,704	1,589,642
Loans and advances with guarantees available	168,567	33,678	1,163	203,408
Total as at 31 December 2022	**1,581,483**	**157,700**	**53,867**	**1,793,050**
Percentage of exposure with collateral and guarantees	79%	94%	44%	78%

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1. Credit risk (continued)

39.1.1. Risk mitigation policies (continued)

c) Credit-related commitments (continued)

Consolidated	Performing loans (neither past due nor impaired) RO'000	Loans Past due and not impaired RO'000	Non-performing loans RO'000	Total RO'000
Loans and advances with collateral available	901,166	213,560	50,371	1,165,097
Loans and advances with guarantees available	448,866	57,534	12,478	518,878
Total as at 31 December 2021	**1,350,032**	**271,094**	**62,849**	**1,683,975**
Percentage of exposure with collateral and guarantees	54%	98%	46%	58%
Parent Company	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Loans and advances with collateral available	605,836	157,266	27,689	790,791
Loans and advances with guarantees available	380,693	56,633	7,588	444,914
Total as at 31 December 2021	**986,529**	**213,899**	**35,277**	**1,235,705**
Percentage of exposure with collateral and guarantees	57%	99%	33%	60%

The analysis of gross exposure to credit risk before collateral held or other credit enhancements is as follows:

	Consolidated		Parent Company	
	2022	2021	2022	2021
	RO' 000	RO' 000	RO' 000	RO' 000
Cash and balances with central bank	**99,913**	188,904	**31,034**	105,954
Due from banks	**53,707**	51,046	**48,193**	54,553
- Corporate loans	**2,046,254**	1,807,193	**1,491,366**	1,329,130
- Personal loans	**1,200,445**	1,087,264	**811,429**	735,944
Loans and advances	**3,246,699**	2,894,457	**2,302,795**	2,065,074
Other assets	**79,660**	80,236	**50,984**	53,064
GDBs and Government Sukuk	**290,818**	264,405	**228,898**	205,236
Corporate bonds	**36,780**	31,898	**35,958**	28,596
Other investments	**4,295**	6,475	**3,807**	6,475
Items on the statement of financial position	**3,811,872**	3,517,421	**2,701,669**	2,518,952
Letters of credit	**127,451**	163,773	**35,277**	83,165
Guarantees	**197,325**	213,284	**168,451**	187,629
Financial guarantees	**68,465**	74,126	**68,465**	74,126
Off-Balance sheet items	**393,241**	451,183	**272,193**	344,920

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1. Credit risk (continued)

39.1.2. Credit Risk Analysis

The analysis of due from banks is as follows:

	Consolidated		Parent Company	
	2022	2021	2022	2021
	RO' 000	RO' 000	RO' 000	RO' 000
Neither past due nor impaired	**57,707**	51,046	**48,193**	54,553
Past due but not impaired	**-**	-	**-**	-
Impaired	**-**	-	**-**	-
Gross due from banks	**57,707**	51,046	**48,193**	54,553
Less: expected credit loss	**(36)**	(74)	**(32)**	(73)
Due from banks (net)	**53,671**	50,972	**48,161**	54,480

b) The analysis of loans, advances and financing to customers is as follows:

	Consolidated		Parent Company	
	2022	2021	2022	2021
	RO' 000	RO' 000	RO' 000	RO' 000
Neither past due nor impaired	**2,882,878**	2,479,070	**2,011,281**	1,743,273
Past due but not impaired	**198,038**	277,361	**168,101**	215,274
Impaired	**165,783**	138,026	**123,413**	106,527
Gross loans, advances and financing to customers	**3,246,699**	2,894,457	**2,302,795**	2,065,074
Less: allowances for credit losses and suspended interest	**(179,636)**	(141,023)	**(137,811)**	(104,063)
Loans, advances and financing to customers (net)	**3,067,063**	2,753,434	**2,164,984**	1,961,011

	Consolidated		Parent Company	
	2022	2021	2022	2021
	RO' 000	RO' 000	RO' 000	RO' 000
Past due up to 30 days	**122,884**	129,418	**109,836**	99,502
Past due 30-60 days	**53,397**	97,634	**39,874**	71,052
Past due 60-90 days	**36,717**	50,309	**18,391**	44,720
Total past due but not impaired	**212,998**	277,361	**168,101**	215,274

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1. Credit risk (continued)

39.1.2. Credit Risk Analysis (continued)

b) The analysis of loans, advances and financing to customers is as follows: (continued)

	Consolidated			Parent Company		
	Retail loans	Corporate loans	Total	Retail loans	Corporate loans	Total
2022	**RO' 000**	**RO' 000**	**RO' 000**	**RO' 000**	**RO' 000**	**RO' 000**
Standard loans (1 – 10)	**1,178,300**	**1,545,191**	**2,723,491**	**795,790**	**1,050,620**	**1,846,410**
Special mention loans	**4,504**	**352,921**	**357,425**	**2,186**	**330,786**	**332,972**
Substandard loans	**1,924**	**10,787**	**12,711**	**988**	**10,670**	**11,658**
Doubtful loans	**1,960**	**17,568**	**19,528**	**1,274**	**9,923**	**11,197**
Loss	**13,755**	**119,789**	**133,544**	**11,191**	**89,367**	**100,558**
Gross loans, advances and financing to customers	**1,200,443**	**2,046,256**	**3,246,699**	**811,429**	**1,491,366**	**2,302,795**
Less: allowances for credit losses and suspended interest	**(15,414)**	**(164,222)**	**(179,636)**	**(11,889)**	**(125,922)**	**(137,811)**
Net loans, advances and financing to customers	**1,185,029**	**1,882,034**	**3,067,063**	**799,540**	**1,365,444**	**2,164,984**
2021	**RO' 000**	**RO' 000**	**RO' 000**	**RO' 000**	**RO' 000**	**RO' 000**
Standard loans (1 – 10)	1,059,605	1,131,723	2,191,328	716,863	752,898	1,469,761
Special mention loans	7,184	557,919	565,103	1,666	487,120	488,786
Substandard loans	1,071	1,657	2,728	863	1,227	2,090
Doubtful loans	3,193	9,082	12,275	2,745	2,802	5,547
Loss	16,187	106,836	123,023	13,807	85,083	98,890
Gross loans, advances and financing to customers	1,087,240	1,807,217	2,894,457	735,944	1,329,130	2,065,074
Less: allowances for credit losses and suspended interest	(15,998)	(125,025)	(141,023)	(12,711)	(91,352)	(104,063)
Net loans, advances and financing to customers	1,071,242	1,682,192	2,753,434	723,233	1,237,778	1,961,011

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1. Credit risk (continued)

39.1.2. Credit Risk Analysis (continued)

c) Exposure at default and movement in the expected credit losses:

	Consolidated							
	2022				2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Exposure at default	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
- Loans and Advances to Customers including interest receivables	**2,474,316**	**626,627**	**165,783**	**3,266,726**	2,219,919	582,378	138,026	2,940,323
- Investment Securities (Debt)	**327,600**	**-**	**-**	**327,600**	296,303	-	-	296,303
- Loan Commitments, financial guarantees and acceptances	**715,152**	**119,083**	**4,772**	**839,007**	765,432	134,726	5,562	905,720
- Due from Banks, Central Banks and Other Financial Assets	**53,707**	**-**	**-**	**53,707**	51,046	-	-	51,046
Exposure subject to ECL	**3,570,775**	**745,710**	**170,555**	**4,487,040**	3,332,700	717,104	143,588	4,193,392
Movement of ECL	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
- Loans and Advances to Customers including interest receivables	**9,215**	**41,721**	**71,462**	**122,398**	9,820	29,587	50,968	90,375
- Investment Securities (Debt)	**282**	**-**	**-**	**282**	67	-	403	470
- Loan Commitments, financial guarantees and acceptances	**551**	**358**	**2,488**	**3,397**	217	219	1,733	2,169
- Due from Banks, Central Banks and Other Financial Assets	**74**	**-**	**-**	**74**	41	-	-	41
Opening balance as at 1 January	**10,122**	**42,079**	**73,950**	**126,151**	10,145	29,806	53,104	93,055
- Loans and Advances to Customers including interest receivables	**(10,382)**	**7,240**	**3,142**	**-**	542	(772)	230	-
- Investment Securities (Debt)	**-**	**-**	**-**	**-**	-	-	-	-
- Loan Commitments, financial guarantees and acceptances	**(38)**	**54**	**(16)**	**-**	4	(1)	-	3
- Due from Banks, Central Banks and Other Financial Assets	**-**	**-**	**-**	**-**	-	-	-	-
Net transfer between stages	**(10,420)**	**7,294**	**3,126**	**-**	546	(773)	230	3
- Loans and Advances to Customers including interest receivables	**10,935**	**6,251**	**12,949**	**30,135**	(1,147)	12,906	22,385	34,144
- Investment Securities (Debt)	**(43)**	**-**	**-**	**(43)**	215	-	(403)	(188)
- Loan Commitments, financial guarantees and acceptances	**(87)**	**(311)**	**688**	**290**	330	140	755	1,225
- Due from Banks, Central Banks and Other Financial Assets	**(38)**	**-**	**-**	**(38)**	33	-	-	33
Charge for the year (net)	**10,767**	**5,940**	**13,637**	**30,344**	(569)	13,046	22,737	35,214
Write Off	**-**	**-**	**(2,821)**	**(2,821)**	-	-	(2,121)	(2,121)
- Loans and Advances to Customers including interest receivables	**9,768**	**55,212**	**84,732**	**149,712**	9,215	41,721	71,462	122,398
- Investment Securities (Debt)	**239**	**-**	**-**	**239**	282	-	-	282
- Loan Commitments, financial guarantees and acceptances	426	101	3,160	3,687	551	358	2,488	3,397
- Due from Banks, Central Banks and Other Financial Assets	**36**	**-**	**-**	**36**	74	-	-	74
Closing balance as at 31 December	**10,469**	**55,313**	**87,892**	**153,674**	10,122	42,079	73,950	126,151

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1. Credit risk (continued)

39.1.2. Credit Risk Analysis (continued)

c) Exposure at default and movement in the expected credit losses: (continued)

	Parent Company							
	2022				2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Exposure at default	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
- Loans and Advances to Customers including interest receivables	**1,673,363**	**526,046**	**123,413**	**2,322,822**	1,491,567	487,826	106,527	2,085,920
- Investment Securities (Debt)	**264,856**	**-**	**-**	**264,856**	233,832	-	-	233,832
- Loan Commitments, financial guarantees and acceptances	**595,291**	**117,411**	**4,339**	**717,041**	625,010	132,073	5,320	762,403
- Due from Banks, Central Banks and Other Financial Assets	**48,193**	**-**	**-**	**48,193**	54,553	-	-	54,553
Exposure subject to ECL	**2,581,703**	**643,457**	**127,752**	**3,352,912**	2,404,962	619,899	111,847	3,136,708
Movement of ECL	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
- Loans and Advances to Customers including interest receivables	**7,311**	**31,840**	**49,046**	**88,197**	7,169	19,534	33,613	60,316
- Investment Securities (Debt)	**276**	**-**	**-**	**276**	67	-	-	67
- Loan Commitments, financial guarantees and acceptances	**323**	**138**	**2,408**	**2,869**	193	181	1,563	1,937
- Due from Banks, Central Banks and Other Financial Assets	**73**	**-**	**-**	**73**	40	-	-	40
Opening balance as at 1 January	**7,983**	**31,978**	**51,454**	**91,415**	7,469	19,715	35,176	62,360
- Loans and Advances to Customers including interest receivables	**(9,743)**	**8,606**	**1,137**	**-**	609	(839)	230	-
- Investment Securities (Debt)	**-**	**-**	**-**	**-**	-	-	-	-
- Loan Commitments, financial guarantees and acceptances	**(23)**	**23**	**-**	**-**	4	(7)	-	(3)
- Due from Banks, Central Banks and Other Financial Assets	**-**	**-**	**-**	**-**	-	-	-	-
Net transfer between stages	**(9,766)**	**8,629**	**1,137**	**-**	613	(846)	230	(3)
- Loans and Advances to Customers including interest receivables	**8,756**	**5,076**	**12,770**	**26,602**	(467)	13,145	17,324	30,002
- Investment Securities (Debt)	**(39)**	**-**	**-**	**(39)**	209	-	-	209
- Loan Commitments, financial guarantees and acceptances	**(99)**	**(94)**	**542**	**349**	126	(36)	845	935
- Due from Banks, Central Banks and Other Financial Assets	**(41)**	**-**	**-**	**(41)**	33	-	-	33
Charge for the year (net)	**8,577**	**4,982**	**13,312**	**26,871**	(99)	13,109	18,169	31,179
Write Off	**-**	**-**	**(2,821)**	**(2,821)**	-	-	(2,121)	(2,121)
- Loans and Advances to Customers including interest receivables	**6,324**	**45,522**	**60,132**	**111,978**	7,311	31,840	49,046	88,197
- Investment Securities (Debt)	**237**	**-**	**-**	**237**	276	-	-	276
- Loan Commitments, financial guarantees and acceptances	**201**	**67**	**2,950**	**3,218**	323	138	2,408	2,869
- Due from Banks, Central Banks and Other Financial Assets	**32**	**-**	**-**	**32**	73	-	-	73
Closing balance as at 31 December	**6,794**	**45,589**	**63,082**	**115,465**	7,983	31,978	51,454	91,415

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1. Credit risk (continued)

39.1.2. Credit Risk Analysis (continued)

d) Impairment charge and provisions held:

	Consolidated					
	2022			2021		
	As per CBO Norms	As per IFRS 9	Difference	As per CBO Norms	As per IFRS 9	Difference
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Impairment loss charged to profit or loss account [1]	**30,344**	**30,344**	**-**	35,214	35,214	-
Provisions required as per CBO norms/held as per IFRS 9 [1]	**154,835**	**153,674**	**(1,161)**	127,577	126,151	(1,426)
Gross NPL ratio [2]	**5.11%**	**5.11%**	**-**	4.77%	4.77%	-
Net NPL ratio [2]	**1.48%**	**1.80%**	**-**	1.28%	1.74%	-

	Parent Company					
	2022			2021		
	As per CBO Norms	As per IFRS 9	Difference	As per CBO Norms	As per IFRS 9	Difference
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Impairment loss charged to profit or loss account [1]	**26,871**	**26,871**	**-**	31,179	31,179	-
Provisions required as per CBO norms/held as per IFRS 9 [1]	**117,782**	**115,465**	**(2,317)**	96,295	91,415	(4,880)
Gross NPL ratio [2]	**5.36%**	**5.36%**	**-**	5.16%	5.16%	-
Net NPL ratio [2]	**1.60%**	**1.92%**	**-**	1.46%	2.12%	-

1. Impairment loss and provisions held include unallocated provision.
2. NPL ratios are calculated on the basis of funded non-performing loans and funded exposures.

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1. Credit risk (continued)

39.1.2. Credit Risk Analysis (continued)

e) Comparison of provision held as per IFRS 9 and required as per CBO guidelines

Consolidated Asset Classification as per CBO Norms 2022	Asset classification as per IFRS 9	Gross Amount RO'000	Provision required as per CBO Norms RO'000	Provision held as per IFRS 9 RO'000	Difference between CBO provision required and provision held RO'000	Reserve interest as per CBO norms RO'000	Net Amount as per CBO norms[1] RO'000	Net Amount as per IFRS 9 RO'000
		(1)	(2)	(3)	(4) = (2)-(3)	(7)	(8) = (1)-(2)-(7)	(9) = (1)-(3)-(7)
Standard	Stage 1	2,454,047	29,987	9,633	20,354	-	2,424,060	2,444,414
	Stage 2	274,092	2,701	11,316	(8,615)	-	271,391	262,776
	Stage 3	-		-	-	-	-	-
	Sub-total	2,728,139	32,688	20,949	11,739	-	2,695,451	2,707,190
Special Mention	Stage 1	20,269	256	134	122	-	20,013	20,135
	Stage 2	352,535	26,886	43,895	(17,009)	4,093	321,556	304,547
	Stage 3	-		-	-	-	-	-
	Sub-total	372,804	27,142	44,029	(16,887)	4,903	341,569	324,682
Substandard	Stage 1	-		-	-	-	-	-
	Stage 2	-		-	-	-	-	-
	Stage 3	12,711	3,438	5,369	(1,931)	378	8,895	6,964
	Sub-total	12,711	3,438	5,369	(1,931)	378	8,895	6,964
Doubtful	Stage 1	-		-	-		-	-
	Stage 2	-		-	-		-	-
	Stage 3	19,528	7,141	7,073	68	1,905	10,482	10,550
	Sub-total	19,528	7,141	7,073	68	1,905	10,482	10,550
Loss	Stage 1	-		-	-	-	-	-
	Stage 2	-		-	-	-	-	-
	Stage 3	133,544	84,107	72,290	11,817	23,548	25,889	37,706
	Sub-total	133,544	84,107	72,290	11,817	23,548	25,889	37,706
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	1,096,459		702	(702)	-	1,096,459	1,095,757
	Stage 2	119,083		102	(102)	-	119,083	118,981
	Stage 3	4,772	319	3,160	(2,841)	-	4,453	1,612
	Sub-total	1,220,314	319	3,964	(3,645)	-	1,219,995	1,216,350
Total	Stage 1	3,570,775	30,243	10,469	19,774	-	3,540,532	3,560,306
	Stage 2	745,710	29,587	55,313	(25,726)	4,093	712,030	686,304
	Stage 3	170,555	95,005	87,892	7,113	25,831	49,719	56,832
	Total	4,487,040	154,835	153,674	1,161	29,924	4,302,281	4,303,442

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1. Credit risk (continued)

39.1.2. Credit Risk Analysis (continued)

e) Comparison of provision held as per IFRS 9 and required as per CBO guidelines

Consolidated

Asset Classification as per CBO Norms 2021	Asset classification as per IFRS 9	Gross Amount RO'000	Provision required as per CBO Norms RO'000	Provision held as per IFRS 9 RO'000	Difference between CBO provision required and provision held RO'000	Reserve interest as per CBO norms RO'000	Net Amount as per CBO norms[1] RO'000	Net Amount as per IFRS 9 RO'000
		(1)	(2)	(3)	(4) = (2)-(3)	(7)	(8) = (1)-(2)-(7)	(9) = (1)-(3)-(7)
Standard	Stage 1	1,990,309	25,749	7,743	18,006	-	1,964,560	1,982,566
	Stage 2	233,759	2,303	7,891	(5,588)	-	231,456	225,868
	Stage 3	-	-	-	-	-	-	-
	Sub-total	2,224,068	28,052	15,634	12,418	-	2,196,016	2,208,434
Special Mention	Stage 1	229,610	1,938	1,472	466	-	227,672	228,138
	Stage 2	348,619	13,029	33,830	(20,801)	-	335,590	314,789
	Stage 3	-	-	-	-	-	-	-
	Sub-total	578,229	14,967	35,302	(20,335)	-	563,262	542,927
Substandard	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	2,728	849	1,088	(239)	142	1,737	1,498
	Sub-total	2,728	849	1,088	(239)	142	1,737	1,498
Doubtful	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	12,275	5,437	6,982	(1,545)	769	6,069	4,524
	Sub-total	12,275	5,437	6,982	(1,545)	769	6,069	4,524
Loss	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	123,023	78,037	63,392	14,645	17,714	27,272	41,917
	Sub-total	123,023	78,037	63,392	14,645	17,714	27,272	41,917
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	1,112,781	-	907	(907)	-	1,112,781	1,111,874
	Stage 2	134,726	-	358	(358)	-	134,726	134,368
	Stage 3	5,562	235	2,488	(2,253)	-	5,327	3,074
	Sub-total	1,253,069	235	3,753	(3,518)	-	1,252,834	1,249,316
Total	Stage 1	3,332,700	27,687	10,122	17,565	-	3,305,013	3,322,578
	Stage 2	717,104	15,332	42,317	(26,985)	-	701,772	675,025
	Stage 3	143,588	84,558	73,950	10,608	18,625	40,405	51,013
	Total	4,193,392	127,577	126,389	1,188	18,625	4,047,190	4,048,616

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1. Credit risk (continued)

39.1.2. Credit Risk Analysis (continued)

e) Comparison of provision held as per IFRS 9 and required as per CBO guidelines

Parent Company Asset Classification as per CBO Norms 2022	Asset classification as per IFRS 9	Gross Amount RO'000	Provision required as per CBO Norms RO'000	Provision held as per IFRS 9 RO'000	Difference between CBO provision required and provision held RO'000	Reserve interest as per CBO norms RO'000	Net Amount as per CBO norms[1] RO'000	Net Amount as per IFRS 9 RO'000
		(1)	(2)	(3)	(4) = (2)-(3)	(7)	(8) = (1)-(2)-(7)	(9) = (1)-(3)-(7)
Standard	Stage 1	1,653,183	21,765	6,190	15,575	-	1,631,418	1,646,993
	Stage 2	197,875	1,956	4,750	(2,794)	-	195,919	193,125
	Stage 3	-	-	-	-	-	-	-
	Sub-total	1,851,058	23,721	10,940	12,781	-	1,827,337	1,840,118
Special Mention	Stage 1	20,180	255	134	121	-	19,925	20,046
	Stage 2	328,171	26,648	40,772	(14,124)	4,093	297,430	283,306
	Stage 3	-	-	-	-	-	-	-
	Sub-total	348,351	26,903	40,906	(14,003)	4,093	317,355	303,352
Substandard	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	11,658	2,810	4,966	(2,156)	360	8,488	6,332
	Sub-total	11,658	2,810	4,966	(2,156)	360	8,488	6,332
Doubtful	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	11,197	4,725	4,441	284	849	5,623	5,907
	Sub-total	11,197	4,725	4,441	284	849	5,623	5,907
Loss	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	100,558	59,623	50,725	8,898	20,531	20,404	29,302
	Sub-total	100,558	59,623	50,725	8,898	20,531	20,404	29,302
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	908,340	-	470	(470)	-	908,340	907,870
	Stage 2	117,411	-	67	(67)	-	117,411	117,344
	Stage 3	4,339	-	2,950	(2,950)	-	4,339	1,389
	Sub-total	1,030,090	-	3,487	(3,487)	-	1,030,090	1,026,603
Total	Stage 1	2,581,703	22,020	6,794	15,226	-	2,559,683	2,574,909
	Stage 2	643,457	28,604	45,589	(16,985)	4,093	610,760	593,775
	Stage 3	127,752	67,158	63,082	4,076	21,740	38,854	42,930
	Total	3,352,912	117,782	115,465	2,317	25,833	3,209,297	3,211,614

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1. Credit risk (continued)

39.1.2. Credit Risk Analysis (continued)

e) Comparison of provision held as per IFRS 9 and required as per CBO guidelines

Parent Company

Asset Classification as per CBO Norms 2021	Asset classification as per IFRS 9	Gross Amount RO'000	Provision required as per CBO Norms RO'000	Provision held as per IFRS 9 RO'000	Difference between CBO provision required and provision held RO'000	Reserve interest as per CBO norms RO'000	Net Amount as per CBO norms[1] RO'000	Net Amount as per IFRS 9 RO'000
		(1)	(2)	(3)	(4) = (2)-(3)	(7)	(8) = (1)-(2)-(7)	(9) = (1)-(3)-(7)
Standard	Stage 1	1,299,970	17,578	6,175	11,403	-	1,282,392	1,293,795
	Stage 2	182,843	1,804	3,570	(1,766)	-	181,039	179,273
	Stage 3	-	-	-	-	-	-	-
	Sub-total	1,482,813	19,382	9,745	9,637	-	1,463,431	1,473,068
Special Mention	Stage 1	191,597	1,887	1,136	751	-	189,710	190,461
	Stage 2	304,983	12,924	28,270	(15,346)	-	292,059	276,713
	Stage 3	-	-	-	-	-	-	-
	Sub-total	496,580	14,811	29,406	(14,595)	-	481,769	467,174
Substandard	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	2,090	713	709	4	84	1,293	1,297
	Sub-total	2,090	713	709	4	84	1,293	1,297
Doubtful	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	5,547	2,246	2,310	(64)	394	2,907	2,843
	Sub-total	5,547	2,246	2,310	(64)	394	2,907	2,843
Loss	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	98,890	59,143	46,027	13,116	15,388	24,359	37,475
	Sub-total	98,890	59,143	46,027	13,116	15,388	24,359	37,475
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	913,395	-	672	(672)	-	913,395	912,723
	Stage 2	132,073	-	138	(138)	-	132,073	131,935
	Stage 3	5,320	-	2,408	(2,408)	-	5,320	2,912
	Sub-total	1,050,788	-	3,218	(3,218)	-	1,050,788	1,047,570
Total	Stage 1	2,404,962	19,465	7,983	11,482	-	2,385,497	2,396,979
	Stage 2	619,899	14,728	31,978	(17,250)	-	605,171	587,921
	Stage 3	111,847	62,102	51,454	10,648	15,866	33,879	44,527
	Total	3,136,708	96,295	91,415	4,880	15,866	3,024,547	3,029,427

1. The CBO regulations require that the allowance for credit losses should be in accordance with IFRS 9 and if the provision requirements as per the CBO guidelines are higher than IFRS 9, the difference, net of tax, needs to be transferred to the "Impairment Reserve" as an appropriation from net profit after tax. In January 2022, the CBO suspended the two-track approach / parallel run for the computation of additional provisions as per the CBO norms for 2022. Accordingly, there were no transfers to the impairment reserve in 2022. Further, the provision/ECL amount held above is excluding the special reserve for restructured cases.

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1. Credit risk (continued)

39.1.2. Credit Risk Analysis (continued)

f) Restructured loans

Consolidated Asset Classification as per CBO Norms 2022	Asset Classification as per IFRS 9	Gross Carrying Amount RO'000	Provision required as per CBO Norms RO'000	Provision held as per IFRS 9 RO'000	Difference between CBO provision required and provision held RO'000	Reserve interest as per CBO norms RO'000	Net Amount as per CBO norms RO'000	Net Amount as per IFRS 9 RO'000
		(1)	(2)	(3)	(4) = (2)-(3)	(7)	(8)=(1)-(2)-(7)	(9)=(1)-(3)-(7)
Classified as performing	Stage 1	**76,817**	**1,018**	**1,427**	**(409)**	**-**	**75,799**	**75,390**
	Stage 2	**364,050**	**26,166**	**39,314**	**(13,148)**	**3,733**	**334,151**	**321,003**
	Stage 3	-	-	-	-	-	-	-
	Sub-total	**440,867**	**27,184**	**40,741**	**(13,557)**	**3,733**	**409,950**	**396,393**
Classified as non-performing	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	**47,181**	**30,340**	**29,886**	**454**	**5,470**	**11,371**	**11,825**
	Sub-total	**47,181**	**30,340**	**29,886**	**454**	**5,470**	**11,371**	**11,825**
Total	Stage 1	**76,817**	**1,018**	**1,427**	**(409)**	**-**	**75,799**	**75,390**
	Stage 2	**364,050**	**26,166**	**39,314**	**(13,148)**	**3,733**	**334,151**	**321,003**
	Stage 3	**47,181**	**30,340**	**29,886**	**454**	**5,470**	**11,371**	**11,825**
	Total	**488,048**	**57,524**	**70,627**	**(13,103)**	**9,203**	**421,321**	**408,218**
2021		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
		(1)	(2)	(3)	(4) = (2)-(3)	(7)	(8)=(1)-(2)-(7)	(9)=(1)-(3)-(7)
Classified as performing	Stage 1	13,242	51	254	(203)	-	13,191	12,988
	Stage 2	182,374	11,102	21,588	(10,486)	-	171,272	160,786
	Stage 3	-	-	-	-	-	-	-
	Sub-total	195,616	11,153	21,842	(10,689)	-	184,463	173,774
Classified as non-performing	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	35,744	26,930	22,375	4,555	3,230	5,584	10139
	Sub-total	35,744	26,930	22,375	4,555	3,230	5,584	10,139
Total	Stage 1	13,242	51	254	(203)	-	13,191	12,988
	Stage 2	182,374	11,102	21,588	(10,486)	-	171,272	160,786
	Stage 3	35,744	26,930	22,375	4,555	3,230	5,584	10,139
	Total	231,360	38,083	44,217	(6,134)	3,230	190,047	183,913

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1. Credit risk (continued)

39.1.2. Credit Risk Analysis (continued)

f) Restructured loans (continued)

Parent Company

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Carrying Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Reserve interest as per CBO norms	Net Amount as per CBO norms	Net Amount as per IFRS 9
2022		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
		(1)	(2)	(3)	(4) = (2)-(3)	(7)	(8)=(1)-(2)-(7)	(9)=(1)-(3)-(7)
	Stage 1	**8,986**	**152**	**418**	**(266)**	-	**8,834**	**8,568**
	Stage 2	**286,003**	**25,495**	**32,955**	**(7,460)**	**3,733**	**256,775**	**249,315**
	Stage 3	-	-	-	-	-	-	-
Classified as performing	**Sub-total**	**294,989**	**25,647**	**33,373**	**(7,726)**	**3,733**	**265,609**	**257,883**
	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	**39,828**	**25,766**	**25,302**	**464**	**4,850**	**9,212**	**9,676**
Classified as non-performing	**Sub-total**	**39,828**	**25,766**	**25,302**	**464**	**4,850**	**9,212**	**9,676**
	Stage 1	**8,986**	**152**	**418**	**(266)**	-	**8,834**	**8,568**
	Stage 2	**286,003**	**25,495**	**32,955**	**(7,460)**	**3,733**	**256,775**	**249,315**
	Stage 3	**39,828**	**25,766**	**25,302**	**464**	**4,850**	**9,212**	**9,676**
Total	**Total**	**334,817**	**51,413**	**58,675**	**(7,262)**	**8,583**	**274,821**	**267,559**
2021		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
		(1)	(2)	(3)	(4) = (2)-(3)	(7)	(8)=(1)-(2)-(7)	(9)=(1)-(3)-(7)
	Stage 1	-	-	-	-	-	-	-
	Stage 2	145,495	10,997	18,513	(7,516)	-	134,498	126,982
	Stage 3	-	-	-	-	-	-	-
Classified as performing	**Sub-total**	145,495	10,997	18,513	(7,516)	-	134,498	126,982
	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	30,149	21,812	18,230	3,582	2,753	5,584	9,166
Classified as non-performing	**Sub-total**	30,149	21,812	18,230	3,582	2,753	5,584	9,166
	Stage 1	-	-	-	-	-	-	-
	Stage 2	145,495	10,997	18,513	(7,516)	-	134,498	126,982
	Stage 3	30,149	21,812	18,230	3,582	2,753	5,584	9,166
Total	**Total**	175,644	32,809	36,743	(3,934)	2,753	140,082	136,148

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1. Credit risk (continued)

39.1.2. Credit Risk Analysis (continued)

g) Concentration of risk

Concentrations risk is the potential loss in value when a number of counterparties or exposures move together in unfavourable direction. They may have comparable economic characteristics, or are engaged in similar activities or operate in the same geographical areas or industry sectors so that their collective ability to meet contractual obligations is uniformly affected by changes in economic, political or other conditions. The Bank uses a number of controls and measures to minimise undue concentration of exposure across industries, countries and business.

The concentration of gross exposures by sector is as follows:

	Consolidated							
	2022				2021			
By sector	Due from banks RO'000	Loans and advances RO'000	Investment securities RO'000	Contingent liabilities RO'000	Due from banks RO'000	Loans and advances RO'000	Investment securities RO'000	Contingent liabilities RO'000
Personal	**-**	**1,200,445**	**-**	**-**	-	1,087,264	-	-
Corporate	**53,671**	**2,046,253**	**40,838**	**306,377**	50,972	1,807,192	60,834	375,750
Government	**-**	**1**	**290,818**	**86,864**	-	1	241,662	75,433
Total	**53,671**	**3,246,699**	**331,656**	**393,241**	50,972	2,894,457	302,496	451,183

	Parent Company							
	2022				2021			
By sector	Due from banks RO'000	Loans and advances RO'000	Investment securities RO'000	Contingent liabilities RO'000	Due from banks RO'000	Loans and advances RO'000	Investment securities RO'000	Contingent liabilities RO'000
Personal	**-**	**811,429**	**-**	**-**	-	735,944	-	-
Corporate	**48,161**	**1,491,365**	**39,528**	**258,270**	54,480	1,329,129	57,532	342,428
Government	**-**	**1**	**228,898**	**13,923**	-	1	182,499	2,492
Total	**48,161**	**2,302,795**	**268,426**	**272,193**	54,480	2,065,074	240,031	344,920

Notes to the Financial Statements
for the year ended 31 December 2022

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1. Credit risk (continued)

39.1.2. Credit Risk Analysis (continued)

g) Concentration of risk (continued)

The concentration of gross exposures by location is as follows:

Consolidated 2022	Sultanate of Oman RO'000	Other GCC countries RO'000	Europe RO'000	United States of America RO'000	Others RO'000	Total RO'000
Cash and balances with central bank	**99,913**	-	-	-	-	**99,913**
Due from banks	**25,477**	**5,229**	**2,538**	**3,759**	**16,668**	**53,671**
Loans and advances	**3,067,063**	-	-	-	-	**3,067,063**
Investment securities	**330,710**	**757**	-	-	**189**	**331,656**
Intangible assets	**6,900**	-	-	-	-	**6,900**
Other assets	**84,131**	-	-	-	-	**84,131**
Property and equipment	**38,496**	-	-	-	-	**38,496**
Total assets	**3,652,690**	**5,986**	**2,538**	**3,759**	**16,857**	**3,681,830**
Due to banks	**54,109**	**29,869**	**9,943**	-	**220**	**94,141**
Customer deposits	**2,992,180**	-	-	-	-	**2,992,180**
Other liabilities	**94,496**	-	-	-	-	**94,496**
Taxation	**3,412**	-	-	-	-	**3,412**
Total liabilities	**3,144,197**	**29,869**	**9,943**	-	**220**	**3,184,229**

Consolidated 2021	Sultanate of Oman RO'000	Other GCC countries RO'000	Europe RO'000	United States of America RO'000	Others RO'000	Total RO'000
Cash and balances with central bank	188,904	-	-	-	-	188,904
Due from banks	9,927	12,739	19,647	7,544	1,115	50,972
Loans and advances	2,753,434	-	-	-	-	2,753,434
Investment securities	302,045	102	-	-	349	302,496
Intangible assets	7,210	-	-	-	-	7,210
Other assets	89,340	-	-	-	-	89,340
Property and equipment	43,303	-	-	-	-	43,303
Total assets	3,394,163	12,841	19,647	7,544	1,464	3,435,659
Due to banks	74	7,306	5,854	-	125	13,359
Customer deposits	2,797,303	13,109	-	-	-	2,810,412
Other liabilities	84,498	-	-	-	-	84,498
Taxation	3,051	-	-	-	-	3,051
Total liabilities	2,884,926	20,415	5,854	-	125	2,911,320

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1. Credit risk (continued)

39.1.2. Credit Risk Analysis (continued)

g) Concentration of risk (continued)

Parent Company 2022	Sultanate of Oman RO'000	Other GCC countries RO'000	Europe RO'000	United States of America RO'000	Others RO'000	Total RO'000
Cash and balances with central bank	**31,034**	**-**	**-**	**-**	**-**	**31,034**
Due from banks	**19,967**	**5,229**	**2,538**	**3,759**	**16,668**	**48,161**
Loans and advances	**2,164,984**	**-**	**-**	**-**	**-**	**2,164,984**
Investment securities	**268,237**	**-**	**-**	**-**	**189**	**268,426**
Investment in subsidiary	**107,144**	**-**	**-**	**-**	**-**	**107,144**
Other assets	**55,454**	**-**	**-**	**-**	**-**	**55,454**
Property and equipment	**35,659**	**-**	**-**	**-**	**-**	**35,659**
Total assets	**2,682,479**	**5,229**	**2,538**	**3,759**	**16,857**	**2,710,862**
Due to banks	**19,069**	**29,869**	**9,943**	**-**	**220**	**59,101**
Customer deposits	**2,089,284**	**-**	**-**	**-**	**-**	**2,089,284**
Other liabilities	**71,114**	**-**	**-**	**-**	**-**	**71,114**
Taxation	**3,412**	**-**	**-**	**-**	**-**	**3,412**
Total liabilities	**2,182,879**	**29,869**	**9,943**	**-**	**220**	**2,222,911**

Parent Company 2021	Sultanate of Oman RO'000	Other GCC countries RO'000	Europe RO'000	United States of America RO'000	Others RO'000	Total RO'000
Cash and balances with central bank	105,954	-	-	-	-	105,954
Due from banks	15,702	11,613	19,085	6,978	1,102	54,480
Loans and advances	1,961,011	-	-	-	-	1,961,011
Investment securities	239,682	-	-	-	349	240,031
Investment in subsidiary	107,144	-	-	-	-	107,144
Other assets	59,358	-	-	-	-	59,358
Property and equipment	40,337	-	-	-	-	40,337
Total assets	2,529,188	11,613	19,085	6,978	1,451	2,568,315
Due to banks	74	7,306	5,854	-	125	13,359
Customer deposits	1,965,197	-	-	-	-	1,965,197
Other liabilities	66,064	-	-	-	-	66,064
Taxation	3,051	-	-	-	-	3,051
Total liabilities	2,034,386	7,306	5,854	-	125	2,047,671

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1. Credit risk (continued)

39.1.2. Credit Risk Analysis (continued)

g) Concentration of risk (continued)

The concentration of the gross loans, advances and financings by economic sector is as follows:

	Consolidated				Parent Company			
	2022		2021		2022		2021	
	RO' 000	%	RO' 000	%	RO' 000	%	RO' 000	%
Personal loans	**1,200,445**	**37%**	1,087,264	38%	**811,429**	**35%**	735,944	36%
Construction	**281,018**	**9%**	267,747	9%	**243,830**	**11%**	227,259	11%
Manufacturing	**266,467**	**8%**	285,958	10%	**196,455**	**9%**	192,822	9%
Mining and quarrying	**152,399**	**5%**	144,504	5%	**137,329**	**6%**	134,240	7%
Services	**345,363**	**11%**	305,641	11%	**159,515**	**7%**	166,939	8%
Import trade	**97,371**	**3%**	97,902	3%	**78,398**	**3%**	79,499	4%
Transportation	**177,681**	**5%**	115,309	4%	**160,975**	**7%**	106,704	5%
Electricity, water & gas	**107,062**	**3%**	54,441	2%	**103,668**	**5%**	45,086	2%
Wholesale and retail trade	**135,984**	**4%**	115,568	4%	**85,993**	**4%**	71,600	3%
Financial institutions	**146,295**	**3%**	108,333	3%	**108,163**	**5%**	94,934	5%
Agriculture and allied activities	**22,921**	**1%**	17,825	1%	**6,554**	**0%**	7,075	0%
Export trade	**64**	**0%**	905	0%	**64**	**0%**	425	0%
Government	**1**	**0%**	1,075	0%	**1**	**0%**	1	0%
Lending to non-residents	**2,134**	**0%**	1,160	0%	**216**	**0%**	1,160	0%
Others	**311,494**	**11%**	290,825	10%	**210,205**	**8%**	201,386	10%
Total	**3,246,699**	**100%**	2,894,457	100%	**2,302,795**	**100%**	2,065,074	100%

The concentration of contingent liabilities by economic sector is as follows:

	Consolidated				Parent Company			
	2022		2021		2022		2021	
	RO' 000	%	RO' 000	%	RO' 000	%	RO' 000	%
Construction	**75,644**	**19%**	76,622	17%	**68,499**	**25%**	72,945	21%
Utilities	**3,269**	**1%**	5,033	1%	**1,393**	**1%**	1,486	0%
Financial Institutions	**112,457**	**29%**	180,988	40%	**112,457**	**41%**	180,988	53%
Government	**86,864**	**22%**	75,433	17%	**13,923**	**5%**	2,492	1%
Import trade	**13,609**	**3%**	11,564	3%	**13,609**	**5%**	11,555	3%
Transportation	**2,571**	**1%**	3,344	1%	**210**	**0%**	2,207	1%
Wholesale and retail trade	**19,781**	**5%**	24,324	5%	**17,215**	**6%**	22,163	6%
Services	**51,052**	**13%**	46,366	10%	**23,329**	**9%**	26,829	8%
Manufacturing	**15,942**	**4%**	23,645	5%	**14,674**	**5%**	21,580	6%
Mining & Quarrying	**12,052**	**3%**	3,864	1%	**6,884**	**3%**	2,675	1%
Total	**393,241**	**100%**	451,183	100%	**272,193**	**100%**	344,920	100%

Notes to the Financial Statements
for the year ended 31 December 2022

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1. Credit risk (continued)

39.1.2. Credit Risk Analysis (continued)

h) Stage wise movement of loans portfolio

Consolidated 2022	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Balance at the beginning of the year	**2,181,974**	**574,457**	**138,026**	**2,894,457**
Additions (new accounts)	**736,447**	**329,753**	**21,019**	**1,087,219**
Repaid / derecognized facilities	**(424,901)**	**(301,330)**	**(2,146)**	**(728,377)**
Transfer to Stage 1	**22,663**	**(22,406)**	**(257)**	**-**
Transfer to Stage 2	**(56,795)**	**61,535**	**(4,740)**	**-**
Transfer to Stage 3	**(5,098)**	**(15,383)**	**20,481**	**-**
Written off including transfer to memorandum accounts	**-**	**-**	**(6,600)**	**(6,600)**
Balance at the end of the year	**2,454,290**	**626,626**	**165,783**	**3,246,699**

Consolidated 2021	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Balance at the beginning of the year	2,014,678	613,887	119,130	2,747,695
Additions (new accounts)	587,348	244,111	15,733	847,192
Repaid / derecognized facilities	(400,296)	(292,368)	(2,821)	(695,485)
Transfer to Stage 1	21,875	(21,875)	-	-
Transfer to Stage 2	(38,374)	44,959	(6,585)	-
Transfer to Stage 3	(3,257)	(14,257)	17,514	-
Written off including transfer to memorandum accounts	-	-	(4,945)	(4,945)
Balance at the end of the year	2,181,974	574,457	138,026	2,894,457

Parent 2022	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Balance at the beginning of the year	**1,470,735**	**487,812**	**106,527**	**2,065,074**
Additions (new accounts)	**640,391**	**308,976**	**15,891**	**965,258**
Repaid / derecognized facilities	**(424,901)**	**(293,890)**	**(2,146)**	**(720,937)**
Transfer to Stage 1	**21,822**	**(21,822)**	**-**	**-**
Transfer to Stage 2	**(50,559)**	**55,295**	**(4,736)**	**-**
Transfer to Stage 3	**(4,151)**	**(10,326)**	**14,477**	**-**
Written off including transfer to memorandum accounts	**-**	**-**	**(6,600)**	**(6,600)**
Balance at the end of the year	**1,653,337**	**526,045**	**123,413**	**2,302,795**

Parent 2021	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Balance at the beginning of the year	1,421,540	492,309	93,270	2,007,119
Additions (new accounts)	466,068	279,044	9,643	754,755
Repaid / derecognized facilities	(397,117)	(292,368)	(2,370)	(691,855)
Transfer to Stage 1	20,650	(20,650)	-	-
Transfer to Stage 2	(37,149)	43,189	(6,040)	-
Transfer to Stage 3	(3,257)	(13,712)	16,969	-
Written off including transfer to memorandum accounts	-	-	(4,945)	(4,945)
Balance at the end of the year	1,470,735	487,812	106,527	2,065,074

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1. Credit risk (continued)

39.1.3. CBO COVID related disclosures

a) Outbreak of Coronavirus (COVID-19)

The World Health Organization officially declared COVID-19 as a global pandemic on 11 March 2020. The pandemic has continued to affect the economic environment and business landscape of the banks. The businesses witnessed rapid changes as a result of the unprecedented outbreak of Coronavirus pandemic witnessing stress on revenues & delay in servicing debts. Tightening of market conditions, lockdowns, restrictions on trade and movement of people had caused significant disruptions to businesses and economic activities globally and across industries & sectors. The impact on the economy has receded on 2022, with opening of the economy in late 2021, however, the businesses are still to reach the pre-covid operational performance.

b) Government measures

Governments and regulatory authorities across the globe have implemented several measures to contain the impact of the spread of the virus. In line with this, the Central Bank of Oman (CBO), also 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 point of sale (POS) charges, lowering of regulatory capital ratios and increasing the lending ratio etc., suspension of assessment of Significant Increase in Credit risk (SICR). In late 2021, the CBO had released guidance on restructuring of affected borrowers from corporate/SME, which has been adhered.

c) 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 is given to both to the effects of COVID-19 and the significant government support measures being undertaken. Relief measures, such as payment holidays, has not automatically led to loans being measured on the basis of lifetime losses. The measurement of ECL is based on the models with respect to probability of default, Loss Given Default and Exposure at default, when it is not possible to reflect all relevant information in the models, post-model overlays or adjustments are considered. This is also broadly consistent with guidelines issued by other regulators including those issued by the CBO.

The Central Bank of Oman had issued guidelines on restructuring of facilities for borrowers affected by COVID-19 to be undertaken in 2022. The restructuring of borrowers under the CBO window has been completed by October 2022.

Additional IFRS 9 guidelines issued by the CBO stipulates:

- CBO's measures related to deferment of loan repayment by a borrower may not on its own trigger the counting of 30 DPD or more backstop used to determine SICR or the 90 days past due backstop used to determine default. However, banks shall continue to assess the obligor's likelihood of payment of amount due after the deferment year, and in case of SICR or credit impairment and if the same is not of a temporary nature, accordingly fairly recognize such risk.
- 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 and FLC's might have experienced other supportable evidence on having deterioration in the credit quality of the obligor.
- 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.

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1. Credit risk (continued)

39.1.3. CBO COVID related disclosures (continued)

c) Impact of COVID-19 on the Bank (continued)

- Bank has developed estimates based on the best available supportable information about past events, current conditions and forecasts of economic conditions. In assessing forecast conditions consideration is given both to the effects of Covid-19 coupled with oil prices & significant CBO policy measures being undertaken.
- Nevertheless, any changes made to ECL estimate the impact of Covid-19 distress 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 by the Bank in the IFRS 9/ECL models cannot be recalibrated upfront with pre-mature effects of Covid-19 and CBO support measures, besides the individual and collective LGD's may get impacted due to Covid-19 effect on market prices of collateral and guarantees.
- The Management Risk 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. SME customers are evaluated based on the stability of the business owner and business and any short term cash flow mismatches are supported by the Bank.

A considerable portion of Bank's retail portfolio comprises of Omani nationals employed in government sector. This retail segment is expected to largely remain shielded from job cuts and salary reductions. Retail lending to private sector employees is expected to witness impact of economic meltdown in the short to medium term due to the pandemic and hence could lead to potential credit issues. The Bank is fully committed to help its customers through these turbulent year as directed by the CBO. The Bank continues 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.

d) Impact on SICR

The exercise of the deferment option by a customer, in its own, is not considered by the Bank as triggering SICR. However, as part of the Bank's credit evaluation process especially given the current economic situation due to after effects of lock down, the Bank obtained further information from the customer to understand their financial position and ability to repay the amount and in case where indicators of significant deterioration were noted, the customers' credit ratings and accordingly exposure staging were adjusted, where applicable.

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1. Credit risk (continued)

39.1.3. CBO COVID related disclosures (continued)

e) Impact on ECL

The Bank's models have been constructed and calibrated using historical trends and correlations as well as forward looking economic scenarios. The severity of the current macro-economic projections and the added complexity caused by the various support schemes and regulatory guidance across the main regions in which the Bank operates could not be reliably modelled for the time being. As a consequence, the existing models may generate results that are either overly conservative or overly optimistic depending on the specific portfolio / segment. As a result, post-model adjustments are needed. Given model changes take a significant amount of time to develop and test and the data limitation issues noted above, the Bank expects that post-model adjustments will be applied for the foreseeable future.

Post-model adjustments and management overlays made in estimating the reported ECL as at 31 December 2022 are set out as follows:

As at 31 December 2022, the collective provision held by the Bank through management overlays amounts to RO 38,772 thousand (consolidated), RO 29,152 thousand (Parent Company) [2021: RO 22,652 thousand (consolidated), RO 14,110 thousand (Parent Company)] which are specifically allocated to certain stressed parties. The Bank will continue to reassess and appropriately adjust such overlays on a regular basis throughout the affected year.

f) PMAs and management adjustments

Given the ever-evolving nature of the current health and economic crisis, the Bank's management is of the view that the forward looking macro-economic data and the PD term structures published by the economists and rating agencies during 2021 is yet to reasonably reflect the impact of the economic disruption caused by Covid-19 and also to fully factor in the financial intervention by the relevant state authorities.

In determining above, the management has considered Oil revenue as per percentage of GDP and Real GDP growth rate as the macroeconomic factors.

Following are the scenario weightage considered by the Bank at Group level:

- Scenario weightings of 66.6%, 5.6%, 27.8% for Base, Bad and Good scenarios (31 December 2021: 50%, 25%, 25%);

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1. Credit risk (continued)

39.1.3. CBO COVID related disclosures (continued)

f) PMAs and management adjustments (continued)

Sensitivity of ECL to future economic conditions

The following table shows a comparison of the Bank's allowances for credit losses on non-impaired financial assets (Stages 1 and 2) excluding management overlays under IFRS 9 as at 31 December 2022 based on the probability weightings of three scenarios with allowances for credit losses resulting from simulations of each scenario weighted at 100%.

	Consolidated		Parent Company	
		2022		2022
	Required ECL	Impact on ECL	Required ECL	Impact on ECL
Sensitivity of impairment estimates	RO' 000	RO' 000	RO' 000	RO' 000
ECL on non-impaired loans under IFRS9	**34,776**	**-**	**22,693**	**-**
Simulations				
Good case - 100% weighted	**25,316**	**9,460**	**15,488**	**7,205**
Base case - 100% weighted	**38,421**	**(3,645)**	**25,743**	**(3,050)**
Bad case - 100% weighted	**50,584**	**(15,808)**	**34,380**	**(11,687)**

g) Accounting for modification gain/loss

In case of corporate customers, the Bank post the restructuring of the deferred exposures has computed the modification gain/loss by comparing the net present value of the restructured cash flows, which are discounted at the pre restructuring interest rates to the gross carrying value of the exposures. The Bank has determined that the modifications due to deferment of instalment and waiver of interest/profit allowed in line with CBO relaxation measures did not result in derecognition of financial assets. Further, the impact of day one modification gain/loss was accounted as part of impairment allowance.

h) Stage-wise analysis of customers restructured under CBO window

The restructured/ rescheduled loans implemented as per CBO circular BSD/CB & FLCs/2021/004 dated 18 November 2021 - window for restructuring/ rescheduling of credit facilities for affected customers are also disclosed in the following table:

		Consolidated		
	Stage 1	Stage 2	Stage 3	Total
2022	RO' 000	RO' 000	RO' 000	RO' 000
Loans and financing receivables restructured under CBO window	**85,093**	**186,402**	**-**	**271,495**
ECL as per IFRS 9	**1,509**	**12,893**	**-**	**14,402**
ECL required as per CBO Circular under restructuring window	**1,219**	**12,919**	**-**	**14,138**

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1. Credit risk (continued)

39.1.3. CBO COVID related disclosures (continued)

h) Stage-wise analysis of customers restructured under CBO window (continued)

				Parent Company
	Stage 1	Stage 2	Stage 3	Total
2022	RO' 000	RO' 000	RO' 000	RO' 000
Loans and advances restructured under CBO window	**8,821**	**130,676**	**-**	**139,497**
ECL as per IFRS 9	**419**	**8,674**	**-**	**9,093**
ECL required as per CBO Circular under restructuring window	**129**	**8,700**	**-**	**8,829**

i) Impact on the Capital Adequacy

The Bank has applied in its capital adequacy calculations the "Prudential filter" under interim adjustment arrangement for Stage-1 and Stage-2 ECL. The impact of the above filter on the bank's regulatory capital is 62 bps [Parent Company: 84 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.

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1. Credit risk (continued)

39.1.4. Loans and advances renegotiated

These arrangements include extended payment arrangements, deferral of payments and modification of interest rates. Following restructuring, a previously deferred loan account is reclassified as a normal loan and managed with other similar loans which are neither past due nor impaired. The restructuring arrangements are based on the criteria and indicators which in the judgement of the management will indicate that the payment will most likely continue.

The total restructured loans at 31 December 2022 amounted to RO 488,231 thousand (consolidated), RO 334,817 thousand (Parent Company); [2021: RO 231,360 thousand (consolidated), RO 175,644 thousand (Parent Company)].

39.1.5. Debt securities

The Bank's investments in debt securities are mainly in Government Development Bonds / Sukuks or treasury bills denominated in Rial Omani issued by the Government of Oman. The Bank also invests in debt securities issued by foreign sovereigns / Omani public sector enterprises based on their individual external credit rating. These investments are made to deploy the surplus liquid funds with maximum return.

39.2. Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. It includes the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame. The Bank's funding activities are based on a range of instruments including deposits, other liabilities and assigned capital. Consequently, funding flexibility is increased and dependence on any one source of funds is reduced.

a) Maturity profile

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 estimated maturities using the guidelines provided by the Central Bank of Oman. An analysis of the maturity profile based on these estimates is as follows:

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.2. Liquidity risk (continued)

a) Maturity profile (continued)

Consolidated 2022	On demand or within 3 months RO'000	3 to 12 months RO'000	Sub total RO'000	1 to 5 Years RO'000	Over 5 years RO'000	Total RO'000
Cash and balances with central bank	72,874	8,293	81,167	12,174	6,572	99,913
Due from banks	33,703	19,968	53,671	-	-	53,671
Loans and advances	295,643	416,541	712,184	849,716	1,505,163	3,067,063
Investment securities	441	19,659	20,100	153,692	157,864	331,656
Intangible assets	-	-	-	-	6,900	6,900
Other assets	46,521	27,734	74,255	9,876	-	84,131
Property and equipment	-	-	-	-	38,496	38,496
Total assets	449,182	492,195	941,377	1,025,458	1,714,995	3,681,830
Due to banks	94,141	-	94,141	-	-	94,141
Customer deposits	259,865	886,744	1,146,609	1,020,593	824,978	2,992,180
Other liabilities	43,596	17,584	61,180	33,309	7	94,496
Taxation	3,412	-	3,412	-	-	3,412
Total liabilities	401,014	904,328	1,305,342	1,053,902	824,985	3,184,229
Liquidity gap	48,168	(412,133)	(363,965)	(28,444)	890,010	497,601
Forward exchange contracts at notional amounts (note 37):						
- Purchase contracts	121,865	57,056	178,921	-	-	178,921
- Sale contracts	(121,857)	(57,015)	(178,872)	-	-	(178,872)
	8	41	49	-	-	49

Consolidated 2021	On demand or within 3 months RO'000	3 to 12 months RO'000	Sub total RO'000	1 to 5 Years RO'000	Over 5 years RO'000	Total RO'000
Cash and balances with central bank	107,961	24,109	132,070	35,935	20,899	188,904
Due from banks	40,972	10,000	50,972	-	-	50,972
Loans and advances	462,118	240,357	702,475	788,701	1,262,258	2,753,434
Investment securities	1,631	5,213	6,844	132,860	162,792	302,496
Intangible assets	-	-	-	-	7,210	7,210
Other assets	51,685	34,725	86,410	2,930	-	89,340
Property and equipment	-	-	-	2,966	40,337	43,303
Total assets	664,367	314,404	978,771	963,392	1,493,496	3,435,659
Due to banks	13,359	-	13,359	-	-	13,359
Customer deposits	362,376	722,008	1,084,384	948,206	777,822	2,810,412
Other liabilities	50,496	10,846	61,342	23,156	-	84,498
Taxation	3,051	-	3,051	-	-	3,051
Total liabilities	429,282	732,854	1,162,136	971,362	777,822	2,911,320
Liquidity gap	235,085	(418,450)	(183,365)	(7,970)	715,674	524,339
Forward exchange contracts at notional amounts (note 37):						
- Purchase contracts	175,260	26,965	202,225	-	-	202,225
- Sale contracts	(175,237)	(26,882)	(202,119)	-	-	(202,119)
	23	83	106	-	-	106

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1. Credit risk (continued)

a) Maturity profile (continued)

Parent Company 2022	On demand or within 3 months RO'000	3 to 12 months RO'000	Sub total RO'000	1 to 5 Years RO'000	Over 5 years RO'000	Total RO'000
Cash and balances with central bank	30,353	59	30,412	60	562	31,034
Due from banks	28,193	19,968	48,161	-	-	48,161
Loans and advances	270,548	225,675	496,223	561,878	1,106,883	2,164,984
Investment securities	441	19,470	19,911	93,987	154,528	268,426
Investment in subsidiary	-	-	-	-	107,144	107,144
Other assets	39,894	7,875	47,769	7,685	-	55,454
Property and equipment	-	-	-	-	35,659	35,659
Total assets	369,429	273,047	642,476	663,610	1,404,776	2,710,862
Due to banks	59,101	-	59,101	-	-	59,101
Customer deposits	223,898	610,435	834,333	614,081	640,870	2,089,284
Other liabilities	43,596	17,584	61,180	9,927	7	71,114
Taxation	3,412	-	3,412	-	-	3,412
Total liabilities	330,007	628,019	958,026	624,008	640,877	2,222,911
Liquidity gap	24,950	(354,972)	(315,550)	39,602	763,899	487,951
Forward exchange contracts at notional amounts (note 37):						
- Purchase contracts	121,865	57,056	178,921	-	-	178,921
- Sale contracts	(121,857)	(57,015)	(178,872)	-	-	(178,872)
	8	41	49	-	-	49

Parent Company 2021	On demand or within 3 months RO'000	3 to 12 months RO'000	Sub total RO'000	1 to 5 Years RO'000	Over 5 years RO'000	Total RO'000
Cash and balances with central bank	47,296	19,346	66,642	18,413	20,899	105,954
Due from banks	44,480	10,000	54,480	-	-	54,480
Loans and advances	369,481	140,854	510,335	615,407	835,269	1,961,011
Investment securities	1,153	2,013	3,166	74,073	162,792	240,031
Investment in subsidiary	-	-	-	-	107,144	107,144
Other assets	51,731	7,627	59,358	-	-	59,358
Property and equipment	-	-	-	-	40,337	40,337
Total assets	514,141	179,840	693,981	707,893	1,166,441	2,568,315
Due to banks	13,359	-	13,359	-	-	13,359
Customer deposits	262,638	566,355	828,993	539,028	597,176	1,965,197
Other liabilities	50,541	10,846	61,387	4,677	-	66,064
Taxation	3,051	-	3,051	-	-	3,051
Total liabilities	329,589	577,201	906,790	543,705	597,176	2,047,671
Liquidity gap	184,552	(397,361)	(212,809)	164,188	569,265	520,644
Forward exchange contracts at notional amounts (note 37):						
- Purchase contracts	175,260	26,965	202,225	-	-	202,225
- Sale contracts	(175,237)	(26,882)	(202,119)	-	-	(202,119)
	23	83	106	-	-	106

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1. Credit risk (continued)

a) Maturity profile (continued)

The following table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. For issued guarantee contracts, the maximum amount of the guarantee is allocated to the earliest year in which the guarantee could be called.

Consolidated	On demand or within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
2022	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Letters of guarantee	**14,713**	**32,080**	**16,216**	**1,142**	**64,151**
Letters of credit	**77,489**	**115,328**	**26,758**	**109,515**	**329,090**
Total commitments and contingencies	**92,202**	**147,408**	**42,974**	**110,657**	**393,241**
2021	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Letters of guarantee	179,438	75,765	32,107	100	287,410
Letters of credit	82,972	49,823	30,978	-	163,773
Total commitments and contingencies	262,410	125,588	63,085	100	451,183

Parent Company	On demand or within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
2022	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Letters of guarantee	**5,079**	**23,607**	**6,591**	**-**	**35,277**
Letters of credit	**65,003**	**35,687**	**26711**	**109515**	**236,916**
Total commitments and contingencies	**70,082**	**59,294**	**33,302**	**109,515**	**272,193**
2021	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Letters of guarantee	175,990	69,363	16,302	100	261,755
Letters of credit	69,068	14,069	28	-	83,165
Total commitments and contingencies	245,058	83,432	16,330	100	344,920

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments. The details of Bank's capital commitments and unutilised loan commitments are disclosed in note 35.

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.1. Credit risk (continued)

b) Lending ratio

The lending ratio is a regulatory ratio which considers total loans and advances to customer deposits and capital. This ratio is monitored on daily basis and reported on monthly basis as per CBO guidelines. The Bank has internally set a conservative lending ratio benchmark which is lower than CBO lending ratio.

The maximum permissible lending ratio as at 31 December 2022 was 92.5% (2021: 92.5%). In the COVID-19 stimulus package announced by CBO the maximum limit of this ratio was extended to 92.5% from 87.5%.

The Bank has reported following lending ratio for the year:

	Parent Company	
	2022	2021
Year end	**86.96%**	82.83%
Maximum for the year	**90.42%**	89.06%
Minimum for the year	**82.04%**	79.37%
Average for the year	**87.01%**	83.65%

c) Basel III liquidity and funding ratios

An overview of the Basel III liquidity and funding ratios is provided in BASEL II - PILLAR III and BASEL III related disclosures. The LCR and NSFR ratios for the year ended 31 December 2022 are as follows:

	Consolidated		Parent Company	
	2022	2021	2022	2021
LCR	**127%**	164%	**130%**	190%
NSFR	**111%**	118%	**112%**	109%

39.3. Market risk

The Bank takes on exposures to market risk which is the risk that the fair value or the future cash flows of the financial assets carried at fair value will fluctuate because of changes in market prices. Market risks arise from the open positions in interest rate, currency and equity products, all of which are exposed to changes in interest rates, credit spreads, equity prices and foreign exchange rates. The market risks are monitored by the Treasury Division and the Risk Management Department. Management is confident that the Bank has proper risk management policies in place to ensure that interest risk, liquidity risk and foreign exchange risk are mitigated considering the macroeconomic indicators affecting the banking business.

39.3.1. Price risk

The Bank holds listed securities classified as held-for-trading and held to collect and sale to take advantage of short-term capital market movements and manage liquidity. All investment securities present a risk of loss of capital. The Bank controls this risk through a careful selection of securities in accordance with Investment Management Policy approved by the Board. The maximum risk resulting from financial instruments is determined by the carrying amount of the financial instruments. The Bank's market positions are reviewed periodically by the management.

Bank's investments include equity securities which are publicly traded on the Muscat Securities Market (MSM). The Bank's equity and total comprehensive income at 31 December 2022 may decrease by 0.04% Consolidated and 0.03% Parent (2021 Consolidated – 0.03%, Parent – 0.03%) due to decrease by 10% in the MSM - 30 Index and the GCC market indices, with all the other variables held constant. The subsidiary has no investment in equity securities publicly traded on MSM.

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.3. Market risk (continued)

39.3.2. Interest rate risk

Interest rate risk is the risk that the value of a financial instrument carried at fair value will fluctuate due to changes in the market interest rates. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amount of interest-based assets and liabilities that mature or re-price in a given year. The Bank manages this risk by matching/re-pricing of assets and liabilities. The Bank is not excessively exposed to interest rate risk as its assets and liabilities are aligned for re-pricing in line with the risk appetite. The Bank's Assets and Liabilities Committee (ALCO) monitors and manages the interest rate with the objective of limiting the potential adverse effects on the Bank's profitability. The Bank's exposure to the interest rate risks is summarised below. It includes the Bank's financial instruments at the carrying amount, categorised by the earlier of the contractual re-pricing and maturity dates.

Consolidated	Average effective interest rate	Within 3 months	4 to 6 months	7 to 12 months	> 1 to 5 years	Over 5 years	Non-interest bearing	Total
2022	%	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with central bank	1.00	24,356	-	-	-	1,025	74,532	99,913
Due from banks	1.76	32,362	10,000	-	-	-	11,309	53,671
Loans and advances	5.18	1,337,212	477,750	322,247	774,943	154,911	-	3,067,063
Investment securities	5.20	189	-	15,469	162,806	151,297	1,895	331,656
Intangible assets		-	-	-	-	-	6,900	6,900
Other assets		23,313	-	-	-	-	60,818	84,131
Property and equipment		-	-	-	-	-	38,496	38,496
Total assets		1,417,432	487,750	337,716	937,749	307,233	193,950	3,681,830
Due to banks	1.79	88,382	-	-	-	-	5,759	94,141
Customer deposits	2.76	1,183,871	168,044	603,602	486,662	-	550,001	2,992,180
Other liabilities		3,032	-	-	-	-	91,464	94,496
Taxation		-	-	-	-	-	3,412	3,412
Total liabilities		1,275,285	168,044	603,602	486,662	-	650,636	3,184,229
Total interest sensitivity gap		142,147	319,706	(265,886)	451,087	307,233	(456,686)	497,601
Cumulative interest sensitivity gap		142,147	461,853	195,967	647,054	954,287	497,601	

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39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.3. Market risk (continued)

39.3.2. Interest rate risk (continued)

Consolidated 2021	Average effective interest rate %	Within 3 months RO'000	4 to 6 months RO'000	7 to 12 months RO'000	> 1 to 5 years RO'000	Over 5 years RO'000	Non-interest bearing RO'000	Total RO'000
Cash and balances with central bank	1.00	60,665	1,905	2,858	10,162	1,025	112,289	188,904
Due from banks	0.31	22,096	10,000	-	-	-	18,876	50,972
Loans and advances	5.29	1,199,652	70,368	78,726	976,752	427,936	-	2,753,434
Investment securities	5.73	478	1280	3,933	133,136	157,194	6475	302,496
Intangible assets		-	-	-	-	-	7,210	7,210
Other assets		23,653	10,839	16,213	-	-	38,635	89,340
Property and equipment		-	-	-	-	-	43,303	43,303
Total assets		1,306,544	94,392	101,730	1,120,050	586,155	226,788	3,435,659
Due to banks	1.79	7,700	-	-	-	-	5,659	13,359
Customer deposits	2.71	729,955	224,680	610,294	603,779	180,646	461,058	2,810,412
Other liabilities		2,107	-	-	18,434	-	63,957	84,498
Taxation		-	-	-	-	-	3,051	3,051
Total liabilities		739,762	224,680	610,294	622,213	180,646	533,725	2,911,320
Total interest sensitivity gap		566,782	(130,288)	(508,564)	497,837	405,509	(304,887)	524,339
Cumulative interest sensitivity gap		566,782	436,494	(72,070)	425,767	831,276	524,339	

Parent Company 2022	Average effective interest rate %	Within 3 months RO'000	4 to 6 months RO'000	7 to 12 months RO'000	> 1 to 5 years RO'000	Over 5 years RO'000	Non-interest bearing RO'000	Total RO'000
Cash and balances with central bank	1.00	**1,621**	**-**	**-**	**-**	**500**	**28,913**	**31,034**
Due from banks	1.78	**26,852**	**10,000**	**-**	**-**	**-**	**11,309**	**48,161**
Loans and advances	5.19	**1,096,753**	**194,900**	**129,241**	**708,880**	**35,210**	**-**	**2,164,984**
Investment securities	5.27	**-**	**-**	**15,469**	**103,102**	**148,448**	**1,407**	**268,426**
Investment in subsidiary		**-**	**-**	**-**	**-**	**-**	**107,144**	**107,144**
Other assets		**23,312**	**-**	**-**	**-**	**-**	**32,142**	**55,454**
Property and equipment		**-**	**-**	**-**	**-**	**-**	**35,659**	**35,659**
Total assets		**1,148,538**	**204,900**	**144,710**	**811,982**	**184,158**	**216,574**	**2,710,862**
Due to banks	1.91	**53,342**	**-**	**-**	**-**	**-**	**5,759**	**59,101**
Customer deposits	2.51	**889,168**	**130,803**	**303,213**	**263,403**	**-**	**502,697**	**2,089,284**
Other liabilities		**3,032**	**-**	**-**	**-**	**-**	**68,082**	**71,114**
Taxation		**-**	**-**	**-**	**-**	**-**	**3,412**	**3,412**
Total liabilities		**945,542**	**130,803**	**303,213**	**263,403**	**-**	**579,950**	**2,222,911**
Total interest sensitivity gap		**202,996**	**74,097**	**(158,503)**	**548,579**	**184,158**	**(363,376)**	**487,951**
Cumulative interest sensitivity gap		**202,996**	**277,093**	**118,590**	**667,169**	**851,327**	**487,951**	

Notes to the Financial Statements
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39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.3. Market risk (continued)

39.3.2. Interest rate risk (continued)

Parent Company	Average effective interest rate	Within 3 months	4 to 6 months	7 to 12 months	> 1 to 5 years	Over 5 years	Non-interest bearing	Total
2021	%	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with central bank	1.00	-	-	-	-	500	105,454	105,954
Due from banks	0.31	25,604	10,000	-	-	-	18,876	54,480
Loans and advances	5.27	1,107,015	30,567	19,024	803,458	947	-	1,961,011
Investment securities	5.96	-	-	2,013	74,349	157,194	6,475	240,031
Investment in subsidiary	-	-	-	-	-	-	107,144	107,144
Other assets	-	23,653	-	-	-	-	35,705	59,358
Property and equipment	-	-	-	-	-	-	40,337	40,337
Total assets		1,156,272	40,567	21,037	877,807	158,641	313,991	2,568,315
Due to banks	1.79	7,700	-	-	-	-	5,659	13,359
Customer deposits	2.47	630,217	162,419	516,902	194,601	-	461,058	1,965,197
Other liabilities	-	2,107	-	-	-	-	63,957	66,064
Taxation	-	-	-	-	-	-	3,051	3,051
Total liabilities		640,024	162,419	516,902	194,601	-	533,725	2,047,671
Total interest sensitivity gap		516,248	(121,852)	(495,865)	683,206	158,641	(219,734)	520,644
Cumulative interest sensitivity gap		516,248	394,396	(101,469)	581,737	740,378	520,644	

For managing its interest rate risk in the banking book, the Bank stipulates limits on open interest rate sensitive gaps for maturities up to 1 year and also monthly calculates Earnings at Risk (EaR) impact on its projected Net Interest Income (NII) from 50/100/200bps change in interest rates on open interest rate gaps for maturities up to 1 year. The EaR limit is stipulated as a certain percentage of the NII of the Bank for the current year. The EaR at 31 December 2022 is 2.5% (2021 – 2.9%).

39.3.3. Interest rate benchmark reforms

Interbank offered rates ("IBORs"), such as the London Interbank Offered Rate ("LIBOR"), plays a critical role in global financial markets, serving as reference rates for derivatives, loans and securities, and as parameters in the valuation of financial instruments.

Uncertainty surrounding the integrity of IBOR rates has in recent years, led regulators, central banks and market participants to work towards a transition to alternative risk-free benchmark reference rates ("RFRs") and market-led working groups in respective jurisdictions have recommended alternative risk-free reference rates, which are gradually being adopted. Progress in the transition to these new benchmarks has resulted in significant uncertainty in the future of IBOR benchmarks beyond 1 January 2022.

The majority of LIBOR and other Interbank Offer Rates ("IBORs") are expected to be discontinued after 31 December 2021 and replaced with certain Alternative Reference Rates ("ARRs"), with the exception of certain USD LIBOR rates were cessation may be delayed until 30 June 2023.

Central Bank of Oman wide it's circular No: SDD/CBS/FLCs/CB/2021/3565 dated 09 December, 2021 has specified that Bank(s) should stop entering into new financial contracts with LIBOR as the reference rate and instead identify and use any widely accepted Alternative Reference Rate (ARR), in respect of each currency, with immediate effect.

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.3. Market risk (continued)

Interest rate benchmark reforms (continued)

The Bank's system has been updated to enable lending linked to these ARR/RFRs and the time-line for transition is as mentioned below:

- Starting January 01, 2022. All new floating rates loans as well as associated derivative deals as executed by the Bank will based on ARR e.g., for USD it will be based on SOFR (Secured Overnight Financing Rate)
- Loans which reference USD Libor and which will remain outstanding post 2021 may continue unchanged, as USD Libor will continue to be published until the Q2 2023.
- Any remaining loans in USD only which reference USD Libor must mature or will be migrated away from using Libor before June 30th 2023, ideally on the final interest reset day prior to this date.

39.3.4. Currency risk

Currency risk arises when the value of a financial instrument changes due to changes in foreign exchange rates. In order to manage currency risk exposure, the Bank enters into ready, spot and forward transactions in the inter-bank market as per documented policies approved by the Board of Directors.

The Bank's foreign exchange exposure comprises of forward contracts, foreign currencies cash in hand, balances with banks abroad, foreign placements and other assets and liabilities denominated in foreign currency. The management manages the risk by monitoring net open position in line with limits set by the management and approved by the Executive Committee of the Board and entering into forward contracts based on the underlying commercial transactions with the customers.

Net foreign currency exposure

	Consolidated		Parent Company	
	2022	2021	2022	2021
	RO' 000	RO' 000	RO' 000	RO' 000
USD	**40,187**	30,357	**12,288**	4,685
AED	**312**	421	**192**	143
GBP	**375**	30	**367**	12
Others	**2,123**	1,399	**1,258**	1,176
Total	**42,997**	32,207	**14,105**	6,016

Oman operates with a fixed exchange rate, and the Omani Rial is pegged to the USD at $2.5975 per Omani Rial.

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.4. Operational risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, and systems or from external events. The risk is associated with human error, systems failure, inadequate procedures or controls and external causes. Losses from external events, such as a natural disaster that has the potential to damage the Bank's physical assets or electrical or telecommunication failures that disrupt business, are relatively easier to define than losses from internal problems, such as employee fraud and product flaws. The risks from internal problems are more closely tied to the Bank's specific products and business lines; they are more specific to the Bank's operations than the risks due to external events. Operational risks faced by the Bank include IT Security, telecom failure, fraud, and operational errors.

Operational risk governance is set through policies, processes, procedures and oversight of the executive committee. The Bank cannot eliminate all operational risks; however, the operational risk framework is set to identify, assess, monitor and control the risks through the three lines of defences. It periodically conducts various assessments to review risk exposures and implements controls to mitigate the operational risk profile, in accordance with the overall risk appetite. To ensure effective controls and building risk culture, operational risk awareness is scheduled annually across the Bank. Insurance is another tool used as an operational risk mitigant. Insurance coverage such as Bankers' Blanket Bond (BBB), Professional Indemnity, cyber security, etc aim to protect the bank from high-severity risks by reducing the financial impact.

a) Management risk committee

The Management Risk committee is the main committee for Bank's major risk including operational risk. The committee is composed of main business and control functions. The objectives of the committee is to review and oversee the Bank's risk profile and to put in place actions required to maintain the risk profile within the approved appetite.

b) Business Continuity Management (BCM)

Business Continuity Plan addresses the inherent risks, which may lead to unexpected business interruptions. The goal of BCM is to provide the ability to effectively respond to threats to protect the business interests and continue to operate following a significant unplanned event or major operational disruption. As a part of Crisis Communication and Business Continuity Management processes, OAB has taken initiatives and proactive measures in meeting the contingency requirements always and especially during COVID-19. The Bank has taken proactive steps considering the pandemic scenario in its BCP. The bank has ensured the resilience to run the business-critical processes during such contingency situation with the effective process in place and the management support. The Bank has a Disaster Recovery Site and remote working set up to meet any unforeseen disaster and maintain operational continuation in such event. The Bank has conducted various BCP requirement like Business Impact assessments, evacuation drills, tests (announced and unannounced) call tree, and spread awareness.

c) Information Security

Information Security is an essential component of risk management. The Bank seeks to avoid risk and uncertainty for its critical information assets and systems affecting operations and reputation of the bank. Information security governance set up is in place through security policies & procedures. The Bank has invested to implement robust security infrastructure and is conducting yearly vulnerability assessments to ensure the security of the systems.

39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.5. Fair value estimation

The estimate of fair values of the financial instruments is based on information available to management as at 31 December 2022. Whilst management has used its best judgment in estimating the fair value of the financial instruments, there are inherent weaknesses in any estimation technique. The estimates involve matters of judgment and cannot be determined with precision. The bases adopted in deriving the fair values are as follows:

39.5.1. Current account balances due to and 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.

39.5.2. Loans, advances and financings to customers

The fair value of non-performing loans approximates to the book value adjusted for allowance for loan impairment. For the performing loans, the fair value is taken as being equivalent to its carrying amount as the prevailing interest rates offered on similar loans are not materially different from the actual loan rates and loan rates are reset at frequent intervals to align the rate with market conditions.

39.5.3. Investments at fair value through profit or loss

Quoted market prices, when available, are used as the measure for fair value. However, when the quoted market prices do not exist, fair value presented is estimated using discounted cash flow models or other valuation techniques. Changes in fair value resulting from these calculations are not material to the financial statements. Details are set out in note 8.

39.5.4. 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.

39.5.5. Derivatives

The Bank usually enters into short term forward foreign exchange contracts, on behalf of its customers for the sale and purchase of foreign currencies. For forward foreign exchange contracts, it uses a valuation model with readily available market observable inputs. The model incorporates various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

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39. FINANCIAL RISK MANAGEMENT (CONTINUED)

39.6. Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

a) Financial assets as per statement of financial position

Consolidated	Fair value through profit or loss (FVTPL)	Amortized costs (AC)	Fair value through other comprehensive income (FVOCI)	Total
2022	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Bank balances and cash	**-**	**99,913**	**-**	**99,913**
Due from banks	**-**	**53,671**	**-**	**53,671**
Loans, advances & financing activities	**-**	**3,067,063**	**-**	**3,067,063**
Investment securities	**441**	**226,724**	**104,491**	**331,656**
Other assets	**-**	**79,660**	**-**	**79,660**
Total	**441**	**3,527,031**	**104,491**	**3,631,963**
2021	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Bank balances and cash	-	188,904	-	188,904
Due from banks	-	50,972	-	50,972
Loans, advances & Financing activities	-	2,753,434	-	2,753,434
Investment securities	473	213,233	88,790	302,496
Other assets	-	80,236	-	80,236
Total	473	3,286,779	88,790	3,376,042

Parent Company	Fair value through profit or loss (FVTPL)	Amortized costs (AC)	Fair value through other comprehensive income (FVOCI)	Total
2022	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Bank balances and cash	**-**	**31,034**	**-**	**31,034**
Due from banks	**-**	**48,161**	**-**	**48,161**
Loans, advances & financing activities	**-**	**2,164,984**	**-**	**2,164,984**
Investment securities	**441**	**208,629**	**59,356**	**268,426**
Other assets	**-**	**50,984**	**-**	**50,984**
Total	**441**	**2,503,792**	**59,356**	**2,563,589**
2021	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Bank balances and cash	-	105,954	-	105,954
Due from banks	-	54,480	-	54,480
Loans, advances & Financing activities	-	1,961,011	-	1,961,011
Investment securities	473	195,138	44,420	240,031
Other assets	-	53,064	-	53,064
Total	473	2,369,647	44,420	2,414,540

b) Financial liabilities as per statement of financial position

	Consolidated		Parent Company	
	2022	**2021**	**2022**	**2021**
	RO' 000	**RO' 000**	**RO' 000**	**RO' 000**
Due to banks	**94,141**	13,359	**59,101**	13,359
Deposits from customers	**2,992,180**	2,810,412	**2,089,284**	1,965,197
Other liabilities	**90,615**	82,020	**67,233**	63,586
Total	**3,176,936**	2,905,791	**2,215,618**	2,042,142

40. CAPITAL MANAGEMENT

The Bank's objectives of capital management are:

- To comply with the capital requirements set by the regulator i.e. the Central Bank of Oman;
- To safeguard the Bank's ability to continue as a going concern while providing adequate returns to the shareholders; and
- To maintain a strong capital base to support the development of its business.

The principal objective of the CBO capital adequacy requirements is to ensure that an adequate level of capital is maintained to withstand any losses which may result from the risks in a Bank's statement of financial position, in particular credit risk. The CBO's risk-based capital adequacy framework is consistent with the international standards of the Bank for International Settlements (BIS). The CBO requires the registered banks in the Sultanate of Oman to maintain minimum capital adequacy (CAR) of 11%. Additionally, the CAR threshold requires a capital conservation buffer (CCB) of 2.5 per cent. In 2020, the CBO relaxed the CCB requirements to 1.25% and accordingly, the minimum capital adequacy requirement has been reduced to 12.25%.

The Bank's regulatory capital as per Basel III regulations is grouped into:

- Tier 1 capital, which includes ordinary share capital, share premium, reserves, retained earnings (net of proposed dividend) after deductions for goodwill, intangibles including deferred tax asset and 50% of carrying value of the investment in associates as per the regulatory adjustments that are included in equity but are treated differently for capital adequacy purposes and additional tier1 capital.
- Tier 2 capital, which includes qualifying subordinated liabilities, general loan loss impairment / ECL provision (Stage 1 and 2) and the element of the fair value reserve relating to unrealised gains on equity instruments classified as FVOCI after deductions for 50% of carrying value of investments in associates.

The qualifying Tier II cannot exceed Tier I capital, the amount of collective impairment allowances that may be included as part of Tier II capital is limited to 1.25% of the total credit risk-weighted assets. Additional incremental Stage 2 ECL as on December 31, 2022, over Stage 2 ECL as on December 31, 2019, qualifies as Tier II capital with a gradual phase-out by 2024.

The capital adequacy of the Bank is as follows:

	Consolidated		Parent Company	
	2022	2021	2022	2021
	RO'000	RO'000	RO'000	RO'000
Common Equity Tier 1 (CET 1)	**334,943**	333,030	**228,810**	234,117
Additional Tier 1	**136,403**	163,803	**136,403**	163,803
Tier 1 capital	**471,346**	496,833	**365,213**	397,920
Tier 2 capital	**30,872**	29,443	**27,412**	24,508
Total capital base	**502,218**	526,276	**392,625**	422,428
Credit risk	**2,699,066**	2,718,921	**2,007,061**	2,080,951
Market risk	**41,826**	39,376	**13,263**	13,188
Operational risk	**215,348**	207,336	**168,625**	166,650
Total risk weighted assets	**2,956,240**	2,965,633	**2,188,949**	2,260,789
Capital adequacy ratio %	**16.99%**	17.75%	**17.94%**	18.68%
CET 1 ratio	**11.33%**	11.23%	**10.45%**	10.35%
Tier 1 Capital ratio	**15.94%**	16.75%	**16.68%**	17.60%

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41. SEGMENT INFORMATION

The Bank mainly operates in only one geographical location, the Sultanate of Oman. The Bank has, however, earned interest income and incurred interest expenses on account of money market placements and borrowings with banks outside the Sultanate of Oman as of 31 December 2022. The information regarding the Bank's due from banks and due to banks based on the geographical locations for 2022 and 2021 is set out in note 39.1.2(g).

For management purposes, the conventional operations of the Bank are organised into four operating segments based on products and services. In addition, Islamic banking services are offered through Alizz Islamic Bank. The operating segments are as follows:

Retail banking	Individual personal loan, overdraft, credit card and funds transfer facilities.
Corporate banking	Loans and other credit facilities for corporate and institutional customers.
Treasury	Bonds, placements, bank borrowings, foreign exchange.
Others	Other central functions and Head office.
Islamic Banking	Sharia' compliant Islamic banking products and services including Ijarah, Murabaha, Mudarbah and Diminishing Musharakah.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss, which in certain respects is measured differently from operating profit or loss in the financial statements. The costs incurred by the central functions are managed on a group basis and are not allocated to operating segments.

Cash and balances with the Central Bank of Oman, Certificate of Deposits, due from banks, property and equipment and other assets are unallocated assets. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2022 or 2021.

Consolidated	Retail	Corporate	Treasury	Others	Islamic Banking	Total
2022	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Net interest income	28,197	33,707	12,565	-	-	74,469
Net income from Islamic financing	-	-	-	-	25,683	25,683
Other operating income	6,959	10,219	829	193	4,224	22,424
Total operating income	35,156	43,926	13,394	193	29,907	122,576
Operating expenses	(30,243)	(21,093)	(3,845)	(310)	(19,285)	(74,776)
Net allowances for credit losses	(357)	(26,594)	80	-	(3,473)	(30,344)
Tax expenses	(19)	286	(651)	(8)	(883)	(1,275)
Profit / (Loss) for the year	4,537	(3,475)	8,978	(125)	6,266	16,181
Assets	799,540	1,364,394	347,621	98,014	1,072,261	3,681,830
Liabilities	661,321	1,427,963	59,101	74,526	961,318	3,184,229

41. SEGMENT INFORMATION (CONTINUED)

Consolidated 2021	Retail RO'000	Corporate RO'000	Treasury RO'000	Others RO'000	Islamic Banking RO'000	Total RO'000
Net interest income	26,087	34,090	9,264	-	-	69,441
Net income from Islamic financing	-	-	-	-	21,221	21,221
Other operating income	5,245	7,024	4,410	7,108	3,546	27,333
Total operating income	31,332	41,114	13,674	7,108	24,767	117,995
Operating expenses	(30,207)	(22,745)	(3,905)	(464)	(17,458)	(74,779)
Net allowances for credit losses	(2,416)	(29,614)	(199)	-	(2,986)	(35,215)
Tax expenses	862	2,108	(3,735)	(218)	63	(920)
Profit / (Loss) for the year	(429)	(9,137)	5,835	6,426	4,386	7,081
Assets	723,233	1,236,728	400,465	101,086	974,147	3,435,659
Liabilities	663,977	1,301,220	13,359	63,295	869,469	2,911,320

Parent Company 2022	Retail RO'000	Corporate RO'000	Treasury RO'000	Others RO'000	Islamic Banking RO'000	Total RO'000
Net interest income	**28,197**	**33,707**	**12,580**	**-**	**-**	**74,484**
Other operating income	**6,959**	**10,219**	**829**	**193**	**-**	**18,200**
Total operating income	**35,156**	**43,926**	**13,409**	**193**	**-**	**92,684**
Operating expenses	**(30,243)**	**(21,093)**	**(3,845)**	**-**	**-**	**(55,181)**
Net allowances for credit losses	**(357)**	**(26,594)**	**80**	**-**	**-**	**(26,871)**
Tax expenses	**(19)**	**286**	**(651)**	**(8)**	**-**	**(392)**
Profit / (Loss) for the year	**4,537**	**(3,475)**	**8,993**	**185**	**-**	**10,240**
Assets	**799,540**	**1,365,444**	**454,765**	**91,113**	**-**	**2,710,862**
Liabilities	**661,321**	**1,427,963**	**59,101**	**74,526**	**-**	**2,222,911**

Parent Company 2021	Retail RO'000	Corporate RO'000	Treasury RO'000	Others RO'000	Islamic Banking RO'000	Total RO'000
Net interest income	26,087	34,090	9,268	-	-	69,445
Other operating income	5,245	7,024	4,410	5,938	-	22,617
Total operating income	31,332	41,114	13,678	5,938	-	92,062
Operating expenses	(30,207)	(22,744)	(3,905)	-	-	(56,856)
Net allowances for credit losses	(2,416)	(28,564)	(199)	-	-	(31,179)
Tax expenses	862	2,108	(3,735)	(218)	-	(983)
Profit / (Loss) for the year	(429)	(8,086)	5,839	5,720	-	3,044
Assets	723,233	1,237,778	507,609	99,695	-	2,568,315
Liabilities	663,977	1,301,220	13,359	69,115	-	2,047,671

42. COMPARATIVE FIGURES

Certain comparative figures for 2021 have been reclassified to conform to the presentation for the current year. During 2022, the Group modified the classification of certain operating expenses to commission expense (RO 3.6 million in Consolidated and RO 2.9 million in Parent) and certain commitment expenses under interest expense to commission expense (RO 1.1 million in both Consolidated and Parent) to reflect these items more appropriately in the financial statements.

43. SUBSEQUENT EVENTS

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorisation of these financial statements.

بنك عُمان العربي
OMAN ARAB BANK