Sohar international

SCALING UP GROWTH WITH EXCELLENCE

ANNUAL REPORT 2023

HIS MAJESTY SULTAN HAITHAM BIN TARIK

"By the grace and guidance of Allah the Almighty, our country has successfully attained notable results and significant accomplishments across social and economic sectors, as well as in fiscal performance, in spite of the global economic challenges. These challenges have notably impacted our economy and national programs. Our plans, intricately crafted with specific objectives, strive to address the exigencies of the present and aim for sustainable development through efficacious resource management, ultimately seeking to diminish public debt burdens. A portion of our fiscal surplus has been judiciously allocated to invigorate social sectors and stimulate economic growth.

The implementation of our Fiscal Sustainability Plan has profoundly and positively influenced the consolidation of the country's financial standing and augmented the efficiency of our spending. The national programs initiated have been instrumental in bolstering economic growth and catalyzing investments in burgeoning sectors. We reaffirm our unwavering commitment to continuing our efforts to diversify the sources of national income, emphasizing the enhancement of non-oil revenues, to ensure the long-term stability of the State's public finances."

SPEECH OF HIS MAJESTY SULTAN HAITHAM BIN TARIK
14 NOVEMBER 2023

VISION

To be a world-leading Omani service company, that helps customers, communities and people to prosper and grow.

VALUES

Be straight-up
Act with honesty, courage and kindness.

Be open-minded
Listen openly, encourage ideas, embrace innovation, welcome feedback.

Do the right thing
Take responsibility, make the tough calls, think of others.

Make it better
Find or create solutions - step up, own it, do it.

UNWAVERING VALUES

SOARING

VISION

A CATALYST FOR OMAN'S ECONOMIC DEVELOPMENT

As a catalyst for Oman's economic advancement, Sohar International views itself as a steadfast partner and contributor to the nation and its people. Our journey of growth extends both locally and beyond borders, aligning closely with the trajectory of the country's economic expansion.

We are committed to nurturing prosperity hand-in-hand with the communities we serve, embodying a deep sense of responsibility towards Oman's socio-economic development. As we continue on this journey, our dedication remains unwavering, driving us to pursue excellence in all our endeavors.

GROWING

TOWARDS EXCELLENCE TOGETHER

AWARDS

CONQUERING EVERY CLIMB

Best in Class Wealth Management & Advisory Services

Signature Luxury 100 Awards

CEO of the year

Alam Al-Iktisaad Awards

Best Wealth Management Services in Oman 2023

Global Business Magazine

Best Investment Bank in Oman 2023

Euromoney Awards for Excellence

Best Bank in Growth

Oman Banking & Finance Awards 2023

Best place to work in the banking sector

The Global Economics, UK

CEO of the Year Banking & Leadership

Le Fonti International Award 2023

Leadership in Sustainable Community Development

Alam Al-Iktisaad Awards

Best Digital Bank in Oman 2023

Global Business Review Magazine

Fastest Growing Retail Banking Bank in Oman 2023

World Business Outlook

Industry Leader in Digital Banking

Oman Banking & Finance Awards 2023

Key Enabler of Sustainable Economic Growth in Oman

OER Business Summit 2023

Top Omani Brand in the Banking Sector

Top Omani Brands and Alaam Al Iktisaad Awards 2023

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BOARD OF DIRECTORS

FUELED BY OUR VISION TO
ELEVATE
OUR NATION'S GROWTH

Left to Right

Mr. Said Ahmed Safrar
Director

Mr. Tareq Mohamed Al Mugheiry
Director

Mr. Said Mohamed Al Aufi
Deputy Chairman

Left to Right

Mr. Mohamed Mahfoodh Al Ardhi
Chairman

Mr. Salim Mohamed Al Mashaikhi
Director

Sheikh. Ahmed Said Al Mashani
Director

Mr. Bipin Dharamsey Nensey
Director

CHAIRMAN'S REPORT

Mohamed Mahfoodh Al Ardhi

It has been a privilege to lead Sohar International through an exceptional period of expansion and achievement spanning more than five years. I take great pride in our collective accomplishments, Sohar International's trajectory, commitment and passion to be a leading Bank in the Middle East. With dedicated focus on serving our loyal customers, stakeholders and beloved nation we celebrate another year of commendable highlights and achievements characterized by purposeful growth and innovation.

The highly successful merger with HSBC Bank Oman S.A.O.G ("the merger") represents a historic and defining moment in the transformational journey of Sohar International, firmly establishing the Bank as a flagship entity in Oman and ushering in a new era of expansion both domestically and internationally, most recently the commencement of our Branch operation in the Kingdom of Saudi Arabia.

Against the backdrop of a global landscape grappling with uncertainties including inflation, high interest rates and a slow-down of economic growth, Oman's judicious fiscal measures under the visionary leadership of His Majesty Sultan Haitham Bin Tarik, aligned with the Central Bank of Oman's prudent monetary approach, have helped maintain a robust local economy and insulated Oman from potentially adverse economic consequences.

Sohar International, a vanguard of transformative initiatives in the banking sector, has contributed significantly to the macroeconomic narrative and supported economic stability. Recent upgrades of the Bank's credit ratings underscore Sohar International's robust financial position, highlighting strong liquidity, profitability, and substantial capital buffers.

Our strategic alignment with the nation's broader goals has been a defining theme. Thriving in an environment that demands continuous adaptability, we have provided unwavering support to key sectors, fostered a talented workforce, and initiated community well-being projects. With such attributes embedded in our organization, Sohar International now stands as an integral part of Oman's growth story, echoing the nation's aspirations.

GROWTH & MARKET LEADERSHIP

This year is particularly significant for Sohar International as we realize various aspects of a strategic vision initiated in 2019. A transformative five-year plan that resulted in notable achievements including our historic merger. This strategic initiative catapulted Sohar International to become Oman's fastest-growing and second-largest bank, with a surge in assets to OMR 6.7 billion, a 50% increase in market share and a market capitalisation of USD 1.5 billion, ranking Sohar International as the Muscat Stock Exchange's fourth largest entity.

The merger showcased the Bank's capability in managing large-scale transformations, involving meticulous planning in IT systems, product integration, operational workflows, and cultural alignment. However, our story is not just about numbers; it is about expanding horizons, both geographically and operationally.

The evolution from a traditional Bank to an exceptional Omani services company reflects a commitment to providing customers with an unparalleled suite of offerings. This expansion extends beyond borders, entering the dynamic landscape of the Kingdom of Saudi Arabia. The move aims to promote economic collaboration between Oman and Saudi Arabia, fostering cross-border trade and investment while aligning with Oman's broader economic objectives.

Actively engaging with local, regional, and international entities, the Bank positions Oman as a secure and compelling investment destination. Initiatives like the MSX Investor Roadshow, being the 'Main Partner' of the Invest Oman Hall, and participation in conferences underscore Sohar International's commitment to thought leadership and providing valuable insights into market trends, regulations, and opportunities.

FINANCIAL STRENGTH & RESILIENCE

The financial results for the year include the impact of the merger effective 17th August 2023, the outcome of which is a stronger and more resilient organization. I am proud of the financial foundation that has been achieved, from which Sohar International will continue to thrive.

Profit for the year increased 101% to RO 70.3 million compared to RO 34.9 million last year.

Total operating income increased 23% to RO 163.4 million (2022: RO 132.8 million) driven by increases in net interest income and other operating income.

Total operating expenses increased 40% to RO 76.9 million (2022: 55.2 million) reflecting the Bank's continued investment in people, technology and costs associated with the Bank's strategic initiatives, including the merger and the establishment costs of our new branch in the Kingdom of Saudi Arabia.

The Bank has recognised an initial gain on bargain purchase resulting from the merger of RO 91.8 million. The most significant component of this gain is the intangible asset of RO 66.6 million recognized in relation to the core deposits acquired as part of the business combination.

Loan impairment charges and other credit risk provisions (net) for the year was RO 105.1 million compared to RO 39.7 million last year improving the Bank's coverage ratio to 143.2% compared to 89.2% last year. The increased coverage ratio reflects the Bank's prudent and proactive approach to credit risk management.

Total assets increased 62% to RO 6,689 million (2022: RO 4,131 million) of which Loans, advances and Islamic financings (net) increased 34% to RO 3,921 million (2022: RO 2,924 million).

The Banks increase in highly liquid investment securities and balances due from banks have significantly strengthened the Bank's liquidity position with a Liquidity Coverage Ratio as at 31 December 2023 of 205% (2022: 154%).

Customer deposits increased 99% to RO 5,103 million (2022: RO 2,560 million) resulting in a remarkable loan-to-deposit ratio of 77% compared to 114% last year.

The increase in total shareholder's equity of RO 137 million to RO 702 million (2022: 565 million) includes RO 106 million increase in ordinary share capital issued as part of the merger consideration. The Bank's strong Total Capital Ratio as at 31 December of 17.9% (2022: 20.9%) is another testament to the Bank's financial strength.

DIGITAL FIRST

With a digital-first approach, our focus is on delivering the future of banking to our customers today. In 2023, Sohar International introduced the ground breaking 'My Life, My Goals' ecosystem seamlessly integrated into our mobile banking application. This innovation expands our offerings beyond traditional banking, catering comprehensively to diverse lifestyle needs.

We expanded offerings with Transaction Banking and a Corporate Mobile Application, enhancing our digital footprint. Aligned with our commitment to digitalization, customers could effortlessly apply for the OQ Gas Network's Initial Public Offering (IPO) through our mobile applications. Our continued customer-centric initiatives, promotions, and cybersecurity awareness campaigns enhance the overall banking experience.

Both Sohar International and Sohar Islamic mobile applications offer numerous new functionalities, including streamlined remote account opening, and corporate clients benefit from the traction gained by our transaction-banking platform, empowering them to run and grow their businesses efficiently.

SERVING CUSTOMERS

We create impactful customer experiences by aligning with government initiatives and forming strategic partnerships beyond traditional banking services. From Escrow Accounts to exclusive discounts, we shape the future of banking through meaningful relationships and support national projects like Sultan Haitham City's financing solutions.

At Sohar International, we continuously position ourselves as enablers of opportunities. Through the relaunch of Minor accounts, introduction of the Sohar Islamic Student Account, and participation in IPOs we seek to empower individuals across diverse demographics, raise awareness about wealth management propositions, and drive financial inclusion at every level.

Sohar International's corporate and government banking business has undertaken several initiatives to contribute to Oman's long-term vision and sustainable growth. Key activities include providing financial support for Public-Private Partnerships (PPP), a focus on tourism developments, urbanization, Foreign Direct Investment (FDI), Small and Medium Entity (SME) development, risk management, advisory services, and fostering collaborative partnerships to further financial inclusion, technology adoption, and Environmental, Social, and Governance (ESG) practices. These strategic alignments aim to support economic diversification and private sector participation in Oman.

Sohar International's growth strategy is rooted in customer proximity, digitalization, and service excellence. The Bank continues to prioritize digital banking while enhancing its physical branch network to maintain customer closeness, with investments in digital infrastructure aimed at creating an omnichannel experience, ensuring security, and leveraging data for personalized customer interactions.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

Sohar International has developed its ESG framework, a comprehensive guide covering diverse facets of ESG. The framework emphasizes sustainable finance, investment, governance, compliance, ethics, financial inclusion, community investment, human capital, environmental impact, customer experience, climate change, and a sustainable supply chain at a high level.

Aligned seamlessly with Oman's vision and commitment to ESG, the bank's dedication to environmentally responsible practices are demonstrated through active participation in events such as the Green Hydrogen Summit Oman 2023 and the Alam Al-Iktissad Oman Forum, focusing on 'Sustainability, Innovation, and Inclusive Growth.' This commitment extends beyond symbolic gestures to tangible operational changes, such as the transition from traditional printed business cards to NFC-enabled cards and the incorporation of recycled plastic in all cards, representing a purposeful shift toward sustainable practices.

Sohar International is also actively working to make its investment portfolio more sustainable, aligning with global sustainability standards and contributing to the reduction of carbon emissions. Furthermore, through financing key national projects in this domain, Sohar International indirectly facilitates the creation of job opportunities within the Sultanate.

The establishment of branches in remote areas of Oman exemplifies the Bank's social initiatives to enhance financial inclusion, encompassing a broader segment of the population within the banking system.

CORPORATE SOCIAL RESPONSIBILITY

As a socially responsible corporate entity, our commitment to societal well-being is evident through a diverse range of initiatives such as supporting health programs and promoting Oman as an international sports hub. Embracing a multifaceted approach to nurturing talent, Sohar International empowers individuals through initiatives like Tomohi, supports innovative entrepreneurship through Injaz Oman, and actively contributes to overall community welfare, offering diverse forms of assistance, exemplifying our holistic commitment to ESG principles.

CULTIVATING EXCELLENCE

Our success is a result of a performance-based culture that goes beyond conventional boundaries, driven by a talented workforce. Recognizing key performers, honouring long-serving staff, and fostering staff and leadership engagement contribute to our vibrant organizational culture. Continuous training, inter-staff communication, and financial tools awareness are critical to our ongoing success, forming the backbone of our ethos and ensuring collective triumph in our achievements.

AWARDS AND ACCOLADES

Reflecting on the accomplishments of 2023, our unwavering commitment to excellence has garnered significant recognition, earning us 13 prestigious awards. These accolades encompass a diverse range of achievements, solidifying our standing as a leading institution in the local, regional, and international arenas. Notably, our inclusion in Forbes Middle East's esteemed list of the 50 Most Valuable Banks in the Middle East underscores our financial prowess.

Moreover, our recognition for contributions to sustainable economic growth, digital innovation, and premium wealth management services further exemplifies our multifaceted expertise. In addition, clinching the title of the Fastest Growing Retail Banking Bank in Oman for 2023 highlights our exceptional performance within the region. Noteworthy achievements, such as being honoured as the Best Place to Work in the Banking Sector in Oman 2022 and securing the Top Omani Brand in Banking Sector award, underscore the strength of our organizational culture and brand reputation.

RECOGNITION

It is with the utmost humility and pride that I recognize the extraordinary contribution of the many stakeholders who have together transformed the Bank and achieved unprecedented benchmarks and milestones.

My sincere gratitude to our shareholders and customers for your continued confidence in our team to exceed your expectations. My heartfelt thanks to our employees, under the leadership of our visionary and exceptional CEO, Mr. Ahmed Al Musalmi, in recognition of your dedication and alignment with the organisation's core values, instrumental to our success.

The strong governance policies, continuous encouragement to adopt global best practices, and ongoing support from the Central Bank of Oman and the Capital Market Authority have played a pivotal role in helping us achieve our milestones.

Finally, on behalf of my fellow Directors and our employees, I convey my sincere gratitude to His Majesty Sultan Haitham Bin Tarik, whose visionary leadership has positioned the country on a trajectory toward sustainable socio-economic progress and prosperity.

Mohamed Mahfoodh Al Ardhi
Chairman

CORPORATE GOVERNANCE

OUR STANDARDS
& TRANSPARENCY
PROPEL
US FORWARD

Deloitte.

STRICTLY PRIVATE & CONFIDENTIAL

The Board of Directors
Sohar International Bank SAOG
Muscat
Sultanate of Oman

Agreed Upon Procedures report on Code of Corporate Governance

Purpose of this Agreed-upon Procedures Report

Our report is solely for the purpose of assisting the directors of **Sohar International Bank SAOG** (the "Bank") in determining whether Corporate Governance Report of the Bank is in compliance with the Code of Corporate Governance (the "Code") of the Capital Market Authority of the Sultanate of Oman ("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.

Responsibilities of the Engaging Party

The Engaging Party has acknowledged that the agreed upon procedures are appropriate for the purpose of the engagement.

The Engaging Party have prepared the Corporate Governance Report ("the Report") and remains solely responsible for it and are also responsible for identifying and ensuring that the contents of the Report comply with the Code.

Our Responsibilities

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

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

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

Professional Ethics and Quality Control

We have complied with the ethical requirements of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code") and the independence requirements in accordance with IESBA Code.

Our firm applies International Standard on Quality Management ("ISQM") 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or 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 with the Bank in the terms of our engagement letter dated 28 March 2023, on the compliance of the Report with the Code for the year ended 31 December 2023.

Procedures	Findings
We obtained the Corporate Governance Report issued by the Board of Directors and determined if the items listed in Annexure 3 of the Code are included in the corporate governance report.	We draw attention to Article [6] of the 10th Principle code of corporate governance issued by the CMA, which prohibits Chairman of the Audit Committee to be a member of any other committee. However, Chairman of the Audit Committee is member of the Executive Nomination & Remuneration Committee and the Risk Committee.

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

This report is based on the information provided to us by the management of the Bank. We did not subject the information contained in our report or given to us by management to checking or verification procedures except to the extent expressly stated above. This is normal practice when carrying out such limited scope procedures, but contrasts significantly with, for example, an audit. The procedures we performed were not designed to and are not likely to reveal fraud.

This report relates only to the accompanying Corporate Governance Report of the Bank to be included in its annual report for the year ended 31 December 2023 and does not extend to the Bank's financial statements taken as a whole.

Deloitte & Touche

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
12 March 2024

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Deloitte & Touche (M.E.) & Co. LLC

1. PHILOSOPHY ON CORPORATE GOVERNANCE:

The Corporate Governance Philosophy within Sohar International Bank SAOG (the "Bank" and/or "Sohar International") has been developed within the directives and guidelines of the Central Bank of Oman ("CBO"), the Capital Market Authority ("CMA") and the Commercial Companies Law of Oman ("CCL"). The four universal values synonymous with corporate governance – accountability, fairness, responsibility and transparency – underpin the Bank's Corporate Governance approach.

Corporate governance is a set of processes, customs, policies, laws and practices affecting the manner in which an organization – namely Sohar International – is directed, administered or controlled. Corporate governance also covers the relationships between the many parties or stakeholders involved with the Bank, and the aims and objectives for which the Bank is governed. The principal relationships for the Bank include those between the shareholders, management, and the Board of Directors. Other relationships include customers, employees, regulators, suppliers, the environment and the community in which the Bank operates. Additionally, governance relates to economic efficiency, through which the Bank's governance system aims to optimize economic results, thereby placing emphasis on the shareholder's welfare.

The Board of Directors of the Bank are committed to the highest standards of Corporate Governance. The Bank is committed to lead by example in the letter and spirit of the Code of Corporate Governance laid out by the CMA, and the regulations for Corporate Governance of Banking and Financial Institutions issued by CBO. Both are the principal codes and drivers of effective corporate governance in the Sultanate of Oman. The Bank has complied with all of their provisions, except for certain instances, which are included in the 'Statement of Compliance' section of this report. The CMA Code of Corporate Governance can be found at the following website ww.cma.gov.om.

The Bank's Corporate Governance Framework requires that the Board of Directors, and the Sharia 'Supervisory Board ("SSB") for its Islamic Banking Window (Sohar Islamic), and management shall:

- Maintain the highest standards of corporate governance and regulatory compliance.
- Promote transparency, accountability, responsiveness and social responsibility.
- Conduct its affairs with its shareholders, customers, employees, investors, vendors, government and the society at large in a fair and open manner.
- Create an image of the Bank as a legally and ethically compliant entity.

2. BOARD OF DIRECTORS:

The Bank's Board of Directors (the "Board") is the highest governing authority within the Bank's structure. Its role is to ensure that the Bank conducts itself in accordance with its core values and develops them further on a continuous and sustainable basis. The Board consists of professionals from various fields and professions and gives representation to the stakeholders and administrators in the decision making process. The Board composition includes 6 independent directors, out of 7, which represents a percentage of 85 percent independent directors. This structure enables meaningful discussions and an unbiased and qualitative view on matters placed before it.

There is a clear segregation between the ownership of the Bank and management. The role of the Chairman of the Board, and that of the Chief Executive Officer ("CEO") are separated, with clear separation of responsibilities between the running of the Board, and executive management's responsibilities in terms of running the Bank's operations. As per applicable regulations, the CEO is prohibited from holding a Board role. The Board is responsible for overseeing how management serves the long-term interests of shareholders and other key stakeholders.

2.1 Composition and classification of the Board:

The constitution of the Board, election process for Board members and shareholders' interests are areas of prime concern for the Bank's commitment to good governance. Details of the elected Board members are outlined in Table 1.

Table 1: Composition and classification of the Board:

Name of Director	Category	Represents
Mr. Mohamed Mahfoodh Al Ardhi Chairman	Non-Executive	Independent
Mr. Said Mohamed Al-Aufi Deputy Chairman	Non- Executive	Independent
Mr. Salim Mohamed Al Mashaikhi	Non-Executive	Independent
Mr. Said Ahmed Safrar	Non-Executive	Independent
Sheikh. Ahmed Said Al Mashani	Non-Executive	Non- Independent
Mr. Tareq Al Mugheiry	Non-Executive	Independent
Mr. Bipin Dharamsey Nensey	Non-Executive	Independent

2. BOARD OF DIRECTORS (CONTINUED)

2.2 Profile of Directors:

Mr. Mohamed Mahfoodh Al Ardhi - Chairman

Al Ardhi joined Sohar International as the Chairman in December 2017. Mr. Al Ardhi is also the Executive Chairman of the global investment firm Investcorp. A retired Air Vice Marshal by profession, Mr. Al Ardhi joined the Royal Air Force of Oman in 1978, and was subsequently appointed as Chief of the Omani Air Force. In 2000, he was awarded the "Order of Oman" by His Majesty Sultan Qaboos bin Said bin Taimur Al-Said, may his soul rest in peace. Al Ardhi is the former Chairman of the National Bank of Oman where he served for three years as Deputy Chairman and three years as Chairman of the Board. Al Ardhi holds a Bachelor's of Science degree in Military Science from the Royal Air Force Staff College in Bracknell, UK and a Master's in Public Administration from John F. Kennedy School of Government, Harvard University USA. He also graduated from the prestigious US military institution the National Defense University in Washington D.C., USA. After studying military strategy. Al Ardhi regularly speaks on international trade, the relationship between the Middle East and the West and the security of the Gulf. He is also the author of four books: "Arabs Down Under", "Pearls from Arabia", "Arabs Unseen", and "Connecting to the Future".

Current affiliations:

- International Advisory Board of the Brookings Institution in Washington D.C.
- Trustee for the Eisenhower Fellowship in Philadelphia.
- Member of Community Chairmen Group, World Economic Forum.
- Member of Harvard Kennedy School Dean's Council.
- Member of The Arab Gulf States Institute in Washington.

In addition to his position as the Chairman of the Board of Directors at Sohar International, Al Ardhi also holds the position of the Chairman of the Executive, Nomination and Remuneration committee (ENRC).

Mr. Said Mohamed Al-Aufi – Deputy Chairman

Mr. Al Aufi is Acting CEO at Mars Development and Investment ("MDI"), and is responsible for managing a multi-asset class portfolio in the financial services, fintech, technology and commodities sectors. Before joining MDI, Mr. Al Aufi worked in the Asset Allocation and Business Strategy team for the State General Reserve Fund (SGRF). Mr. Said Al Aufi has a Double Degree in Commercial Law & Banking and Finance from Monash University in Australia, is a Chartered Financial Analyst ("CFA"), and Chartered Alternative Investment Analyst ("CAIA"). He has also completed several executive management programs in the areas of executive leadership, block chain, cryptocurrency, fintech, artificial intelligence, internet of things (IOT) and venture capital. Mr. Al Aufi is a member of the Board of Oman Telecommunication SAOC, and the Board of Oman Broadband Company SAOC. Mr. Al Aufi is the Chairman of Sohar International's Board Audit Committee.

Mr. Salim Mohamed Masaud Al Mashaikhi – Director

Mr. Salim Mohamed Masaud Al Mashaikhi holds a Bachelor's Degree in Mathematics, and is currently employed in the Expenditure Department of the Royal Court Affairs in the Sultanate of Oman. Mr. Salim Al Mashaikhi is the Deputy Chairman of Oman Fixed Income Fund (OMFI). Mr. Salim Al Mashaikhi is the Chairman of the Board Risk Committee, and a member in the Board Audit Committee.

Mr. Said Ahmed Safrar – Director

Mr. Said Safrar is the Chief Executive Officer in Oman Investment & Finance Company Co. SAOG. He holds a Master in Business Administration (MBA) from the University of Hull in the UK, and a Senior Executive Leadership Program from Harvard Business School in the USA. Mr. Said Safrar brings more than 27 years of professional experience across the banking, telecom, investment and services sectors. He was the Chief Customer Experience Officer with Omani Qatari Telecommunications Company SAOG ("Ooredoo"), before joining OIFC. He is a Board Member at Sohar International SAOG, Financial Corporation Co SAOG, Tageer Finance Company SAOG, Dhofar Generating Company SAOG, Wasel Exchange SAOC and Mazoon first Fund. In addition to his role as a member of the Bank's Board of Directors, Mr. Said Safrar is also the Chairman of the Credit Approval Committee (CAC) and a member of the Executive, Nomination and Remuneration committee (ENRC).

Sheikh. Ahmed Said Mustahil Al Mashani – Director

Sheikh. Ahmed Al Mashani holds a Bachelor's Degree in Business Administration from Staffordshire University. He is currently employed with Muscat Overseas Group, which provides services in investments, industrial, education, mining, real estate, media, and agricultural. He was a previous board member of the Financial Center, and he is currently a Board Member of Oman Investment and Finance Company, and Wasel Exchange, besides his work in the Governmental sector. Sheikh. Ahmed Al Mashani is a member in the Board Risk Committee and the Audit Committee (AC).

2. BOARD OF DIRECTORS (CONTINUED)

2.2 Profile of Directors (continued)

Mr. Tareq Al Mugheiry – Director

Mr. Tareq Al Mugheiry is the Chief Investment Officer of Oman Investment Corporation SAOC (OIC). Prior to joining OIC, Tareq worked with a number of international companies including: Philips Electronics in corporate strategy and mergers and acquisitions; J.P. Morgan in investment banking covering the European technology sector; and Oman LNG's project finance team. He holds a Bachelor's Degree of Law (LLB) and Bachelor's Degree of Commerce (B. Com) from the University of Western Australia. Tareq serves on the Boards of Innovation Development Oman, Takaful Oman Insurance, Sembcorp Salalah O&M Company, and TMK GIPI. Mr. Tareq Al Mugheiry is a member of the Board's Credit Approval Committee (CAC), and the Executive, Nomination and Remuneration committee (ENRC).

Mr. Bipin Dharamsey Nensey - Director

Mr. Bipin Dharamsey Nensey holds a Bachelor's Degree in Accounting and Finance. He is the Director of Dharamsey Nensey Company since 1977. Since July 2007, Mr. Nensey has held Independent Non-Executive Director roles for Al Suwadi Power Company SAOG, and Muscat Insurance Company SAOG. He has served as the Vice Chairman of one of the local Banks for over 15 years. For Sohar International, Mr. Nensey is a member of the Board Credit Approval Committee.

2.3 Board of Directors – Executive Powers:

Sohar International's Board of Directors:

- Is vested with the powers of general superintendence, direction and management of the affairs and business of the Bank.
- Has the ultimate responsibility for the overall compliance and oversight of the management of the Bank.
- Guides the Bank to achieve its objectives in a prudent and efficient manner.
- Is primarily responsible for ensuring that all financial transactions are legal and that all disclosures are made as per regulations.
- Lays down a comprehensive Code of Professional Conduct for all Board Members and Senior Management of the Bank, to be followed under all circumstances.
- Approves the delegation of power to the executive management as well as nominee members of the sub-committees and specify their roles, responsibilities and power.
- Authorizes management to implement the strategy for the Bank that is designed to deliver increasing value to the shareholders.
- Develops strategies for managing risks associated with the business and for meeting challenges posed by competitors.
- Develops vision to anticipate crisis and to act proactively when necessary.
- Ensures that information flows upward and that authority flow downward, and therefore ensuring the Bank is under their control, direction and superintendence.

During the year under review, the Board has:

- Reviewed and approved the Bank's financial objective, plans and actions.
- Reviewed the Bank's performance.
- Evaluated whether the business is properly managed according to the Bank's objectives.
- Ensured compliance with laws and regulations through proper internal systems of controls.
- Reviewed the efficiency and adequacy of the internal control systems and confirmed its compliance with internal rules and regulations.

The Board of Directors has approved the Standards of Professional Conduct, which cover the standards of conduct expected from the Directors and the Senior Management of the Bank. The purpose of this Code is to articulate the highest standards of honesty, integrity, ethical and law abiding behavior.

The Board has approved the Quarterly Reports released in 2023, and recommended the annual financial statements and report to the shareholders for approval, and have reported about the ongoing concern status of the Bank with supporting assumptions and qualifications as necessary.

The Board has taken steps to comply with rules, regulations and international best practice, reviewed compliance reports prepared by the Bank's management of all applicable provisions of the law.

Sohar International's Board of Directors has exercised all such powers and performed all such acts as the Board is authorized to exercise and do.

The Bank prepares a Management Discussion and Analysis report which is included as a separate section in the Annual Report.

2.4 Meetings and Remuneration of the Board:

The Board of Directors meets regularly, monitors executive management, and exercises necessary control over the Bank's functioning. The Board conducts its business in formal meetings. In Board meetings, the "majority" is computed as the absolute majority of the Directors present in person or through proxy, whether or not they participate in the voting process.

Table 2: Sitting fees paid to Directors during 2023 is given below:

Sl. No	Name	Sitting fees paid during 2023
1	Mr. Mohamed Mahfoodh Al Ardhi	8,550 OMR
2	Mr. Said Mohamed Al-Aufi	10,000 OMR
3	Mr. Salim Mohamed Al Mashaikhi	10,000 OMR
4	Mr. Said Ahmed Safrar	10,000 OMR
5	Sheikh Ahmed Said Al Mashani	10,000 OMR
6	Mr. Tareq Mohamed Al Mugheiry	10,000 OMR
7	Mr. Bipin Dharamsey Nensey	8,700 OMR
	Total:	**67,250 OMR**

The total number of meetings of the full Board during the year 2023 was 10. The maximum interval between any two meetings was in compliance with rule (10) of the 2nd principle of the CMA's Code of Corporate Governance, which requires meetings to be held within a maximum time gap of four months. The dates of the meetings of the Board of Directors, and its sub-committees during year 2023, along with attendance in each meeting, is presented separately in the following tables.

Board of Directors Meetings held in 2023 and dates on which they were held										
Name of Director	**29 Jan**	**30 April**	**24 May**	**29 May**	**30 July**	**14 Aug**	**29 Oct**	**30 Nov**	**21 Dec**	**26 Dec**
Mr. Mohamed Al Ardhi	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Mr. Said Al-Aufi	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Salim Al Mashaikhi	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Said Ahmed Safrar	✓	✓	✓	✓	✓	✓	✓	-	✓	✓
Sheikh. Ahmed Said Al Mashani	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Tareq Al Mugheiry	✓	✓	-	✓	✓	✓	✓	✓	✓	✓
Mr. Bipin Dharamsey Nensey	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Sitting fee remuneration is paid to the Directors for attending the Board and its Sub-Committee meetings. The fee is within the limits stipulated by the Commercial Companies Law and the directives of the Capital Markets Authority.

An amount of RO 300,000 was paid in 2023 as board remuneration for the year ended 31st December 2022. The remuneration paid was within the limit prescribed under applicable laws and regulations.

2.5 Committees of the Board

The Board of Directors has created various sub-committees with clearly defined terms of reference and responsibilities. The committees' mandates are to ensure focused and specialized attention to specific issues related to the Bank's governance. The various sub-committees of the Board together with the Internal Audit and Compliance departments form an important tool in the Bank's corporate governance approach. The sub-committees, their structure and primary responsibilities are details as follows.

The Corporate Governance Structure of Sohar International Bank SAOG is depicted below:

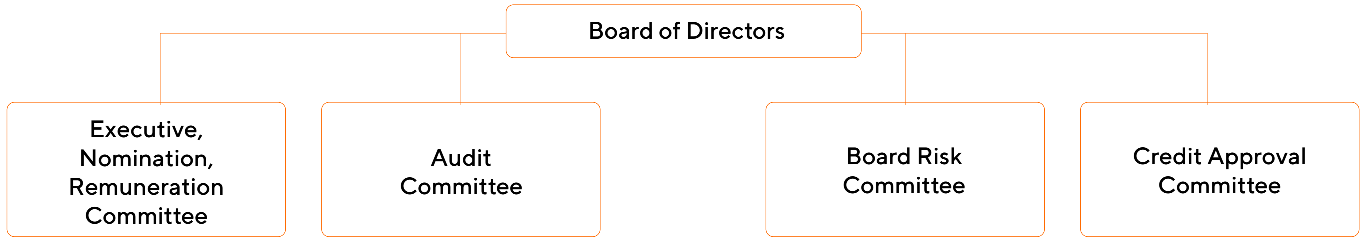

Table 3: Board Sub-Committees meetings held in 2023 / Number of meetings attended

Name of Director	Executive, Nomination & Remuneration Committee (ENRC)	Audit Committee (AC)	Credit Approval Committee (CAC)	Board Risk Committee (BRC)	Attendance of AGM - March 2023
Mr. Mohamed Al Ardhi	3	-	-	-	Present
Mr. Said Al-Aufi	4	5	-	4	Present
Mr. Salim Al Mashaikhi	-	5	-	4	Present
Mr. Said Ahmed Safrar	4	-	2	-	Present
Sheikh. Ahmed Said Al Mashani	-	5	-	4	Present
Mr. Tareq Al Mugheiry	4	-	2	-	Present
Mr. Bipin Dharamsey Nensey	-	-	2	-	Present

2.5a Executive Nomination & Remuneration Committee:

The Board Executive, Nomination and Remuneration Committee ("ENRC") is a sub-committee of the Board and, as such, assists the Directors in discharging their responsibilities in relation to: (1) General performance aspects of the Bank such as strategy setting and implementation, annual budget recommendations, information technology, management of environment, social and governance (ESG) activities, and generally to assist the Board in reviewing business proposals, other than credit, and other related issues that require a detailed study and analysis; and (2) HR, Nomination and Remuneration issues such as to provide direction and guidance to have the right CEO and Senior Management team and provide support and direction to the Bank and its stakeholders and ensure their interests are protected, etc.

ENRC Meetings held in 2023 and dates on which they were held

Name of Director	29 Jan	30 July	21 Dec	26 Dec
Mr. Mohamed Al Ardhi (Chairman)	✓	✓	✓	-
Mr. Said Al-Aufi	✓	✓	✓	✓
Mr. Said Ahmed Safrar	✓	✓	✓	✓
Mr. Tareq Al Mugheiry	✓	✓	✓	✓

2.5 Committees of the Board (continued)

2.5b Audit Committee (AC):

The main functions of Audit Committee are to assess and review the financial reporting system of the Bank to ensure that the financial statements are correct, sufficient and credible. The Committee reviews with management the quarterly and annual financial statements before their submission to the Board for adoption. The Committee also reviews the adequacy of regulatory compliance, regulatory reporting, internal control systems and structure of Internal Audit and Compliance Departments. The Committee also holds discussions with the internal auditors / external auditors on significant findings on the control environment. The role of Chief Internal Auditor is to provide assurance that the management control framework used within the Bank is operating effectively. The role of Chief Compliance Officer is to ensure that the Bank complies with all the laws, rules and regulations as applicable under the regulatory framework in the Sultanate of Oman, and international best practice. Both chiefs report directly to the Audit Committee.

AC Meetings held in 2023 and dates on which they were held

Name of Director	26 January	27 April	28 May	27 July	26 October
Mr. Said Al Aufi (Chairman)	✓	✓	✓	✓	✓
Mr. Salim Al Mashaikhi	✓	✓	✓	✓	✓
Sheikh. Ahmed Said Al Mashani	✓	✓	✓	✓	✓

2.6c Credit Approval Committee:

The Board Credit Approval Committee (CAC) is a sub-committee of the Board and as such approves loans above the lending mandate of Executive Credit Committee (ECC) of the management, and reviews on annual basis credit product policies, credit policy, credit portfolio, and existing credit facilities – all within its authority as per its terms of reference.

CAC Meetings held in 2023 and dates on which they were held

Name of Director	19 March	27 Sep
Mr. Said Safrar (Chairman)	✓	✓
Mr. Tareq Al Mugheiry	✓	✓
Mr. Bipin Dharamsey	✓	✓

2.6d Board Risk Committee:

The Board Risk Committee (BRC) assists the Board discharge its responsibilities of oversight and governance in relation to the risk performance of the Bank. The Committee is responsible, among other things, for making recommendations to the Board on the risk appetite of the Bank in relation to credit, interest rate, market, liquidity and operational risk. The Committee ensures the implementation of risk strategy and policy in addition to ensuring that a robust risk framework is in place within the Bank which optimizes the quality and return on deployment of assets. The Committee also provides guidance and direction on all credit, market, interest rate, liquidity and operational risk policy matters.

BRC Meetings held in 2023 and dates on which they were held

Name of Director	5 Feb	11 May	7 Sep	20 Dec
Mr. Salim Al Mashaikhi (Chairman)	✓	✓	✓	✓
Mr. Said Al Aufi	✓	✓	✓	✓
Sheikh Ahmed Said Al Mashani	✓	✓	✓	✓

3. SHARI'AH SUPERVISORY BOARD OF SOHAR ISLAMIC (THE ISLAMIC BANKING WINDOW OF SOHAR INTERNATIONAL BANK SAOG)

Biography of Sharia Supervisory Board Members:

Sheikh Al-Mu'tasim Said Al Maawali (Chairman)

Al-Mu'tasim Said Al-Maawali is a religious supervisor working for The Omani Studies Centre at Sultan Qaboos University. He holds an MA degree in Islamic Studies from the University of Birmingham, 2016. Al-Mu'tasim authored a seven-volume series in Islamic Jurisprudence called al-Mu'tamad, including the sixth volume in Islamic Financial Transactions, and the seventh in Islamic Banking. In 2016, he published his English book Articles on Ibāḍī Studies. In February 2017, he published his translation (from Arabic to English) the first volume of 'The Reliable Jurisprudence of Prayer'. In 2019, he also translated 'Christians in Oman' from English into Arabic. Al-Mu'tasim has presented academic papers at international conferences in Islamic Studies, including TIMES 2017 at Birmingham University, and BRISMES 2018 at King's College London, and BRISMES 2019 at the University of Leeds.

Sheikh Nasser Yousuf Al Azri (Deputy Chairman)

Sheikh Nasser is working as secretary to the Grand Mufti of the Sultanate of Oman in the Fatwa Section at the Grand Mufti's Office. He is also an active member of several committees at the Ministry responsible for Mosques, Zakat, Hajj, Publications and Book Revision. Prior to his current capacity, Sheikh Al Azri held a number of prestigious positions including Judge Assistant at the Ministry of Justice, and a researcher for Islamic affairs in fatwa's at the Ministry of Endowments and Religious Affairs. Sheikh Al Azri has extensive knowledge and expertise in Islamic and judiciary laws. He has also authored several papers and research studies, and attended prominent Islamic conferences such as those held by the International Islamic Fiqh Academy. He received a High Diploma Degree in Jurisprudence from the Institute of Shari'a Sciences in Oman.

Dr. Mohammad Abdul Rahim Sultan Al Olama (Member)

Dr. Mohammad Abdul Rahim Sultan Al Olama was a Professor of Jurisprudence and its Fundamentals at the College of Law at United Arab Emirates University in Al Ain. In addition, he is a certified expert in Shariah-compliant financial affairs and chairs the Sharia committee of Zakat Fund in the United Arab Emirates. He has published books and articles on various jurisprudential topics, in particular Islamic banking transactions in their contemporary form. He has also presented a series of research papers in various international forums and conferences related to this field. His Eminence is a member of Sharia Supervisory Boards of Islamic financial institutions and Takaful companies including: Dubai Islamic Bank, Abu Dhabi Islamic Bank Emirates Islamic Bank, Noor Takaful & Mawarid Finance Company. He holds a PhD in Comparative Islamic Jurisprudence from Umm Al-Qura University in Makkah the Kingdom of Saudi Arabia.

Sharia Supervisory Board attendance & remuneration for 2023

Table 5 : Attendance & Remuneration – Shari'ah Supervisory Board for year 2023

Name of Sharia Board Members	First Meeting	Second Meeting	Third Meeting	Forth Meeting	Attended	Meeting allowance in USD	Annual Remuneration in USD
Sheikh Al-Mu'tasim Al Maawali	✓	✓	✓	✓	4	4,000	40,000
Sheikh Nasser Yousuf Al Azri	✓	✓	✓	✓	4	4,000	35,000
Dr. Mohammad Abdul Rahim Sultan Al Olama	✓	✓	✓	✓	4	4,000	30,000

4. MANAGEMENT TEAM:

Management of the Bank has been entrusted by the Board to the Bank's Management Team. The top management team have a combined 200 plus years of banking expertise between them. The Management Team keeps the Board of Directors informed on all issues concerning the operations of the Bank and takes direction from the Board on matters that concern and affect the business of the Bank, and the objectives it should pursue. In the interest of good governance, the management team places all key information before the Board, where it forms part of the agenda papers.

4.1 Profile Senior Management Team (as of December 31st, 2023):

Mr. Ahmed Al Musalmi

Chief Executive Officer

Mr. Ahmed Al Musalmi joined Sohar International in May 2018 as the Chief Executive Officer. He has been a catalyst in the bank's transformation and a proven leader who combines business vision and people skills. Mr. Musalmi has more than two decades of experience. He is a results oriented and strategic thinker with extensive industry and functional expertise that includes Wholesale Banking, Capital Markets, Retail Banking and Wealth Management, Trade Finance, Risk Management, Operations Management, Information Technology, Human Resources, Finance and Strategy Development & Business Planning.

Mr. Al Musalmi is a talented leader who uses keen analysis and insights, and a team approach to drive organizational performance and motivate employees to peak performance. He has held leadership positions, and has worked across several national and international financial institutions in his career. He was the CEO and successfully led transformation of National Bank of Oman prior to his move to Sohar International.

Mr. Al Musalmi is a graduate of Harvard Business School and holds an MBA Degree with distinction from the University of Bedfordshire, UK. He also holds an International Diploma in Financial Services. Mr. Al Musalmi is a Chartered Market Analyst with Financial Analyst Designate, a Chartered Portfolio Manager and a Chartered Wealth Manager to add on to his wealth of expertise. He is a fellow of the American Academy of Financial Management, and has been a part of several advanced programs including in IMD-Switzerland and Stanford Graduate School of Business-USA. Mr. Al Musalmi is the Deputy Chairman of ASYAD Group and Chairman of its Board Audit Committee. He is also a board member of the College of Banking and Financial studies' board.

Mr. Khalid Al Guthami

Country Chief Executive Officer of KSA branch

Mr. Khalid Al Guthami joined Sohar International in September 2023 as Country Chief Executive Officer of KSA Branch with over 25 years of experience, Mr. Khalid is an experienced banker with vast knowledge and expertise in corporate and commercial banking, trade operations, investment, and risk management. Prior to joining Sohar International, Mr. Khalid Al Ghuthami was the Head of Corporate Bank Group at one of the prominent banks in Riyadh, Saudi Arabia, where he made significant contributions to the development of business and banking transactions.

Mr. Khalid Al Guthami holds a Bachelor Degree in Economics with emphasis on International Business from the University of Southern Mississippi. Mr Khalid has completed an Accelerated Management & Executive Leadership Program at Institut Européen d'Administration des Affaires (INSEAD). Additionally, he holds notable financial certifications from SAMBA, Euromoney, and Citibank.

Mr. Khalil Salim Al Hedaifi

Chief Government & Private Banking Officer

Mr. Khalil joined Sohar International in October 2018 as the Chief Retail Banking Officer. One of his key responsibilities is to develop the Bank's business franchise. With over 19 years of experience, Mr. Khalil is a dynamic leader with pioneering experience in achieving business growth objectives in mid-sized as well as large, established organizations. His vast experience includes expertise in operations management; banking including retail banking and wealth management; strategic planning; etc..." He started his career in 2000 with a local bank in Oman and has worked with other national and international banks in Oman and Qatar throughout his professional life before joining Sohar International as the Retail Banking Division Head. Mr. Khalil holds an MBA Degree from Northampton University and has also received an Administration Certificate from Oxford Cambridge and RSA.

Mr. Manish Dhameja

Chief Wholesale Banking Officer

Mr. Manish is a seasoned banking professional with over 23 years of working experience, during which he worked in UAE, Africa and across various cities in India. He is an Engineer, MBA and CFA qualified. He has joined Sohar International from Standard Chartered Bank, where he held multiple leadership roles and led many businesses and large teams. Mr. Manish strength lies in establishing and growing new and large businesses, improve business profitability, client connections and team engagement.

Mr. Abdul Wahid Al Murshidi

Chief Islamic Banking Officer

Mr. Al Murshidi has been associated with Sohar International since July 2019. Coming with over 18 years of professional experience across different functions of the banking sector including Audit, Finance, Investment, and Islamic Banking. Prior to his role in Sohar International, he was the Deputy General Manager at one of the prominent local Islamic banks. Mr. Abdul Wahid holds an EMBA Degree from London Business School, and has completed his Bachelor's Degree in Science from Sultan Qaboos University (SQU).

4.1 Profile Senior Management Team[1] (continued)

Mr. Hamood Al Sawai
Chief Operating Officer

Mr. Al Sawai joined Sohar International in December 2021 as Chief Operations Officer. With over 22 years of experience, Mr. Hamood is an experienced banker with vast knowledge and expertise in field of Operations. Prior to joining Sohar International, Mr. Hamood was the Deputy General Manager at a prominent local bank. Since joining Sohar International, he has made notable contributions in conceptualizing and implementing robust strategies to enhance operational efficiencies. He is a knowledgeable leader with rich experience who combines the values of the business and technical expertise, with his personal integrity and commitment. Mr. Al Sawai holds an MBA degree from Bedfordshire University and has completed his Bachelor's Degree in Finance and Investment from Cairo University.

Dr. Saud Al Shidhani
Chief Transformation Officer

Dr. Saud Al Shidhani joined Sohar International in August 2023 as Chief Transformation Officer. With a seasoned banking professional with over 25 years of experience in the industry, Dr. Saud Al Shidhani is an experienced banker with vast knowledge and expertise in various areas of banking including risk management, retail business, overseas operations, cost management, Business Excellence & Technology. Prior to joining Sohar International, Dr. Saud Al Shidhani was the Chief Operating Officer at one of the prominent local banks and has made notable contributions in streamlining operational efficiency and driving digital transformation initiatives.

Dr. Saud Al Shidhani holds a PHD in Accounting and Finance from the University of Cambridge, an MBA degree from the College of Banking Oman and a Diploma in Banking and Finance from Binary University.

Craig Barrington Bell
Chief Financial Officer

Mr. Craig Barrington Bell joined Sohar International as Chief Financial Officer in January 2019 bringing with him over 25 years of banking experience; 15 of which have been in CFO roles with HSBC and Deutsche Bank, including three years as CFO of the Saudi British Bank. Mr. Bell has extensive background in finance and deep experience of managing complex international businesses across dynamic and changing markets. Commencing his banking career with Citibank in 1985, Mr. Bell has a plethora of technical and management skills in financial and regulatory reporting, management reporting, financial analytics, system infrastructure and controls, balance sheet management, strategic planning, investor relations and tax. Prior to joining Sohar International, Mr. Bell served for over two years as CFO with Al Hilal Bank (Abu Dhabi). He is a distinguished member of the Institute of Chartered Accountants of Australia & New Zealand, and graduated from Auckland University with a Bachelor of Commerce degree majoring in Accounting.

Mr. Abdul Qadir Al Sumali
Chief Retail & Premier Banking Officer

Mr. Abdul Qadir Al Sumali joined Sohar International in August 2023 as Chief Retail & Premier Banking Officer. With over 25 years of experience, Mr. Abdul Qadir is an experienced banker with vast knowledge and expertise in field of Retail Banking. Prior to Joining Sohar International, Mr. Abdul Qadir was General Manager and the Head of Wealth and Personal Banking at one of the prominent local banks and has made notable contributions in the retail banking business. He is a knowledgeable leader with rich experience who combines his passion for customers and investing in people with personal integrity and discipline. Mr. Abdul Qadir holds an MBA from Durham University Business School, United Kingdom.

Mr. Khalid Khalfan Rashid Al Subhi
Chief Compliance Officer

Mr. Al Subhi joined Sohar International in December 2016. He has over 19 years of extensive experience as a Central Banker in various domains like banking, insurance and administration. His experience and responsibilities included conducting risk based examinations/audits, corporate governance, capital adequacy, various business processes, control framework, and much more. Mr. Khalid holds a Bachelor's Degree in Banking and Financial Sciences (CBFS) from the Arab Academy for Banking and Financial Sciences, and has completed his Higher Diploma in Administrative Procedures from the South Devon College, UK.

Mr. Elsamawal Abdulhadi Idris
Chief Legal & Governance Officer

Elsamawal joined Sohar International in July 2013, and holds the position of Chief Legal Officer and Board Secretary in the Bank. With over 20 years of experience in the legal profession during which he has helped organizations and clients carry on business in a legal and compliant manner and was able to prove himself consistently in major transactions and disputes. He is signaled out by legal directories regularly as an individual with exceptional understanding of Oman's banking system and commended for his wide-reaching initiatives to improve efficiency and performance in his function.

Mr. Elsamawal holds a Master's Degree LLM and Bachelor's Degree LLB from the University of Khartoum, Sudan.

4.1 Profile Senior Management Team[1] (continued)

Mr. Ali Moosa Al Abri
Chief Corporate Affairs Officer

Mr. Ali Moosa Al Abri joined Sohar International in August 2023 as Chief Corporate Affairs Officer. With over 25 years of experience, Mr. Ali Moosa is an experienced banker with vast knowledge and expertise in field of Human Resources. Prior to Joining Sohar International, Mr. Al Abri was the Country Head - Human Resources at one of the prominent local banks and has made notable contributions in Developing and implementing HR strategies. He is a knowledgeable leader with rich experience who combines the values of the banking industry with his personal integrity and commitment. Mr. Al Abri holds a bachelor degree in International Commerce from Halwan University, Egypt.

Mr. Hamood Khalfan Al-Aisri
Chief Internal Auditor

Mr. Al-Aisri is a qualified Chartered Certified Accountant with over 25 years of professional experience across different functions within the Banking sector. He has been associated with Sohar International since December 2020. Prior to joining Sohar International, he held the role of Chief Internal Auditor for one of the local banks. Mr. Al-Aisri holds Senior Leadership qualification from London Business School, and Islamic Financial qualification from Chartered Institute of Investment and Security – UK.

Mr. Majid Nasser Al Busaidi
Chief Risk Officer

Mr. Al Busaidi joined Sohar International in November 2020 as Chief Risk Officer. He has over 17 years of professional experience across different functions of the banking sector. His experiences and responsibilities include: developing risk management strategies; overseeing and assessing the Bank's risk mitigations both internally and externally; and reporting to the Board of Directors. Prior to his role in Sohar International, he was heading the Division of Credit Review in a popular Omani bank.

Mr. Al Busaidi holds a Bachelor's Degree in Finance from College of Economy and Political Studies at Sultan Qaboos University (SQU).

Ms. Mahira Saleh Al-Raisi
Chief Human Resources Officer

Ms. Mahira joined Sohar International in October 2007, and currently holds the Chief Human Resources Officer role. With over 21 years of extensive experience in managing Human Resources in the Banking sector, she has supported the achievement of the Bank's strategy successfully through the deployment of effective Human Capital Management Policies and Practices in line with the Bank's strategic objectives. Responsible for developing and executing Human Resource Strategy in support of the overall business plans, specifically in the areas of talent acquisition, talent Management, succession planning, change management, organizational and performance management, capability development and total rewards. Ms. Mahira holds a Bachelor's Degree and Diploma in Human Resources Management and Development from University of Leicester-UK. She also holds a Post Graduate Diploma in Management from Institute of Leadership and Management and Leading Strategy Execution Certificate in Financial Services from Harvard Business. Ms. Mahira Al Raisi is the Deputy Chairman of Human Resources Committee of Oman Banker's Association. She is also a member of College Advisory Committee in College of Banking and Financial Studies in Oman.

Mr. Mazin Mahmood Al Raisi
Chief Marketing Officer

Mr. Mazin assumed the role of Chief Marketing Officer at Sohar International in 2022. With over 22 years of experience, he was one of the key individuals who played a prominent role in establishing the Marketing Department at the Bank when he joined in 2007. Having been instrumental in the launch of Bank Sohar, and Sohar Islamic, Mazin's passion, professionalism, and leadership saw him rise to the position of EVP & Head of Marketing before he took on his current role. He has been a critical part of the bank's rebranding project, playing a pivotal role in the transition of Bank Sohar to Sohar International, and Islamic, conceptualizing innovative ways to position them in diverse markets. Mazin also supports ESG within the Bank through management of the Bank's corporate social responsibility activities, driving meaningful partnerships that benefit the community.

Prior to joining Sohar International, Mazin worked with a leading telecom operator as well as other local banks. Mazin has an MBA from the University of Strathclyde United Kingdom and a BSc from the University of Missouri in Marketing, USA. He is also a Certified Brand Manager and completed an Executive Marketing Program at London Business School.

4. MANAGEMENT TEAM (CONTINUED)

4.1 Profile Senior Management Team[1] (continued)

Sajeel Bashiruddin

Chief Digital Officer

Mr. Sajeel Bashiruddin joined Sohar International in 2021 and currently holds the Chief Technology Officer role, wherein he is responsible for Information Technology, Enterprise Project Management Office, FinTech & spearheading Digital Banking functions of the bank to drive Digital Transformation. With over 20 years of experience, Mr. Sajeel reserves an entrepreneurial spirit and has led large-scale digital transformation in the sector. While strategy development, leadership, and innovation are key areas he places increased emphasis on, Mr. Sajeel has also introduced new digital revenue streams via Fintech partnerships, led cohesive digital ecosystem transformations, spearheaded business expansions and led transitions to be a data-driven organization. He started his career in 2003, and has held key positions in banks in the Kingdom of Saudi Arabia and Oman. Mr. Sajeel holds a Master's Degree in Computer Applications, Bachelor's Degree in Business Management, and is a Certified Artificial Intelligence Business Professional.

Hanife Ymer

Head of Environment, Social and Governance

Hanife joined Sohar International in July 2022, as Head of Environment, Social and Governance (ESG) and is responsible for developing and executing the Bank's ESG Framework – embedding ESG throughout the Bank – be it through effective ESG risk management, or through supporting Sohar International's stakeholders through sustainable financing solutions. With over 25 years of experience managing across all ESG topics. Hanife draws on her experience from across South East Asia, Europe, South America, North America, Australia and the MEA (Middle East and Africa) regions. Within MENA, Hanife has previously held similar leadership roles with Jones Lang LaSalle; Mubadala Investment Company and KPMG. Her experience includes advising leading banks globally and regionally. Hanife holds a Bachelor's Degree in Strategic Management and Marketing (Monash University - Australia), a Graduate Certificate in Sustainability (Swinburne University - Australia), as well as certificates in Sustainable Finance (Frankfurt School of Finance and Management), Climate Change and TCFD – Risks and Opportunities for the Banking Sector (UNEP FI), and certifications in Hydrogen Energy; Renewable Energy Management and Finance (Renewable Energy Institute); and Social Return on Investment Practitioner (Social Value International).

4.2 Remuneration of senior managers for the year 2023:

The total remuneration paid/accrued to the top management executives of the Bank for the year 2023 was Rial Omani 3,208,193/- This remuneration includes salary, allowances, gratuity, pensions and performance related incentives.

5. PROCEDURES FOR STANDING AS CANDIDATE FOR THE BOARD OF DIRECTORS:

The Board of Directors is elected by the shareholders of the Bank at the Annual General Meeting. The term of office of the Board of Directors is for a maximum period of three years, subject to re-election. The Board reports to the shareholders at the Annual General Meeting (AGM) or specially convened general meetings of the shareholders. The meetings of the shareholders are convened after giving adequate notice and with detailed agenda notes being sent to them. The Board comprised of seven members, elected by the shareholders at the Bank's AGM on 31 March 2022 for a period of three years. The Board exercised its right to appoint alternate directors to fill vacant seats of the Board.

The election process is through direct secret ballot by the shareholders of the bank, where each shareholder shall have a number of votes equal to the number of shares held by them. Every shareholder shall have the right to vote in entirety to one candidate or divide the shares amongst different nominees, subject to the stipulation that the total votes cast shall not exceed the number of shares owned by such shareholders.

The entire process of nomination and election of the Board of Directors, including the eligibility criteria, is governed by the Bank's Articles of Association, as well as in compliance with the relevant provisions of the Commercial Companies Law of the Sultanate of Oman, the Code of Corporate Governance for General Omani Joint Stock Companies (S.A.O.G.) issued by the Capital Market Authority and the relevant guidelines issued by the Central Bank of Oman.

6. DIVIDEND POLICY:

The Bank's dividends policy complies with the CBO and CMA guidelines. The Board of Directors follow a conservative dividend policy and makes recommendations on the distribution of the dividends to the shareholders after due consideration of the regulatory guidelines, the future growth expectations and other factors.

7. STATEMENT OF COMPLIANCE:

The Board of Directors of the Bank have been appointed in line with the guidelines of the Commercial Companies Law of Oman and in accordance with the regulations of the Central Bank of Oman. The Board of Directors has complied with all the guidelines for the appointment of Directors prescribed by the Commercial Companies Law of Oman and the Central Bank of Oman's regulations with reference to eligibility.

The Board of Directors of the Bank consists of seven directors from among shareholders and non-shareholders. The Directors of the Bank affirm that no member of the Board:

7. STATEMENT OF COMPLIANCE (CONTINUED)

- Is an employee of the Bank or an employee of any other bank in the Sultanate of Oman.
- Is on the Board of any other Bank registered in the Sultanate of Oman.
- Sits on the Board of more than four joint stock companies registered in Oman.
- Is a Chairman of more than two joint stock companies registered in Oman.

During the year under report, the Bank has complied with the directives of the CMA, Rules and Guidelines on Disclosure by Issuer of Securities and Insider Trading, the Guidelines of the Commercial Companies Law and the Code of Corporate Governance of the Capital Markets Authority for listed companies, except for the following:

- The Chairman of the Board Audit Committee is also a member of the Board Risk Management Committee and the Executive, Nomination and Remuneration committee. This is due to the limited number of Board Members as compared to the number of board committees, required to be formed by the Board of Directors.

In the last three years, the Bank paid a total amount of OMR 113,825 in penalties to both the Central Bank of Oman "CBO" and the Capital Market Authority "CMA". The Bank has addressed the issues and is taking time bound rectification measures.

8. CHANNELS OF CONTACT WITH SHAREHOLDERS AND INVESTORS:

Sohar International has endeavored to establish meaningful relations with its shareholders and investors. The Bank is committed to ensure timely disclosure and communication of all material to the shareholders and the market regulators. The Bank has provided investor related information in the quarterly, half-yearly reports and the Annual Report as per the statutory guidelines and the terms of the Bank's listing agreement.

The Annual Report includes *inter alia*, the report of the Board of Directors, Corporate Governance report, Management Discussion and Analysis report and the Audited Financial results. The management has taken the responsibility for the preparation, integrity and fair presentation of the financial statements and other information in the Annual Report of the Bank. The summary of Annual Report will be sent to all shareholders of the Bank in line with the rules for the same as stipulated by the Capital Markets Authority. Additionally the bank has posted the financial statements on its website www.soharinternational.com.

8.1 Sohar International Shares – Market Price

Monthly share prices of Sohar International's shares quoted at the Muscat Securities Market (MSM) and the bands for the banking sector stocks on the MSM. (This information is available from news agencies and it is a published information. This is given here as part of the requirements of the Code of Corporate Governance for MSM listed companies. This is not a solicitation in any manner to subscribe to the Bank's shares.) The following table represents monthly share prices of Sohar International SAOG as listed with Muscat Security Market "MSM" (Par value of share is 100 Baizas/ share):

Table:6 Sohar International Shares – Market Price

	Sohar International Share price Rial Omani			MSM Banks & Investment
Month 2023	High	Low	Closing	Index closing
January	0.109	0.101	0.102	7,550.171
February	0.103	0.0980	0.100	7,671.763
March	0.105	0.100	0.103	7,778.184
April	0.106	0.101	0.105	7,601.300
May	0.107	0.101	0.101	7,558.744
June	0.108	0.101	0.108	7,830.133
July	0.109	0.104	0.106	7,827.348
August	0.109	0.104	0.107	7,831.429
September	0.108	0.103	0.103	7,650.211
October	0.107	0.101	0.102	7,411.369
November	0.102	0.0990	0.102	7,583.917
December	0.105	0.098	0.098	7,392.673

8. CHANNELS OF CONTACT WITH SHAREHOLDERS AND INVESTORS (CONTINUED)

8.2 Distribution of share ownership:

The authorized share capital of the Bank is RO 1 billion (31 December 2022: RO 1 billion). The issued shares of the Bank are 5,467,888,500 shares (31 December 2022: 4,590,062,290 shares) the fully paid up capital of the Bank is RO 561.572 million (31 December 2022: RO 455.355 million).

As of 31 December 2023, the following shareholders held 5% or more of the Bank's capital:

Name of Shareholder	Percentage of Shareholding (%)
Royal Affairs Court	13.756%
Oman Investment and Finance SAOG	13.025%
The Seventh Moon Investments LLC	7.579%
HSBC Middle East Holdings BV	7.441%
Neptune National Investments LLC	6.557%
Western Sea Investments LLC	6.381%
Mars Development and Investment LLC	5.737%
Oman Investment Authority	5.383%

9. STATUTORY ACCOUNTS:

The Bank has adopted the International Financial Report Standards ("IFRS") in the preparation of its accounts and financial statements.

10. AUDITOR'S PROFILE:

About Deloitte

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DME is a leading professional services firm established in the Middle East region with uninterrupted presence since 1926. DME's presence in the Middle East region is established through its affiliated independent legal entities, which are licensed to operate and to provide services under the applicable laws and regulations of the relevant country. DME's affiliates and related entities cannot oblige each other and/or DME, and when providing services, each affiliate and related entity engages directly and independently with its own clients and shall only be liable for its own acts or omissions and not those of any other affiliate.

During the year 2023 an amount of RO 156,500/- was charged by external auditors against the audit and tax related services rendered by them to the organization (RO 87,000/- for audit of bank's conventional and Islamic banking operations, RO 27,500/- for Sharia audit, 40,000/- for Audit of the Purchase Price Allocation arising from the merger with HSBC Oman, and RO 2,000/- for tax services).

11. RIGHTS OF SHAREHOLDERS:

All the Bank's shares shall carry equal rights which are inherent in the ownership thereof, namely the right to receive dividends declared and approved at the general meeting, the preferential right of subscription for new shares, the right to a share in the distribution of the Bank's assets upon liquidation, the right to transfer shares in accordance with the law, the right to inspect the Bank's statement of financial position, statement of comprehensive income and register of shareholders, the right to receive notice of and the right to participate and vote at general meetings in person or by proxy, the right to apply for annulment of any decision by the general meeting or the Board of Directors, which is contrary to the law or the Articles of the Bank or regulations, and the right to institute actions against the directors and auditors of the Bank on behalf of the shareholders or on behalf of the Bank pursuant to the provisions of the Commercial Companies Law and its amendments. Sohar International gives minority shareholders prime importance in terms of safeguarding their interests and ensuring that their views are reflected in shareholders' meetings. The "one share one vote" principle applies to all shareholders so that minority shareholders can nominate members of the Board and can take action against the Board or the management if the actions of the Board or management are in any way prejudicial to their interests.

12. RELATED PARTY TRANSACTIONS, DEALINGS AND POLICY:

There is a comprehensive policy on related party dealings, and processes and procedures laid down which are followed in the matter of all loans and advances given to directors and their related parties and also any transactions with companies in which directors have a significant/ controlling interest. Details of loans and advances, if any, given to any Director or his related parties are furnished with full details in the notes to the financial statements given in the annual report as public disclosures. Any other transactions with Directors carried in the normal course of business and without any preferential treatment are disclosed to the shareholders along with the agenda notes for the AGM.

13. CONCLUSION:

The Board of Directors acknowledge that the preparation of the Annual Report of the Bank together with the Management Discussion and Analysis Report, the Corporate Governance Report and the audited financial statements has been done with their full knowledge and in line with the standards for accounting and the statutory rules governing disclosure by the Capital Markets Authority and the Central Bank of Oman.

The Board of Directors also acknowledge that there is no material information and material things that will in any way affect the continuation of the business of the Bank in the coming financial year.

MANAGEMENT

LEADING WITH EXCELLENCE

SCALING

NEW FRONTIERS

THE MANAGEMENT TEAM

Back row Left to Right

Mr. Hamood Al Sawai
Chief Operating Officer

Mr. Sajeel Bashiruddin
Chief Digital Officer

Mr. Aziz Al Jahdhami
Chief Priority Banking Officer

Mr. Khalil Al Hedaifi
Chief Government & Private Banking Officer

Mr. Elsamawal Abdulhadi
Chief Legal & Governance Officer

Front row Left to Right

Mr. Majid Al Busaidi
Chief Risk Officer

Mr. Hamood Al Aisri
Chief Internal Auditor

Ms. Mahira Al Raisi
Chief Human Resources Officer

Mr. Khalid Al Guthami
Country Chief Executive Officer of KSA branch

Back row Left to Right

Ms. Hanife Ymer
Head of Environment, Social and Governance

Mr. Manish Dhameja
Chief Wholesale Banking Officer

Mr. Ali Al Abri
Chief Corporate Affairs Officer

Dr. Saud Al Shidhani
Chief Transformation Officer

Mr. Craig Bell
Chief Financial Officer

Mr. Abdul Qadir Al Sumali
Chief Retail & Premier Banking Officer

Front row Left to Right

Mr. Ahmed Al Musalmi
Chief Executive Officer

Mr. Khalid Al Subhi
Chief Compliance Officer

Mr. Mazin Al Raisi
Chief Marketing Officer

Mr. Abdul Wahid Al Murshidi
Chief Islamic Banking Officer

CHIEF EXECUTIVE OFFICER MESSAGE

Ahmed Al Musalmi

As we navigate through the evolving landscapes of our industry and the global economy, I am proud to present Sohar International's journey through 2023—a year marked by strategic foresight, resilience, and transformative growth. Reflecting on our accomplishments and challenges, this message is a testament to our unwavering commitment to excellence, innovation, and sustainable development, aligning with Oman's Vision 2040.

THE GLOBAL ECONOMIC LANDSCAPE

2023 was a year that tested the resilience and agility of global economies. The International Monetary Fund's projection of a global growth deceleration to 3% underscored the challenges posed by regional divergences, the lingering effects of the pandemic, and geopolitical tensions. Particularly, the economic implications of Russia's invasion of Ukraine and persistent high inflation rates have aggravated global uncertainty. However, amidst these challenges, a notable shift in the economic narrative emerged as rising interest rates, once a paramount concern, began to recede, indicating a global adaptation to a new norm of monetary policy aimed at curbing inflation.

THE GCC ECONOMIC LANDSCAPE

The GCC region demonstrated commendable resilience, with economic projections slightly more optimistic than the global average. This resilience is attributed to ongoing efforts towards economic diversification and a strategic shift away from reliance on oil and gas revenues. Notably, Fitch Ratings' anticipation of GCC corporates successfully navigating the challenges of 2023 highlights the region's robust economic underpinnings.

OMAN'S ECONOMIC FORTITUDE: A MODEL OF GROWTH AND DIVERSIFICATION

Oman stood out within the GCC, showcasing a unique economic profile with an expected GDP growth of 5.5% in 2023. This growth is a testament to the nation's strategic investment in non-hydrocarbon sectors and a broader economic diversification strategy. The Omani government's commitment to overcoming global economic shocks and fostering economic resilience has positioned Oman as a beacon of growth in the region.

OMAN'S BANKING SECTOR: A PILLAR OF STABILITY AND GROWTH

The banking sector in Oman, a vital component of the national economy, continued to exhibit robust performance and growth in 2023. The rise of Islamic banking and the development of a medium-term strategy for this segment by the Central Bank of Oman further underscore the sector's dynamism and potential for growth.

A YEAR OF STRATEGIC MILESTONES

Sohar International witnessed many milestones during the year 2023, marked by the historic merger of HSBC Bank Oman into Sohar International. This strategic move not only enhanced our market capitalization and asset base, but also significantly expanded our market presence and workforce, reinforcing our commitment as leading institution, driving economic diversification and excellence in the Sultanate of Oman.

Our expansion into the Kingdom of Saudi Arabia represents another pivotal milestone, aligning with our vision to become a world-class Omani financial services company. This venture into one of the GCC's largest economies underscores our commitment to innovation, customer focus, and sustainable growth, promising to strengthen Oman-Saudi economic ties and exemplify our dedication to regional development.

DRIVING GROWTH & INNOVATION

Sohar International has established itself as a leading force in Oman's banking sector, showcasing excellence across various dimensions including digitalization, customer centricity, wholesale banking, retail and premier banking, Islamic banking, and government and private banking.

Sohar International's digital transformation efforts have not only fortified its position as a digital banking leader in Oman but have also significantly contributed to the Omani government's digitalization agenda. The integration of a seamless digital ecosystem within its retail mobile banking platform, coupled with advancements in customer onboarding, reflects a commitment to enhancing overall customer experiences and actively contributing to Oman's journey towards becoming a digitally inclusive society.

In parallel, Sohar International's Wholesale Banking Group has witnessed substantial growth, marked by strategic initiatives and a transformative merger of HSBC Bank Oman into Sohar International. This expansion has not only diversified the bank's portfolio but has also contributed to its resilience, strategic vision, and unwavering commitment to excellence.

The commitment to customer centricity remains integral to Sohar International's corporate strategy. Through the use of data analytics and CRM tools, the bank has successfully delivered personalized banking experiences, exceeding customer expectations. The Retail and Premier Banking operations have been instrumental in driving sustainable growth and enhancing customer satisfaction, setting benchmarks for service excellence.

Sohar Islamic, as the Islamic Banking window of Sohar International, has showcased remarkable progress, emphasizing Sharia-compliance, innovation, and community support. This segment's success is evident in its financial performance, market position, and alignment with global sustainability trends.

The newly formed Government and Private Banking group at Sohar International has recorded impressive growth, aligning its strategy with Oman Vision 2040. The bank's commitment to critical areas such as PPP, FDI, and ESG practices positions it as a key player contributing to Oman's economic and social development.

Sohar International's holistic approach to banking excellence, spanning digitalization, customer centricity, wholesale banking, retail and premier banking, Islamic banking, and government and private banking, signifies a comprehensive commitment to innovation, customer satisfaction, and alignment with national goals. The bank is well-poised for sustained growth and leadership in Oman's dynamic banking landscape.

MAKING A POSITIVE IMPACT

Our diverse CSR activities and community support initiatives in 2023 have significantly contributed to the well-being of the Omani community. Our efforts in healthcare, sports, education, and human development have underscored our commitment to making a positive impact on our surroundings and society.

CULTIVATING A LEGACY OF GROWTH

Sohar International has been instrumental in promoting Oman on the global stage, showcasing the Sultanate's rich cultural heritage and economic potential. Our strategic partnerships and sponsorships have played a pivotal role in attracting investment and tourism, contributing to Oman's economic diversification. Furthermore, our initiatives to nurture Omani talent, including internship programs and sponsorships of educational events, reflect our commitment to investing in the future leaders of Oman. These efforts not only support the national vision but also enrich our organizational culture with a diverse and skilled workforce.

SHAPING THE FUTURE OF BANKING

Our engagement in thought leadership throughout 2023 has positioned Sohar International as a visionary in the financial sector. Participation in prestigious forums and discussions on sustainability, digital innovation, and strategic management has allowed us to share our insights and strategies, contributing to the broader dialogue on the future of banking. This commitment to thought leadership not only reinforces our reputation as a forward-thinking institution but also gives us the ability to contribute to charting new paths for the future and handle many discerning topics.

EMBEDDING SUSTAINABILITY INTO OUR CORE

2023 marked a significant advancement in our commitment to Environmental, Social, and Governance (ESG) principles. The development and board approval of our comprehensive ESG Framework are a testament to our dedication to sustainable practices. Our active participation in regional ESG forums and initiatives, such as the Green Hydrogen Summit Oman, underscores our role in supporting sustainable energy solutions and aligning our business model with the Sultanate's Net Zero 2050 commitment. This focus on ESG not only demonstrates our responsibility as a corporate citizen but also sets a blueprint for integrating sustainability into our strategic growth.

CELEBRATING A YEAR OF EXCELLENCE AND ACHIEVEMENTS

The array of awards and recognitions received in 2023 serves as a testament to Sohar International's culture of excellence. Being named the "Best Place To Work In Banking Sector – Oman 2022" and receiving the "Top Omani Brand in Banking Sector Award" among others, highlight our efforts in creating a supportive work environment, nurturing our brand, and contributing to Oman's sustainable economic growth. These accolades not only celebrate our achievements but also motivate us to continue redefining standards of excellence in the banking sector.

REDEFINING BANKING FOR A SUSTAINABLE FUTURE

As we step into 2024, Sohar International is poised for a journey of challenges, strategic growth and innovation. Our focus on digitalization, customer centricity, and regional expansion, coupled with a deepened commitment to ESG principles, positions us to navigate the evolving economic landscape with agility and foresight. Our dedication to upholding social values, engaging our staff, and contributing to community well-being remains unwavering. With a clear vision and a commitment to excellence, we are set to redefine banking standards, driving progress for our customers, employees, and the broader community, and continuing our contribution to Oman's economic prosperity.

My deep appreciation goes to the Central Bank of Oman, our valued customers, dedicated employees, shareholders, and partners for their unwavering trust and support. I must also express my sincere thanks to the Board of Directors at Sohar International for their guidance and vision.

We are not merely observers of change; we are the architects of change.

Thank you for being with us every step of the way.

MANAGEMENT DISCUSSION AND ANALYSIS

GLOBAL ECONOMY

The global economic landscape in 2023 is characterized by a significant slowdown in growth. The International Monetary Fund (IMF) forecasted the global economy to grow at 3.0% in 2023, a noticeable deceleration from 3.5% in 2022. This trend is expected to persist into 2024 with a further slowdown to 2.9%, well below the historical average growth rate of 3.8% observed from 2000 to 2019. This slowdown in global growth is a reflection of multiple challenges, including ongoing regional divergences, the aftermath of the pandemic, and heightened geopolitical tensions, especially the effects of Russia's invasion of Ukraine. These factors have contributed to an environment of heightened uncertainty, further exacerbated by persistent high inflation rates and financial sector volatility.

Inflation, a pivotal concern in the global economic discourse, is projected to see a decline, albeit gradual. From a peak of 8.7% in 2022, global headline inflation was expected to decrease to 6.8% in 2023, and further to 5.2% in 2024. However, core inflation, which excludes volatile food and energy prices, is anticipated to decline at a slower rate, with forecasts for 2024 having been revised upward, indicating a prolonged period of inflationary pressures.

A notable shift in the economic landscape is changing the perception of risk. Rising interest rates, a dominant concern in previous years, have receded in immediacy, now ranking seventh in the list of risks to global economic stability. This change suggests an adaptation in the global financial system to the new normal of higher interest rates, which have been a key policy tool for central banks worldwide in their effort to curb inflation.

Despite these challenges, the possibility of a global recession remains a topic of debate among economists. The World Economic Forum's Chief Economist's Outlook revealed a split in opinion on the likelihood of a global recession in 2023. This division underscores the uncertainty and complexity of the current global economic environment, influenced by a mix of persistent inflation, policy responses, and geopolitical tensions.

GCC ECONOMY

In the GCC region, economic growth in 2023 was forecasted to be more subdued compared to previous years. The World Bank predicted a growth rate of 2.5% for the GCC economies in 2023, down from higher rates in previous years. This slowdown is primarily attributed to lower oil and gas earnings, which have been the cornerstones of these economies, and the broader global economic slowdown. Despite these challenges, the GCC's growth outlook remained somewhat more optimistic compared to the global scenario, with PwC forecasting a growth rate of 3.6% for the region in 2023. This resilience is partially attributed to the region's ongoing efforts to diversify its economies and reduce dependence on oil and gas revenues.

Fitch Ratings noted that GCC corporates are expected to navigate the challenges of 2023 successfully. The fiscal budgets in these economies are likely to benefit from oil price trends, contributing positively to economic activities. A significant focus for major GCC economies has been on investments in non-hydrocarbon sectors, an initiative aimed at reducing the budget volatilities linked to oil prices and fostering a more diversified economic base.

OMAN ECONOMY

Oman, within the GCC, presents a unique and promising economic profile for 2023. The country's GDP was expected to grow by 5.5% in 2023, outpacing its regional peers. This robust growth is driven largely by investments in sectors outside the traditional hydrocarbon domain, specifically in renewable energy, agriculture, and fisheries. The non-hydrocarbon sectors in Oman are also projected to experience moderate growth, supported by an anticipated increase in demand for Omani exports. The country is positioned as the fastest growing economy within the GCC in 2023, with a projected growth rate of 4.3%.

As a result of the increasing focus on climate change and the need to decarbonize economies the world over, the Omani government is actively pursuing a broad economic diversification strategy. This strategy involves targeting specific sectors for development, a move away from the country's historically hydrocarbons-focused economic structure. This diversification is a response to the global economic shocks of the past decade, which have highlighted the vulnerabilities of an oil-dependent economy. The diversification efforts are further supported by the government's commitment to overcoming the economic repercussions of health crises and global geopolitical tensions.

The recovery of Oman's economy is further bolstered by favorable oil prices. The country experienced a growth of 4.3% in 2022, primarily driven by the hydrocarbon sector. However, in the first half of 2023, this growth rate slowed down to 2.1%, partially due to OPEC+-related oil production cuts. This slowdown reflects the broader global economic trends and underscores the need for continued diversification and economic resilience.

OMAN BANKING SECTOR

The banking sector in Oman has shown significant growth and development, particularly between 2012 and 2022. As a cornerstone of the Omani economy, this sector's performance is closely tied to the overall economic health of the country. In 2023, the banking sector in Oman has continued to exhibit strong performance, marked by record-high profits in the first half of the year. Local banks reported a net profit growth of 17.5%, reflecting a robust financial performance and growth momentum within the sector.

A notable trend in the Omani banking sector is the rising prominence of Islamic banking. Fitch Ratings reports that the market share of Islamic banking in Oman is expected to increase steadily in 2023-2024, after reaching 16.4% of total sector assets at the end of 2022. The Central Bank of Oman (CBO) is developing a medium-term strategy for the Islamic banking segment, including the establishment of a lender of last resort for Sharia-compliant entities. This strategic development is aimed at enabling Islamic banks to take on more risk and grow their role in financing economic growth at the national level.

The International Monetary Fund (IMF) assesses Oman's banking sector as sound, with ample capital and liquidity buffers and strong asset quality. This assessment indicates the sector's stability and resilience, crucial in the face of economic challenges and uncertainties.

FINANCIAL PERFORMANCE

The financial results for the year include the impact of the merger effective 17th August 2023, the outcome of which is a stronger and more resilient organization. I am proud of the financial foundation that has been achieved, from which Sohar International will continue to thrive.

Profit for the year increased 101% to RO 70.3 million compared to RO 34.9 million last year.

Total operating income increased 23% to RO 163.4 million (2022: RO 132.8 million) driven by increases in net interest income and other operating income.

Total operating expenses increased 40% to RO 76.9 million (2022: 55.2 million) reflecting the Bank's continued investment in people, technology and costs associated with the Bank's strategic initiatives, including the merger and the establishment costs of our new branch in the Kingdom of Saudi Arabia.

The Bank has recognised an initial gain on bargain purchase resulting from the merger of RO 91.8 million. The most significant component of this gain is the intangible asset of RO 66.6 million recognized in relation to the core deposits acquired as part of the business combination.

Loan impairment charges and other credit risk provisions (net) for the year was RO 105.1 million compared to RO 39.7 million last year improving the Bank's coverage ratio to 143.2% compared to 89.2% last year. The increased coverage ratio reflects the Bank's prudent and proactive approach to credit risk management.

Total assets increased 62% to RO 6,689 million (2022: RO 4,131 million) of which Loans, advances and Islamic financings (net) increased 34% to RO 3,921 million (2022: RO 2,924 million).

The Banks increase in highly liquid investment securities and balances due from banks have significantly strengthened the Bank's liquidity position with a Liquidity Coverage Ratio as at 31 December 2023 of 205% (2022: 154%).

Customer deposits increased 99% to RO 5,103 million (2022: RO 2,560 million) resulting in a remarkable loan-to-deposit ratio of 77% compared to 114% last year.

The increase in total shareholder's equity of RO 137 million to RO 702 million (2022: 565 million) includes RO 106 million increase in ordinary share capital issued as part of the merger consideration. The Bank's strong Total Capital Ratio as at 31 December of 17.9% (2022: 20.9%) is another testament to the Bank's financial strength.

SUSTAINABLE GROWTH & STRATEGY

Five years ago, Sohar International embarked on a transformative journey, culminating in the historic merger of HSBC Bank Oman into Sohar International, which propelled the bank into a new era of banking within Oman and beyond. This merger significantly enhanced the bank's market capitalization on the MSX to approximately USD 1.5 billion and marked substantial growth in assets, market share, market presence, and an experienced workforce. Simultaneously, the expansion into Saudi Arabia marked a pivotal step in Sohar International's growth story. Entering one of the GCC's largest economies, the bank leveraged its expertise in digital banking and customer-centric services to tap into Saudi Arabia's growing demand for premium financial services. By aligning its offerings with the unique requirements of the Saudi market, Sohar International aimed to become a key player in the region's financial sector. In Saudi Arabia, Sohar International is focusing on offering a suite of premium financial solutions and services encompassing working capital, trade finance, and risk management, all underpinned by its digital banking prowess. This expansion was not just about geographic growth but also an alignment with the Kingdom's vision for economic transformation and diversification, particularly in areas like travel, tourism, logistics, and cultural initiatives.

Sohar International's strategic direction was founded on and continues to focus on reimagining banking, reconnecting with customers, reevaluating value chains, and rebuilding the organization, all underpinned by strong corporate governance, enhanced digital capabilities, and a focus on sustainable growth.

The journey of Sohar International from 2019 to 2023 is a captivating tale of evolution and strategic transformation. It began in 2019, a year of laying the groundwork, where the bank honed its focus on refining asset quality, boosting profitability, and identifying target market segments. The year was characterized by the launch of pioneering pilot initiatives, each meticulously aligned with the bank's overarching strategic objectives.

As the calendar turned to 2020, Sohar International embarked on a new chapter, emphasizing the enhancement of digital capabilities and the development of its workforce's skills. The year was also pivotal in terms of integrating operations, a move that set the stage for an efficient banking institution.

In 2021, the narrative took a turn towards operational efficiency, marrying the concepts of high yields and low costs. This period was marked by a concerted focus on organic growth, complemented by a relentless pursuit of continuous process improvement, reinforcing the bank's commitment to sustainable growth.

The year 2022 unfolded as a landmark year in the bank's digital journey. Sohar International delved deeper into digital penetration and integration, with ambitious efforts to ascend as a leader in Oman's banking sector. This year was not just about technology; it was equally about people and processes, aligning them to drive forward a tech-savvy, customer-centric banking experience.

Over the last year, Sohar International's journey was marked by significant growth milestones, notably the merger of HSBC Bank Oman into Sohar International and the strategic expansion into Saudi Arabia's growing economy. The year represented a critical phase in Sohar International's evolution, showcasing its ability to adapt and thrive amidst dynamic market changes.

Year 2023 for Sohar International was a testament to its strategic foresight and commitment to growth. The merger of HSBC Bank Oman into Sohar International and the expansion into Saudi Arabia were key drivers in reinforcing its position as a leading financial institution in the region, ready to seize new opportunities and navigate the challenges of an evolving economic landscape.

Sohar International's growth strategy is rooted in customer proximity, digitalization, and service excellence. The bank continues to prioritize digital banking while enhancing its physical branch network to maintain customer closeness, with investments in digital infrastructure aimed at creating an omnichannel experience, ensuring security, and leveraging data for personalized customer interactions.

Sohar International has been at the forefront of offering innovative banking solutions tailored to meet the evolving needs of its customers. The bank's approach to product and service innovation is aligned with national priorities, particularly in digitalization and revenue diversification, supporting Oman Vision 2040.

Looking ahead, Sohar International remains committed to its strategic plan, emphasizing key growth pillars like digitalization, ecosystem development, and customer experience. The bank is poised to continue its growth trajectory both locally and beyond borders, with a focus on becoming a world-class Omani service company.

Sohar International's journey over the past five years has set a solid foundation for future growth. With a clear strategic vision, focused execution, and a commitment to innovation and customer excellence, the bank is well-positioned to continue its growth story and contribute significantly to Oman's economic development.

Historical Merger

The historic merger between HSBC Bank Oman and Sohar International Bank has redefined Oman's financial industry landscape, underscoring Sohar International's unwavering dedication to advancing Oman's economic diversification, championing excellence, and adopting a customer-centric approach. This significant amalgamation signals the emergence of a financial powerhouse, poised to challenge market dominance and reshape the banking sector in Oman. With a post-merger market capitalization of approximately $1.5 billion (OMR 500 million), an enlarged asset base exceeding OMR 6.5 billion, a 50% increase in market share, a 118% expansion in market coverage, and a workforce strengthened by nearly 80%, Sohar International is at the forefront of initiating a transformative era in banking.

This merger is a testament to Sohar International's profound understanding of the market, effectively bridging the gap between contemporary banking trends and customer financial needs. By introducing innovative avenues for banking that align with Oman's Vision 2040, the merger amplifies Sohar International's value proposition to stakeholders. It reaffirms the bank's commitment to strategic growth, empowering shareholders, customers, employees, and communities to achieve their aspirations.

In a world where adaptability and innovation are key, the seamless execution of merger-related activities within approximately 14 hours exemplifies meticulous planning. This ensured uninterrupted service to customers, overcoming formidable challenges and setting a precedent for efficiency and resilience. The merger embodies progress and collaboration, integrating Sohar International's strengths, such as its commitment to digital transformation and international standards. This integration not only enhances the bank's local and international stature but also broadens its spectrum of financial services and solutions, catering to a dynamic customer base.

Going beyond mere consolidation, the merger is a collective stride towards elevating the banking landscape, addressing the evolving needs of customers and reaffirming Sohar International's role in fostering Oman's economic growth. By investing in technology, innovation, and digitalization, Sohar International is poised to drive financial inclusion and create a comprehensive ecosystem of value propositions, resonating with Oman's Vision 2040.

For customers, the merger heralds a new era of unified and enhanced banking experiences, offering access to a wider array of services and products. The integration of best practices, technologies, and expertise from both entities ensures unparalleled convenience and value, reflecting Sohar International's philosophy of prioritizing individual needs and aspirations. This synergistic fusion signifies a leap towards greater stability and innovation within Oman's financial ecosystem, strengthening Sohar International's scale, reach, and influence.

This strategic merger lays the foundation for operational efficiencies and revenue synergies, diversifying income streams and strategically positioning the bank to capitalise on a broader spectrum of opportunities. It signifies a commitment to fostering enduring value and a stronger financial outlook, enhancing operational efficiency across all activities.

The merger creates a positive environment for employees, opening doors to career advancement and skill development. Sohar International's emphasis on Omanisation and the development of local talent is in alignment with the national vision, enhancing employment opportunities for Omani citizens. Through targeted training and development programs, the bank equips its staff for career progression, fostering a culture of knowledge exchange and collaboration. The merger also offers notable advantages to stakeholders by aligning with shareholder interests, aiming to provide enhanced returns and foster long-term value creation. Through the integration of combined strengths, expertise, and resources, operational efficiency and competitive standing are expected to see measured improvements. This, in turn, is anticipated to lead to a gradual increase in revenues, profitability, and shareholder value.

As Sohar International embarks on this new transformative journey, the merger not only solidifies its position as a leading bank in Oman but also enhances its service quality, innovation capabilities, and support for national projects. This comprehensive integration promises enriched service offerings, greater accessibility, and personal and professional growth opportunities for all stakeholders, laying the groundwork for a robust and dynamic financial future in Oman.

Expansion beyond borders

Sohar International's strategic expansion into the Kingdom of Saudi Arabia aims to stimulate cross-border growth, enhance Oman-Saudi economic ties, and exemplify the bank's dedication to innovation, customer focus, and sustainable growth. The inauguration of Sohar International's operations in Riyadh underscores the bank's ambition to extend its digital and customer-focused banking services beyond Omani borders. This venture is not just geographical but a bold stride into one of the most dynamic economies in the GCC. It is also heralds a new era of opportunities for Omani corporates looking to explore the Saudi market, backed by Sohar International's robust financial support and advisory services.

The Riyadh office signifies Sohar International's commitment to growth and excellence, aiming to utilize its expertise in GCC markets and Omani-Saudi trade dynamics to offer extensive financial and advisory solutions. This initiative is designed to enable businesses to thrive within Saudi Arabia's economic environment, facilitating involvement in large-scale government projects and fostering corporate development. Moreover, the presence in Saudi Arabia offers Omani corporates unmatched access to the Saudi market, blending innovative digital solutions with personalized services. This expansion is anticipated to strengthen Oman-Saudi economic relations, supporting both nations' growth and diversification efforts.

Looking ahead, Sohar International's entry into the Saudi market underscores its long-term vision for growth and excellence. By becoming a key financial ally for projects aligned with Saudi Vision 2030, the bank is poised to lead in the region's economic evolution, promising enhanced growth, prosperity, and stronger GCC business relationships. This venture not only signifies Sohar International's ambitious growth aspirations but also its commitment to adding value for its customers, stakeholders, and the economies of Oman and Saudi Arabia, positioning itself as a pioneering Omani bank on the international stage and showcasing the nation's economic vitality and innovative approach to strategic financial initiatives.

DIGITALIZATION

Sohar International's significant advancements in digital transformation not only reinforced its position as a digital banking leader in Oman but also greatly benefited customers and supported the Omani government's digitalization agenda. The bank's launch of an integrated digital ecosystem within its retail mobile banking platform was a standout proposition. This platform offers customers a variety of convenient banking and beyond banking related services, including travel and experience bookings, payments, transfers, account and card management and much more. This holistic approach to digital banking greatly enhanced customer engagement by providing a seamless and integrated ecosystem of banking and non-banking experience, contributing to customer life style and convenience.

Moreover, Sohar International's digital initiatives complemented the Omani government's digitalization agenda. By adopting cutting-edge digital solutions, the bank supported the government's vision outlined in Oman Vision 2040, which aims to foster a digitally advanced society and economy. Sohar International's efforts in enhancing digital banking services aligns with national goals to promote a digital economy, thus playing a crucial role in the country's broader economic and technological development. The bank's commitment to digital transformation, therefore, not only improved overall customer experiences but also actively contributed to Oman's journey towards becoming a more digitally inclusive society.

The bank also made strides in digitalizing customer onboarding with the introduction of digital account opening for both new and existing customers. For corporate clients, Sohar International launched an upgraded transaction banking platform, offering comprehensive digital banking services including fund transfers, salary processing, liquidity management, cash management, trade finance, and supply chain finance empowering business to run and grow their business complimented by dedicated specialized relationship managers.

The bank's focus was not just limited to technological advancements; it also concentrated on enhancing the digital experience for both retail and corporate customers. This was achieved through the introduction of intuitive dashboards, self-service administration modules, and mobile apps for executives, along with advanced host-to-host integration capabilities.

The merger of HSBC Bank Oman into Sohar International was another significant milestone for the bank, demonstrating its capability in managing large-scale transformations. This complex merger involved extensive planning across various domains such as systems, product and customer integration, operational workflows, and cultural integration.

In embracing emerging technologies, Sohar International has been at the forefront, utilizing artificial intelligence enabled techniques and machine learning across various operations. These technologies have been instrumental in improving infrastructure management, customer service, operational efficiency, and overall customer experience. Cybersecurity was a paramount focus for the bank, with the implementation of best-in-class cybersecurity measures to protect customer data and ensure the resilience of its digital infrastructure.

The increase in the usage of mobile and online banking services at Sohar International highlighted the success of its strategy to continuously enhance its digital offerings. The bank leveraged data analytics and business intelligence to gain insights into customer behavior, streamline operations, and facilitate informed decision-making.

Sohar International has made significant strides in supporting fintech companies and other financial institutions, particularly in the realm of B2B payments. One of the key partnerships formed by Sohar International is with PayMate India, a leading B2B payments and solutions provider. This collaboration is focused on digitizing, automating, and streamlining B2B payments in Oman using bank-issued corporate credit cards.

Sohar International's commitment to regulatory compliance in digital banking was evident through continuous audits, adherence to digital regulations, and the implementation of advanced security measures. The bank also maintained robust disaster recovery plans and redundant infrastructures to ensure operational continuity and minimize downtime in the event of digital disruptions.

In recognition of its efforts and achievements in digital banking, Sohar International was awarded the 'Best Digital Bank Oman 2023' by the Global Business Review Magazine Awards. This accolade and others underscored the bank's commitment to innovation, customer-centric solutions, and technological advancements.

In alignment with the bank's ESG Framework (developed in 2023), where opportunities to drive efficiencies across our digital activities were identified. These included minimizing paper usage by encouraging the use of digital channels, and through, optimizing energy use through efficient data centers and cloud services. In addition, the continued digitalization of banking services also provided greater access to banking services for all segments of society – support societal inclusion and access to banking in the Sultanate.

Moving forward, Sohar International is set to continue advancing its digital initiatives, aiming to introduce more innovative services in the future. This strategy is expected to further solidify its position as a digital banking leader in Oman and align with the nation's Vision 2040 goals, enhancing its offerings and supporting the country's technological and economic development.

CUSTOMER CENTRICITY

Sohar International continued to strengthen its commitment to customer centricity, an ethos integral to its corporate strategy. This focus is evident in the bank's efforts to deepen customer relationships, enhance service quality, and deliver innovative solutions tailored to the diverse needs of its clientele.

Sohar International has further advanced its customer engagement strategies. By leveraging data analytics and Customer Relationship Management (CRM) tools, the bank has gained deeper insights into customer preferences and behavior, enabling more targeted and effective service offerings. Personalized banking experiences are now at the forefront of Sohar International's customer interaction model.

Continuing from its 2022 initiatives, Sohar International has expanded its digital offerings. The bank's investment in digital banking platforms, including mobile and online banking, is designed to provide customers with seamless and secure access to banking services. These platforms are constantly updated with new features that cater to the evolving digital needs of customers.

Sohar International, acknowledging the crucial role of its physical branches as key points of customer engagement and access to banking services, has undertaken significant steps to refine its branch network. This initiative is centered on creating branches that are not only more inviting for face-to-face interactions but also seamlessly integrated with digital capabilities, offering customers a comprehensive omnichannel experience. In parallel, the bank has intensified its focus on enhancing the expertise of its customer service team. Through consistent and robust training programs complemented by effective feedback systems, the bank equips its personnel with the essential skills and knowledge. This training ensures that every team member can consistently deliver superior service across various customer interaction channels, aiming not just to meet but to exceed customer expectations.

Furthermore, Sohar International has put in place effective feedback channels, which play a pivotal role in capturing the sentiments and insights of its customers. This feedback is a critical component of the bank's ongoing efforts to refine and improve its services and product offerings, guaranteeing alignment with the evolving needs of its customers. Extending its commitment to customer-centricity beyond the confines of traditional banking services, Sohar International is actively engaged in community initiatives. This involvement demonstrates the bank's understanding of the value of social responsibility, not just as a corporate duty but as a fundamental aspect of cultivating trust and loyalty within its customer base.

Sohar International's continued focus on customer centricity in 2023 is a testament to its commitment to being a customer-first organization. With a strategic blend of digital innovation, personalized service, and community engagement, the bank is well-positioned to enhance its customer relationships and consolidate its market position.

Wholesale Banking Group

Over the last year, Sohar International has played a pivotal role in the bank's substantial growth and market position enhancement. The group's efforts led to an impressive increase of over 42% in the corporate client base with the SME sector making up the majority. This growth was complemented by the addition of over 100 Financial Institution Groups (FIGs), more than 500 Multinational Corporations/International Subsidiary Banks (MNCs/ISBs), along with a mix of large corporates, mid-markets, and government entities. Financially, the bank experienced organic growth in gross advances by 5% during the first half of 2023, further amplified by a strategic merger with HSBC Oman, which increased the group's gross advances by 42% to RO 2.6 billion by the end of September 2023. This merger also doubled the wholesale customer liability position to RO 2.3 billion and expanded the contingents portfolio 2.5 times to approximately RO 720 million, significantly diversifying the portfolio mix and boosting the bank's market share in contingents and FX post-merger.

Sohar International has leveraged a unique blend of technology, industry expertise, and personalised relationship management to deliver exceptional value to clients, fostering strong client relationships, deep business understanding, and customised solutions. This approach has been instrumental in transforming customer experiences through the adoption of digital platforms, providing a unified transaction banking platform for comprehensive digital cash management and trade finance solutions. The bank's adherence to a robust risk management framework, underscored by sound capitalisation and liquidity profile, is guided by the policies and guidelines from the Central Bank of Oman (CBO) and Capital Market Authority (CMA), ensuring the maintenance of high credit quality.

Significantly, Sohar International has financed projects across various sectors, aligning with Oman's economic diversification efforts and showcasing its commitment to supporting the nation's development. The integration of HSBC Oman clients into Sohar International was meticulously managed to ensure a smooth transition for customers, involving joint client meetings, regular updates on the merger process, seamless digital onboarding, and the provision of new account numbers and corporate credit cards.

Sohar International's support for Oman Vision 2040, focusing on economic diversification and sustainable development, is evident through its active financing in key sectors and commitment to digitalization and innovation, with initiatives like Digital Trade, Digital Cash Management, API Banking, and Corporate Mobile Banking app. The bank's digitalization efforts have significantly increased digital penetration among clients, with the development of a Unified Digital Platform enhancing transaction efficiency and client engagement. This platform supports a wide range of digital transactions, offers virtual accounts, and integrates with clients' ERP systems for seamless operations, with the bank adhering to international standards and conducting regular security assessments to protect its digital infrastructure.

In the last year, the Global Banking & Commercial Banking Department has achieved its main goals through strategic initiatives, including the integration of talent from the HSBC Oman team and the creation of a Centre of Excellence. This approach, focusing on specific sectors for targeted growth, has notably strengthened the department's capabilities in 2023. Efforts to grow top-quality assets, coupled with an emphasis on cross-selling and liability management, have substantially boosted the bank's profitability and Return on Equity (ROE). The digital expansion across the portfolio has notably increased client throughput, enhancing the overall banking experience and contributing to the bank's growth.

Furthermore, Sohar International has actively pursued new client acquisitions and initiatives to expand the bank's clientele and improve its service offerings. These strategies have been instrumental in reinforcing Sohar International's market position and ensuring sustainable growth. Meanwhile, the Financial Institutions Department aimed to increase its domestic market share by focusing on digitizing relationships with local non-bank entities in Oman and exploring new overseas partnerships to enhance trade finance and Correspondent Banking services. These efforts led to Sohar International becoming the main local currency clearing bank in Oman, significantly enhancing its liquidity profile and establishing important new relationships with international banks.

The Global Markets Department employed a mix of risk management strategies to optimize liquidity management and reduce the Cost of Funds (COF), leveraging advanced financial instruments and technology. Adapting to market changes, this department provided comprehensive treasury services and supported the bank in navigating market volatility effectively.

In parallel, the Client Management Department has significantly improved customer satisfaction and relationships through initiatives aimed at streamlining processes and enhancing service delivery across various channels. This includes the implementation of dedicated communication channels, digital resources, and support mechanisms to empower clients and improve their banking experience.

As we look forward, Sohar International's Wholesale Banking Group is well-positioned to continue its trajectory of growth, innovation, and service excellence. The ongoing commitment to digitalization, customer satisfaction, and alignment with Oman Vision 2040 ensures that Sohar International remains at the forefront of the banking industry, ready to meet the evolving needs of its clients and contribute to the economic development of Oman. The collective efforts of the Wholesale Banking underscore Sohar International's resilience, strategic vision, and unwavering commitment to excellence. With a solid foundation in place and a clear path forward, the group is poised for continued success and leadership in Oman's dynamic banking landscape.

Retail and Premier Banking

Sohar International's Retail and Premier Banking operations have been instrumental in driving the bank's sustainable growth, enhancing customer satisfaction, and solidifying its competitive stance in the market through a comprehensive and multifaceted strategic approach. The premier banking segment has made significant contribution by focusing on generating low-cost deposits.

Strategic partnerships have been a cornerstone of Sohar International's approach this year, facilitating a broad spectrum of banking and non-banking offerings for customers. Noteworthy collaborations include those with Bahja Real Estate for Escrow Accounts and financing solutions, exclusive discounts through partnerships with Sharaf DG and Takamul National Company, and a significant collaboration with the Ministry of Housing & Urban Planning to provide financing for Sultan Haitham City property units. These partnerships not only diversified Sohar International's offerings but also added significant value to its client services, enhancing the overall customer banking experience.

The bank's product development strategy was marked by several innovative launches aimed at driving deposits and adapting to the evolving needs of its customers. This includes the relaunch of Minor accounts, providing investment opportunities in the OQGN IPO, and introducing a suite of retail banking products and insurance solutions that cater to a wide array of customer needs. Notable amongst these were the Instant Interest FD account, Saving Plus account, and a comprehensive range of retail insurance products developed in partnership with leading insurance providers, underscoring Sohar International's commitment to offering personalized and segmented financial solutions.

On the distribution and support front, significant enhancements were made to streamline operations and elevate customer service levels. The relocation of the CBD Branch and substantial upgrades to the Mobile Banking App, including feature enhancements and ecosystem integration, exemplify the bank's focus on improving accessibility and user experience. Furthermore, Sohar International ran several campaigns to engage customers and promote its services, including Double Loyalty Points on credit card spends, Super Start, Free Transfers through the mobile app, a Credit Card Summer campaign, and Free Remittance offers. These offers, coupled with a cybersecurity awareness campaign, not only heightened customer engagement but also underscored the bank's commitment to security and added value.

In business development and virtual banking, Sohar International embarked on an ambitious project to upgrade its contact center with state-of-the-art technology, aiming to enhance service delivery for premium customers through features like call priority, dedicated agents, and Virtual Relationship Management. The establishment of the Employee Banking Services team is a strategic move to increase the market share of new-to-bank customers from top corporate clients, further expanding the bank's customer base and wallet share.

Integrating these initiatives seamlessly into Sohar International's operational strategy has not only contributed to the bank's significant growth and profitability but also set a benchmark for customer satisfaction and service excellence. Through strategic partnerships, innovative product development, enhanced distribution and support services, and targeted business development efforts, Sohar International is well-positioned for sustained growth and leadership within the ever-evolving financial sector of Oman.

Sohar Islamic

Sohar Islamic, Sohar International's Islamic Banking window of, has showcased remarkable progress and innovation in the realm of Islamic banking throughout 2023. This period was highlighted by a multitude of achievements, illustrating the business's unwavering commitment to Sharia-compliant banking principles, dedication to digital innovation, and robust efforts in community support. Amidst these advancements, Sohar Islamic has meticulously navigated the evolving landscape of Islamic banking, reflecting its strong adherence to ethical banking practices and a forward-thinking approach.

In a strategic move to cater to younger demographics and enhance financial inclusivity, Sohar Islamic relaunched Minor accounts, both international and Islamic, and introduced the pioneering Sohar Islamic Student Account. This initiative not only broadened its retail banking offerings but also emphasised the bank's commitment to nurturing the financial literacy and independence of the youth from an early age.

Capitalising on investment banking excellence, Sohar Islamic provided its clients with lucrative investment opportunities in the OQGN IPO, thereby broadening their investment horizons. Additionally, Sohar Islamic played a key role in developing and supporting sustainable financing opportunities in Oman, supporting the market trends (domestically and international) with regards to ESG and the increasing role of financial institutions such as Sohar International.

A significant technological leap was achieved through the enhancement of the Mobile Banking App, which saw significant feature enhancements and ecosystem integration. This upgrade not only streamlined banking processes but also enriched the user experience, aligning with Sohar Islamic's vision for digital excellence in Islamic banking.

Sohar Islamic also launched several marketing campaigns that resonated well with its clientele. These included offering Free Transfers through the mobile app, a Credit Card Summer campaign designed to reward spending during the holiday season, and Free Remittance offers that facilitated easier and cost-effective cross-border transactions. These campaigns were instrumental in bolstering customer engagement and satisfaction.

The bank continued its exemplary efforts in restructuring the real estate sector to ensure alignment with Islamic banking principles, thereby unlocking more Sharia-compliant investment avenues in this sector. This move catered to a segment that prioritizes ethical and religious compliance in their investment choices.

Amidst the global pandemic challenges, Sohar Islamic stood out by offering tailored financial solutions and advice, aiding clients to mitigate the economic impacts effectively. The bank's initiative in introducing green financing options further showcased its alignment with global sustainability trends, supporting eco-friendly projects and contributing to environmental stewardship.

Community support remained a cornerstone of Sohar Islamic's ethos, as evidenced by its involvement in food security and alternative energy projects, alongside a notable donation of laptops to the Zakat Authority, bolstering their operational capabilities in serving the community.

Despite stiff competition, Sohar Islamic's unwavering focus on unique Sharia-compliant products and digital innovation has solidified its market position. The bank's financial performance echoed its success, with significant growth in assets and customer base contributing to Sohar International's overall achievements.

Looking forward, Sohar Islamic is poised for continued growth, with plans to expand its Sharia-compliant product portfolio, enhance digital capabilities, and deepen its engagement with the community. By adhering to a strategy centered around technology, customer-centric services, and sustainable practices, Sohar Islamic is well-equipped to face future challenges and seize opportunities in the Islamic banking sector, further cementing its leadership position.

Government and Private Banking

Sohar International's newly formed group, Government and Private Banking, is on a visionary quest to become a global leader in providing services that enable government entities, non-governmental organizations (NGOs), High Net-Worth Individuals (HNIs), and institutions to amplify wealth, ensure sustainability, and contribute to economic progress. The bank has achieved impressive growth across various key performance indicators resulting in a 7.7% growth in loans, a 35.4% increase in Net Interest Income (NII), a significant 208% surge in Non-Fee Income (NFI), a 43.3% overall revenue growth, and a 42.1% increase in net profit compared to the previous year.

Sohar International's strategy is closely aligned with the Oman Vision 2040, focusing on critical areas such as Public-Private Partnerships (PPP), Foreign Direct Investment (FDI), tourism, urbanization, financial inclusion, SME development, technology adoption, and Environmental, Social, and Governance (ESG) practices. The bank has laid out plans to support PPP projects by providing financial support, risk management, advisory services, fostering collaborative partnerships, and sharing knowledge to enable government and private sector collaboration on key infrastructure and renewable energy projects. Additionally, the bank aims to facilitate capability partners through networking, financial support, advisory services, and promoting collaboration, building an ecosystem that supports these partners in contributing to Oman's economic growth.

Digital transformation is at the heart of the bank's operations, with a focus on increasing the adoption of digital banking, utilizing scalable technologies, simplifying user interfaces, collaborating with fintech companies for value-added services, and expanding digital banking offerings. This strategic approach aims to streamline services, improve efficiency, and enhance customer experience.

Sohar International has successfully deepened relationships with government entities, positioning itself as a crucial banking partner and extending facilities to their ecosystems. In addition, the bank is committed to enhancing client portfolios and financial outcomes through comprehensive market analysis, regular portfolio reviews, and a diverse range of investment products.

Looking forward, Sohar International is dedicated to expanding its service portfolio, further aligning with the national goals of Oman Vision 2040, and enhancing its digital capabilities. The group's commitment to fostering economic diversification, supporting the private sector, and contributing to Oman's sustainable development through innovative banking solutions, strategic partnerships, and a commitment to excellence positions it as a key player in the nation's financial landscape. As the government and private banking continues to grow and evolve, the bank remains focused on driving financial innovation and sustainability, laying a solid foundation for future success and continued contributions to Oman's economic and social development.

EMPHASISING A PEOPLE-FIRST PHILOSOPHY

Sohar International's dedication to its people-first philosophy transcends mere rhetoric; it is a deeply ingrained principle that defines every aspect of the organization. Central to this ethos is the cultivation of a performance-based culture, where the bank acknowledges that its true strength lies in the dedication and excellence of its workforce. In line with this commitment, Sohar International meticulously plans initiatives such as Rewards and Recognition events to honor high-performing employees who consistently exceed expectations in their roles. These initiatives serve as a testament to the bank's appreciation for the exceptional contributions of its team members. Moreover, Sohar International's commitment to fostering a supportive and inclusive workplace environment is evident in its recognition of staff members who have dedicated over decades of service. This acknowledgment underscores the bank's deep appreciation for long-term loyalty and dedication, values that are fundamental to its ethos. By prioritizing the well-being and professional development of its employees, Sohar International not only cultivates a sense of belonging and fulfillment within its workforce but also ensures the sustained success and resilience of the organization as a whole.

Continuous Learning and Development Initiatives

In the dynamic landscape of the banking industry, Sohar International places a premium on continuous learning and development. The bank has launched an ambitious program aimed at fostering a culture of lifelong learning among its employees, emphasizing not only skill enhancement but also personal and professional growth. This comprehensive initiative, rolled out in 2023, encompasses specialized training sessions in emerging financial technologies, leadership workshops, and cross-functional team projects. These endeavors are designed to broaden employees' perspectives and capabilities, ensuring they stay abreast of sophisticated financial tools and practices.

The bank's commitment to a diverse workforce is reflected in its tailored training regime, which caters to the individual needs of its employees. Such initiative has played a pivotal role in post-merger culture-building, facilitating seamless integration while enhancing awareness of industry advancements. Throughout 2023, Sohar Academy achieved significant milestones, underscoring the bank's dedication to continuous learning and development. With a total of almost 4,000 learning days completed, averaging 2.2 days per employee, the bank prioritizes professional growth and enrichment.

Sohar International recognises the imperative of continuous learning and development across all levels of the organisation, transcending gender, age, or position. The bank's commitment is to foster an environment where every employee has the opportunity to grow and excel, ensuring that their advancement aligns with the evolving needs of their roles and the broader objectives of the bank. This philosophy of inclusivity and personal enrichment is at the heart of the organisation's learning initiatives. By advocating for a culture where knowledge acquisition and skill development are paramount, the bank empowers its staff to reach their full potential, contributing significantly to Sohar International's collective success. This is a testament to the bank's dedication to nurturing a well-rounded, proficient workforce that is equipped to navigate the complexities of the financial sector with agility and insight.

Staff Engagement Activities

Understanding the critical role that staff engagement plays in cultivating a unified and efficient workforce, Sohar International has implemented a variety of initiatives designed to enhance a sense of community and teamwork among its employees. These initiatives have spanned from team-building retreats to community service projects, enabling staffs to forge stronger connections not only with each other but also with the wider community.

Throughout the year, Sohar International significantly ramped up its engagement efforts, notably through its Annual Staff Gathering at the beginning of 2023, coupled with multiple CEO Townhall meetings. These gatherings were pivotal, serving not just as formal events, but as vital platforms for reinforcing unity and promoting transparent communication across the organisation. These engagements have been essential in creating an atmosphere of collective motivation and ensuring alignment between the staff's daily efforts and the bank's strategic direction. By regularly bringing together staff and management, the bank established a culture of inclusivity and coherence, ensuring every team member, from the top executives to the frontline employees, shares a deep understanding of and commitment to the bank's overarching goals and strategies. This continuous dialogue and interaction have been instrumental in fostering a strong sense of belonging and alignment throughout the organisation, driving the bank forward as a cohesive unit.

COMMITMENT TO UPHOLDING OUR VALUES

Sohar International's commitment to social values was evident in its ethical banking practices, corporate governance standards, and community outreach programs. The bank worked tirelessly to integrate social responsibility into its core operations, ensuring that its business activities contributed positively to society. This included initiatives aimed at financial literacy, environmental conservation, and supporting local businesses, reflecting the bank's dedication to the sustainable development of the communities it serves. This year the Chairman's personal involvement in welcoming new staff epitomized the bank's commitment to its values. This gesture, along with targeted integration programs, underscored Sohar International's dedication to building a workforce that resonates with its core principles and ethos.

CSR Activities and Community Support

In 2023, Sohar International continued to strengthen its commitment to corporate social responsibility (CSR), playing a key role as a responsible corporate citizen in Oman. The bank's diverse CSR activities, significantly contributed to making a positive impact on Omani communities.

The support for the health sector was a major highlight of Sohar International's CSR initiatives. Partnering with the Athar Foundation, the bank supported a medical center and ambulance services, enhancing healthcare accessibility in the country. Sohar International also provided significant support to the Royal Hospital by offering free MRI scans, directly contributing to the national health infrastructure and well-being of the community.

Sports and cultural heritage received substantial support from Sohar International, underscoring its commitment to promoting Oman as a vibrant and culturally rich destination. The bank supported the Omani National Football Association in its endeavors in the GCC Cup, showcasing the nation's athletic talent. The sponsorship of the Desert Adventures Festival in Al Sharqiyah Sands was a testament to the bank's dedication to Oman's diverse cultural, sports, and entertainment heritage. Additionally, Sohar International's sponsorships of the Ironman events in Muscat and Salalah, as well as supporting the Oman Equestrian Federation as a Diamond Sponsor, positioned Oman prominently on the global sports map.

Sohar International's societal contributions were not limited to healthcare and local cultural activities; the bank also displayed a profound commitment to society through various other initiatives. During Ramadan, the bank's distribution of rations and household cooling utilities to 100 families in the Masirah Islands was a gesture that underscored its dedication to the community's well-being.

Through the theme of human development Sohar International's focused its CSR activities on empowering various segments of society. The bank supported seven associations. These included people of determine (adults and children) and also focus on supporting and orphans in Oman. These initiatives demonstrated the bank's inclusive approach to community support, encompassing a wide range of societal needs and ensuring that its impact was felt across different segments of the Omani population. Furthermore, by providing learning tools across several schools in various regions, Sohar International directly enhanced the educational facilities, contributing to the nation's educational development.

Community engagement initiatives, including organizing and supporting various community events like Eid and Ramadan competitions, further fostered a sense of community and cultural celebration. These activities not only brought people together but also reinforced the cultural fabric of the society.

Through its comprehensive CSR activities in 2023, Sohar International not only addressed the immediate needs of society but also laid the groundwork for long-term sustainable development. By focusing on health, culture, education, and human development, and seamlessly integrating these initiatives into its corporate ethos, Sohar International reinforced its reputation as a responsible institution committed to the welfare and prosperity of Oman and its people. The bank's efforts in CSR reflect its broader vision of being more than a financial institution, positioning itself as a catalyst for positive societal change.

Promoting Oman and Nurturing Omani Talent

Sohar International played a pivotal role in promoting Oman and its people on the international stage. Through strategic partnerships and sponsorships, the bank helped showcase Oman's rich cultural heritage, its economic potential, and the talent of its people. These efforts not only enhanced the country's image abroad but also attracted investment and tourism, contributing to economic diversification and growth. In line with showcasing Oman on an international stage, Sohar International participated in the MSX Investor Roadshow held in Saudi Arabia and was a key partner in the "Invest Oman Hall", a one-stop shop aimed at simplifying investments into Oman. The bank also partnered with Arab Federation of Capital Markets (AFCM) conference in 2023 as a Platinum sponsor with a strong aspiration to serve as a significant catalyst in propelling the economy of the Sultanate while promoting greater integration and liquidity among exchanges throughout the region.

In addition, the bank's initiatives to empower national talent were noteworthy. Programs like the general internship program and the dedicated Tomohi program were launched to nurture the next generation of Omani professionals. Sponsorships of Injaz Oman's financial programs and the Engineering Hackathon at the University of Technology and Applied Sciences - Muscat, further exemplified Sohar International's investment in the country's future.

Thought Leadership

Sohar International, renowned for its progressive, agile, and forward-thinking ethos, has consistently prioritized aligning with evolving market trends and spearheading discussions that are not only engaging but also insightful and inspirational. Throughout the year, Sohar International's dedication to thought leadership was exemplified by the active involvement of its senior management, including the Chairman and CEO, in various prestigious conferences, seminars, and discussions. These platforms provided opportunities for Sohar International to share its vision, strategies, and insights on several critical aspects, including leadership, strategic management, digital transformation, sustainability, and Environmental, Social, and Governance (ESG) practices.

A cornerstone of Sohar International's thought leadership initiatives was its management's participation in ESG-focused events. This involvement underscored the bank's commitment to sustainability and responsible banking, highlighting strategies that integrate ESG principles into its operations and investment decisions. By contributing to conversations on sustainable finance, Sohar International not only reinforced its role as a responsible corporate citizen but also provided valuable perspectives on how the financial industry can contribute to a more sustainable and equitable future.

Moreover, Sohar International's leadership engaged in dialogues around digital innovation within the banking sector, sharing insights on leveraging technology to enhance customer experience, streamline operations, and create value in an increasingly digital world. These discussions emphasised the importance of digital agility in staying competitive and responsive to customer needs, reflecting Sohar International's commitment to innovation and excellence.

In essence, Sohar International's thought leadership initiatives in 2023 significantly contributed to reinforcing the bank's position as a visionary leader in the financial sector. Through the active participation of its management in key discussions and the hosting of enlightening events, Sohar International has not only demonstrated its commitment to leading by example but has also played a pivotal role in shaping the future of banking in line with global best practices and sustainability goals. These efforts reflect the bank's unwavering dedication to innovation, excellence, and responsible banking, setting a benchmark for thought leadership in the industry.

ESG: TODAY'S COMMITMENT FOR A SUSTAINABLE FUTURE

2023 marked a significant year in relation to Sohar International's commitment to Environmental, Social, and Governance (ESG) principles. ESG saw an acceleration in focus and activity in 2023, particularly in response to the Muscat Stock Exchange's ESG Disclosure Guideline, and the Sultanate's continued implementation of its Net Zero 2050 commitment and the Oman Vision 2040. Against this backdrop, 2023, Sohar International developed and received board approval for its ESG Framework, a comprehensive approach that sets out how the bank will embed ESG across its operations. Sohar International's Framework focuses on ESG material issues, and have been determined through consideration of both internal and external sources, and based on the strategic importance of ESG matters to the business, importance to stakeholders, and the direct and indirect impacts of economic; environmental; and societal forces. The bank's approach included both quantitative and qualitative analysis – and informs the shape and focus of the bank's ESG Framework and supports our ESG reporting approach.

In addition to the comprehensive ESG Framework established in 2023, Sohar International remains committed to its key focus areas, reflecting a holistic approach to sustainability. The bank places a strong emphasis on embedding responsible business practices, ensuring that ethical considerations are integrated into all aspects of its operations. This commitment extends to enabling the transition to a sustainable future, as evidenced by the bank's active participation in initiatives such as the Green Hydrogen Summit Oman and partnerships for climate financing with the International Finance Corporation. Furthermore, Sohar International is dedicated to empowering and developing people, fostering growth and well-being among employees, customers, and communities. By prioritizing these key focus areas, the bank not only aligns with global sustainability goals but also reinforces its position as a leader in responsible and ethical banking practices, setting a benchmark for the industry in the pursuit of sustainable growth.

Throughout the year, Sohar International continued to play a leading role across ESG, including participating in regional ESG forums and undertaking initiatives to support the Sultanate's Net Zero 2050 commitment. Key highlights include the bank's involvement in the Green Hydrogen Summit Oman as a banking partner, signifying its role in financing new low carbon energy solutions and to support the transition to a low carbon economy. The bank also made strides in building its sustainable financing activities through partnerships for climate financing with the International Finance Corporation. Sohar International's ESG department, directly reporting to the CEO and the Board's Executive Nomination and Remuneration Committee, emphasized the priority of ESG within the bank's governance structure. This structural alignment ensures that ESG principles are ingrained in the bank's operations and decision-making processes.

Looking forward to 2024, Sohar International aims to intensify its focus on implementing its ESG Framework and refining it as necessary. The bank's commitment to ESG is seen as a key driver for sustainable growth and positioning itself as a leader in sustainability in the banking sector.

A YEAR OF DISTINCTION

2023 was a landmark year for Sohar International, embodying a culture of winning and excellence. The bank navigated through challenges with agility, fortifying its position as a pioneer in the banking sector. This year was distinguished by a series of accolades that recognized the bank's commitment to excellence, innovation, and sustainability.

Sohar International's dedication to its employees was prominently recognized. The prestigious "Best Place To Work In Banking Sector – Oman 2022" award by The Global Economics Awards highlighted the bank's efforts in cultivating an enriching, supportive work environment. This accolade resonates with Sohar International's philosophy of nurturing talent and fostering a culture of growth and learning within the organization. In the realm of branding, Sohar International's efforts in creating a strong, resonant brand identity were acknowledged. The "Top Omani Brand in Banking Sector Award" from Alam Al-Iktisaad was a testament to the bank's effective branding strategies. This award reflects not just the bank's success in building a brand but also its deep connection with the Omani market and understanding of customer needs and aspirations.

The bank's role in driving sustainable economic growth was celebrated at the OER Business Summit 2023, where it received the "A Key Enabler of Sustainable Economic Growth in Oman" award. This recognition underlines Sohar International's contributions to the national economy, aligning with Oman's vision for sustainable development and growth. A significant highlight of 2023 was Sohar International's recognition as a leader in digital banking. The "Industry leader in Digital Banking" award at the Oman Banking and Finance Awards 2023 signified the bank's successful digital transformation journey. Embracing cutting-edge technologies, the bank not only enhanced its operational efficiency but also revolutionized the customer banking experience, setting a new benchmark in the industry.

The array of awards and recognitions in 2023 is a narrative of Sohar International's unwavering dedication to excellence in various facets of banking. From nurturing its human capital and strengthening its brand identity to contributing to Oman's economic growth and leading digital innovation, the bank has demonstrated a commitment to excellence and innovation. These accolades are not just milestones but also a testament to Sohar International's strategic vision and its relentless pursuit of setting new benchmarks in the banking sector. As the bank moves forward, it continues to redefine banking excellence, staying true to its ethos of innovation and customer-centricity.

WAY FORWARD

Entering 2024, Sohar International embarks on a transformative growth journey, leveraging a solid foundation established over the last five years. Amidst a global economic landscape characterized by both challenges and opportunities, the bank's strategy is deeply rooted in agility, innovation, and a commitment to redefine banking in the digital age, contributing significantly to Oman's economic prosperity. In light of the global economic slowdown and its potential impacts, the bank is intensifying its focus on diversification and innovation. The presence of inflation and geopolitical tensions demands a strategy that capitalises on fintech collaborations and digital transformation to provide resilient and flexible financial solutions. This strategic direction aims to shield the bank's operations from global economic uncertainties, ensuring steady growth and sustainability.

Digitalization is central to the bank's strategy for 2024. As a pioneer in digital banking within Oman, the bank plans to introduce advanced technologies to further enhance its digital platforms, offering unparalleled customer experience and operational efficiency. The bank's efforts will concentrate on broadening its digital ecosystem, incorporating artificial intelligence and blockchain technologies to deliver secure, innovative services that meet the evolving needs of its customers and support the Omani government's digital agenda.

The bank's commitment to customer centricity will continue to steer its initiatives, employing data analytics and CRM tools to deepen connections with customers through personalised banking experiences. Investments in omnichannel platforms will ensure seamless, secure access to the bank's services for customers, reinforcing its stance as a customer-first organisation. The bank also plans an accelerated expansion into Saudi Arabia and other markets, capitalising on its strengths in digital banking and customer-centric services to support economic transformation and diversification across the GCC. This expansion is not only expected to drive the bank's growth but also to enhance its regional presence, showcasing its capabilities more broadly.

In 2024, Environmental, Social, and Governance (ESG) principles will gain increased prominence in the bank's operations, aligning its business practices with sustainable development goals. The focus will be on green financing, community support, and responsible banking, with ESG initiatives designed to contribute to Oman's Vision 2040 and promote a sustainable future for all stakeholders. Acknowledging employees as the bank's most valuable asset, there will be an enhanced investment in learning and development programs, fostering a culture of innovation, excellence, and inclusivity. These initiatives are aimed at improving skills in digital technologies, leadership, and customer service, ensuring the team is well-equipped to lead the bank towards its strategic goals.

In conclusion, Sohar International is set for a year of strategic growth, digital innovation, and unwavering focus on customer needs. The objective is to navigate the evolving economic landscape and redefine the standards in the banking sector, driving progress for customers, employees, and the broader community. With a clear vision, focused execution, and a commitment to excellence, the bank is ready to make 2024 a landmark year of significant achievements and sustainable growth.

BUSINESS CONTINUITY MANAGEMENT STATEMENT

The Bank has established a Business Continuity Management (BCM) Program designed to minimize service disruption and the potential impact on the Bank, our customers and our staff. This includes a BCM Policy that is approved by our Board together with written Business Continuity and Disaster Recovery plans (DRPs) and procedures that are subject to period independent review. Although the specific details of our BCM arrangements are confidential for security reasons, the bank maintains Business Continuity Plans (BCPs) that address risk scenarios and events of varying scope including, but not exclusively, loss of services or infrastructure, denial of access, cyber-attack, pandemics and regional crises.

Sohar International BCPs are focused on maintaining critical processes, including treasury, capital & liquidity and payment services, providing customers with uninterrupted access to their funds and maintaining effective communications with our customers, staff and other stakeholders."

BCM testing of Sohar International for 2022 was successfully completed within defined scope, nevertheless the bank will ensure a continual improvement to whole bank operations. Our BCPs and DRPs are reviewed and tested at least annually. Any areas for improvement that are identified are tracked to ensure appropriate resolution and our plans and infrastructure updated as appropriate .

FINANCIAL STATEMENTS (SOHAR INTERNATIONAL)

FINANCIAL TARGETS TOWARDS

REACHING

NEW HEIGHTS

Deloitte.

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Independent auditor's report to the shareholders of Sohar International Bank SAOG

Report on the audit of the financial statements

Opinion

We have audited the financial statements of **Sohar International Bank SAOG** ("the Bank"), which comprise the statement of financial position as at 31 December 2023, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS Accounting Standards) ('IFRSs').

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' 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 Bank's financial statements in 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matters
Expected credit losses on loans and advances to customers As disclosed in Note 9 to the financial statements, the loans and advances of the Bank amounted to RO 3,931 million as at 31 December 2023 (2022: RO 2,924 million). This represented 58.62% (2022: 71%) of total assets. The determination of the Banks's expected credit losses for loans and advances to customers and off-balance sheet exposures measured at amortized cost is a material and complex estimate requiring significant management judgement in the evaluation of the credit quality and the estimation of inherent losses in the portfolio.	We established an audit approach which includes both testing the design and operating effectiveness of internal controls over the determination of expected credit losses and risk-based substantive audit procedures. Our procedures over internal controls focused on the governance over the process controls around the expected credit loss (ECL) methodology, completeness and accuracy of loan data used in the expected loss models, management review and approval of outcomes, the assignment of borrower's risk classification, consistency of application of accounting policies and the process for calculating individual allowances.

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Independent auditor's report to the shareholders of Sohar International Bank SAOG

Key audit matters (continued)

Key audit matters	How our audit addressed the key audit matters
The financial statement risk arises from several aspects requiring substantial judgement of management, such as the estimation of probabilities of default and loss given defaults for various stages, the determination of significant increase in credit risk (SICR) and credit-impairment status (default), the use of different modelling techniques and consideration of manual adjustments. In calculating expected credit losses, the bank considers credit quality indicators for each loan and portfolio, stratifies loans and advances by risk grade and estimates losses for each loan based upon their nature and risk profile. Management has recorded manual overlays (post model adjustment) due to current market condition such as inflation, restructuring portfolio, high interest rates, fuel prices and ongoing conflicts in various regions. The manual overlay is subject to a high level of estimation uncertainty and significant judgement is applied to determine this complex estimate which can be subject to bias. Based on the factors mentioned above and the sensitivity of the amount in determining the Bank's result, there is a risk that the Bank may not have accurately determined the management overlay Auditing these complex judgements and assumptions involved especially challenging auditor judgement due to the nature and extent of audit evidence and effort required to address these matters. For further information on this key audit matter refer to Notes 4.3f. 5.1, 9, 32 and 37.1 to the financial statements.	The primary substantive procedures which we performed to address this key audit matter included, but were not limited to, the following: - For a risk-based sample of individual loans, we performed a detailed credit review, assessed the information for evaluating the creditworthiness and staging classification of individual borrowers and challenged the assumptions underlying the expected credit loss allowance calculations, such as estimated future cash flows, collateral valuations and estimates of recovery as well as considered the consistency of the Bank's application of its impairment policy. Further we evaluated controls over approval, accuracy and completeness of impairment allowances and governance controls, including assessing key management committee meetings that form part of the approval process for loan impairment allowances. - For loans not tested individually, we tested the mathematical accuracy and computation of the expected credit losses by re-performing or independently calculating elements of the expected credit losses based on relevant source documents with the involvement of our modelling specialists. We challenged key assumptions, inspected the calculation methodology and traced a sample back to source data. - For the stage 3 portfolio and for a sample of corporate exposures we assessed whether relevant impairment events had been identified in a timely manner and the appropriateness of the provisioning assumptions such as estimated future cash flows, collateral valuations and estimates of recovery. - The Bank performed an external validation of the model risk parameters, used in calculating the ECL during the reporting period. We considered the process of this external validation of the models and its impact on the results of the impairment estimate. - We evaluated post model adjustments and management overlays. We further assessed the forward-looking information incorporated into the impairment calculations by involving our specialists to challenge the economic scenarios chosen and weighting applied. - We assessed the disclosure in the financial statements relating to this matter against the requirements of IFRSs.

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Independent auditor's report to the shareholders of Sohar International Bank SAOG

Key audit matters (continued)

Key audit matters	How our audit addressed the key audit matters
Merger with HSBC Bank Oman The Bank acquired all assets and liabilities of HSBC Bank Oman ("HSBC") with effect from 17 August 2023 for a total consideration of OMR 342.947 million. A bargain purchase gain of OMR 91.751 million was recognized in the statement of comprehensive income. Intangible assets, as disclosed in note 13 to the financial statements, were recognised as part of the acquisition. This transaction is in the scope of IFRS 3 Business Combinations which requires significant management judgement in determining the acquisition-date fair values of identifiable assets acquired and liabilities assumed. Management engaged independent professional experts to assist them in the determination of the fair values of the acquired net assets at the acquisition date. This includes the identification and valuation of intangible assets which requires expert judgement. Key estimates applied in the determination of fair values include, inter alia, discount rates, churn rates, alternate cost of funding, and useful life of assets. Any significant changes in these key estimates may give rise to material changes in the fair value of the acquired assets and liabilities including intangible assets, which directly impact the bargain purchase gain recognised. The financial data of HSBC was transferred into the accounting records of the Bank at the acquisition date. We have considered the merger to be a key audit matter due to the significant judgements applied and estimates made in determining the acquisition-date fair values of identifiable assets acquired and liabilities assumed. Refer to notes 1.2, 2.6, 13 and 40 in the financial statements for more information relating to the merger.	We have performed the following procedures in response to the key audit matter identified: - We determined if the transaction date had been correctly identified in accordance with the requirements of IFRSs by inspecting the salient terms of the underlying purchase agreement; - We assessed the controls over the recording of the acquisition of HSBC to determine if they had been appropriately designed and implemented; - We obtained and reviewed relevant contracts related to the acquisitions and evaluated management's process to identify intangible assets; - We evaluated the competency, capabilities and objectivity of management's expert, and read the terms of their engagement with the Bank to determine if the scope of their work was sufficient for audit purposes; - We engaged our internal valuation specialists to review management's expert's report on the determination of the fair value of the acquired net assets at the acquisition date. This included a series of discussions with the expert to critically challenge the valuation methodology and key underlying assumptions in determining the acquisition-date fair values; - We assessed the key estimates made in determining the value of the assets acquired, such as discount rates, churn rates, alternate cost of funding and useful life of assets applied by management, by comparing them with economic and industry data; and - We assessed the disclosures in the financial statements relating to the acquisition against the requirements of IFRSs. - We utilised our information technology specialists to obtain an understanding of the data migration process and assessed the relevant controls in this process to determine if they had been appropriately designed and implemented;

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Independent auditor's report to the shareholders of Sohar International Bank SAOG

Key audit matters (continued)

Key audit matters	How our audit addressed the key audit matters
	- We inspected the data integrity reconciliations to determine if there were any differences between the financial data in HSBC prior to the data migration and the financial data transferred to the Bank as part of the data migration process.
Risk of inappropriate access or changes to information technology systems The Bank is vitally dependent on its complex information technology environment for the reliability and continuity of its operations and financial reporting process due to the extensive volume and variety of transactions which are processed daily across the Bank's businesses; this includes cyber risks. Inappropriate granting of or ineffective monitoring of access rights to IT systems therefore presents a risk to the accuracy of financial accounting and reporting. Appropriate IT controls are required to protect the Bank's IT infrastructure, data and applications, ensure transactions are processed correctly and limit the potential for fraud and error as a result of change to an application or underlying data. Unauthorised or extensive access rights cause a risk of intended or unintended manipulation of data that could have a material effect on the completeness and accuracy of financial statements. Therefore, we considered this area as key audit matter.	Our audit approach depends to a large extent on the effectiveness of automated and IT-dependent manual controls and therefore we updated our understanding of the Bank's IT-related control environment and identified IT applications, databases and operating systems that are relevant for the financial reporting process and to our audit. For relevant IT-dependent controls within the financial reporting process we identified, with the involvement of our internal IT specialists, supporting general IT controls and evaluated their design, implementation and operating effectiveness. We updated our understanding of applications relevant for financial reporting and tested key controls particularly in the area of access protection, integrity of system interfaces and linkage of such controls to the reliability, completeness and accuracy of financial reporting including computer-generated reports used in financial reporting. Our audit procedures covered, but were not limited to, the following areas relevant for financial reporting: - IT general controls relevant to automated controls and computer-generated information covering access security, program changes, data centre and network operations; - Controls regarding initial access granted to IT systems for new employees or employees changing roles, whether that access was subject to appropriate screening and it was approved by authorised persons; - Controls regarding removal of employee or former employee access rights within an appropriate period of time after having changed roles or leaving the Bank; - Controls regarding the appropriateness of system access rights for privileged or administrative authorisations (superuser) being subject to a restrictive authorisation assignment procedure and regular review thereof; - Password protection, security settings regarding modification of applications, databases and operating systems, the segregation of department and IT users and segregation of employees responsible for program development and those responsible for system operations;

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Independent auditor's report
to the shareholders of
Sohar International Bank SAOG

Key audit matters (continued)

Key audit matters	How our audit addressed the key audit matters
	- Program changes approvals related to modification process in the production environment of applications, databases and operating systems; - Key automated controls on significant IT systems relevant to business processes; and Computer generated information used in financial reports from relevant applications.

Other information

The Board of Directors (the Board) is responsible for the other information. The other information comprises the Chairman's report, the Corporate Governance report, Chief Executive Officer's message, Management discussion and analysis, Regulatory disclosure under Basel II – Basel III framework and Annual report section of Sohar Islamic (comprising the Shari'ah Supervisory Board report including list of fatwas, Financial Statements and Regulatory disclosure under Basel II – Basel III framework of Sohar Islamic), but does not include the financial statements and our auditors' report thereon, which we obtained prior to the date of this auditor's report and the Bank's annual report, which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do 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 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, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

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

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

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Independent auditor's report
to the shareholders of
Sohar International Bank SAOG

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

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Independent auditor's report
to the shareholders of
Sohar International Bank SAOG

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

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

Report on other legal and regulatory requirements

Further, we report that the financial statements comply, in all material respects, with the relevant disclosure requirements of the Commercial Companies Law of 2019 and the disclosure requirements issued by the Capital Market Authority.

Deloitte & Touche

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
12 March 2024

C.R. No. 1736256
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Signed by
Ahmed Al Qassabi
Partner
ACCA Membership No. 0820917

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023

31 December 2022 USD'000	31 December 2023 USD'000		Note	31 December 2023 RO'000	31 December 2022 RO'000
		ASSETS			
327,000	**534,205**	Cash and balances with Central Bank	6	**205,669**	125,895
269,987	**1,693,517**	Due from banks	7	**652,004**	103,945
2,217,774	**4,444,629**	Investment securities	8	**1,711,182**	853,843
7,595,569	**10,184,914**	Loans, advances and Islamic financings (net)	9	**3,921,192**	2,924,294
173,182	**139,190**	Other assets	10	**53,588**	66,675
7,532	**7,532**	Investment properties	11	**2,900**	2,900
138,829	**196,288**	Property and equipment	12	**75,571**	53,449
-	**173,023**	Intangible assets	13	**66,614**	-
10,729,873	**17,373,298**	**TOTAL ASSETS**		**6,688,720**	4,131,001
		LIABILITIES			
2,093,545	**1,756,156**	Due to banks	14	**676,120**	806,015
6,649,605	**13,254,662**	Customer deposits	15	**5,103,045**	2,560,098
258,157	**279,170**	Other liabilities	16	**107,481**	99,390
9,001,307	**15,289,988**	**TOTAL LIABILITIES**		**5,886,646**	3,465,503
		SHAREHOLDERS' EQUITY			
1,182,740	**1,458,629**	Share capital	17	**561,572**	455,355
46,852	**46,852**	Share premium	17	**18,038**	18,038
98,382	**116,649**	Legal reserve	18	**44,910**	37,877
17,569	**(14,356)**	Other reserves	19	**(5,527)**	6,764
123,282	**215,795**	Retained earnings		**83,081**	47,464
1,468,825	**1,823,569**	**TOTAL SHAREHOLDERS' EQUITY**		**702,074**	565,498
259,741	**259,741**	Perpetual tier 1 capital securities	20	**100,000**	100,000
1,728,566	**2,083,310**	**TOTAL EQUITY**		**802,074**	665,498
10,729,873	**17,373,298**	**TOTAL LIABILITIES AND EQUITY**		**6,688,720**	4,131,001
750,842	**1,750,299**	**CONTINGENT LIABILITIES**	21.a	**673,865**	289,074
1,481,953	**2,541,112**	**COMMITMENTS**	21.b	**978,328**	570,552
Cents	*Cents*			*Baisa*	*Baisa*
32.0	***33.4***	**Net assets per share**	23	**128.4**	123.2

These financial statements were approved and authorised for issue by the Board of Directors on 30 January 2024 and signed on their behalf by:

Chairman

Board member

The accompanying notes 1 to 41 form an integral part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023

31 December 2022 USD'000	31 December 2023 USD'000		Note	31 December 2023 RO'000	31 December 2022 RO'000
434,657	**623,719**	Interest income	24	**240,132**	167,343
(188,925)	**(316,047)**	Interest expense	25	**(121,678)**	(72,736)
245,732	**307,673**	**Net interest income**		**118,454**	94,607
23,574	**19,286**	Net income from Islamic financing and investing activities	26	**7,425**	9,076
75,748	**97,475**	Other operating income	27	**37,528**	29,163
345,054	**424,434**	**TOTAL OPERATING INCOME**		**163,407**	132,846
(85,416)	**(116,634)**	Staff costs		**(44,904)**	(32,885)
(48,345)	**(72,790)**	Other operating expenses	28	**(28,024)**	(18,613)
(9,540)	**(10,390)**	Depreciation	12	**(4,000)**	(3,673)
(143,301)	**(199,813)**	**TOTAL OPERATING EXPENSES**		**(76,928)**	(55,171)
201,753	**224,621**	**NET OPERATING INCOME BEFORE IMPAIRMENT PROVISIONS & GAIN ON BARGAIN PURCHASE**		**86,479**	77,675
-	**238,314**	Gain on bargain purchase	40	**91,751**	-
(103,011)	**(272,906)**	Loan impairment charges and other credit risk provisions (net)	29	**(105,069)**	(39,659)
98,742	**190,029**	**PROFIT BEFORE TAX**		**73,161**	38,016
(8,151)	**(7,340)**	Income tax expense	30.a	**(2,826)**	(3,138)
90,591	**182,688**	**PROFIT FOR THE YEAR**		**70,335**	34,878
		Items that will not be reclassified to profit and loss			
439	**(1,065)**	Revaluation loss on equity instruments held at fair value through other comprehensive income (FVOCI)		**(410)**	169
		Items to be reclassified subsequently to profit and loss			
2,813	**-**	Net changes in fair value on debt instruments classified FVOCI		**-**	1,083
3,252	**(1,065)**	**OTHER COMPREHENSIVE INCOME FOR THE YEAR**		**(410)**	1,252
93,843	**181,623**	**TOTAL COMPREHENSIVE INCOME FOR THE YEAR NET OF INCOME TAX**		**69,925**	36,130
		Profit for the year			
77,059	**173,816**	Conventional banking		**66,919**	29,668
13,532	**8,873**	Islamic banking		**3,416**	5,210
90,591	**182,688**			**70,335**	34,878
Cents	*Cents*			***Baisa***	*Baisa*
1.48	**3.32**	Basic and diluted earnings per share for the year	31	**12.78**	5.71

The accompanying notes 1 to 41 form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023 (RO'000)

	Note	Share capital	Share premium	Legal reserve	Other reserves	Retained earnings	Total Shareholders' Equity	Perpetual Tier 1 Capital securities	TOTAL EQUITY
Balance as at 1 January 2023		**455,355**	**18,038**	**37,877**	**6,764**	**47,464**	**565,498**	**100,000**	**665,498**
Profit for the year		-	-	-	-	**70,335**	**70,335**	-	**70,335**
Other comprehensive income for the year		-	-	-	**(410)**	-	**(410)**	-	**(410)**
Total comprehensive income for the year, net of income tax		-	-	-	**(410)**	**70,335**	**69,925**	-	**69,955**
Issue of ordinary shares	17	**106,217**	-	-	-	-	**106,217**	-	**106,217**
Fair value reserve on acquisition	19	-	-	-	**(11,411)**	-	**(11,411)**	-	**(11,411)**
Reclassification of net change in fair value of equity instruments upon de-recognition	19	-	-	-	**15**	**(15)**	-	-	-
Dividend paid for the year 2022		-	-	-	-	**(20,655)**	**(20,655)**	-	**(20,655)**
Perpetual tier 1 interest paid	20	-	-	-	-	**(7,500)**	**(7,500)**	-	**(7,500)**
Transfer to legal reserve	18	-	-	**7,033**	-	**(7,033)**	-	-	-
Movement in subordinated loan reserve	19	-	-	-	**(485)**	**485**	-	-	-
Balance as at 31 December 2023		**561,572**	**18,038**	**44,910**	**(5,527)**	**83,081**	**702,074**	**100,000**	**802,074**
Balance as at 31 December 2023 (USD'000s)		1,458,629	46,852	116,649	(14,356)	215,795	1,823,569	259,741	2,083,310

The accompanying notes 1 to 41 form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2023 (RO'000)

	Note	Share capital	Share premium	Legal reserve	Other reserves	Retained earnings	Total Shareholders' Equity	Perpetual tier 1 capital securities	Total Equity
Balance as at 1 January 2022		295,355	18,038	34,389	32,271	16,525	396,578	200,000	596,578
Profit for the year		-	-	-	-	34,878	34,878	-	34,878
Other comprehensive income for the year		-	-	-	1,252	-	1,252	-	1,252
Total comprehensive income for the year, net of income tax		-	-	-	1,252	34,878	36,130	-	36,130
Rights issue of ordinary shares		160,000	-	-	-	-	160,000	-	160,000
Repayment of perpetual tier 1 capital securities	20		-	-	-	-	-	(100,000)	(100,000)
Reclassification of net change in fair value of equity instruments upon de-recognition	19		-	-	756	(756)	-	-	-
Dividend paid for the year 2021		-	-	-	-	(11,960)	(11,960)	-	(11,960)
Perpetual tier 1 interest paid	20	-	-	-	-	(15,250)	(15,250)	-	(15,250)
Transfer to legal reserve	18	-	-	3,488	-	(3,488)	-	-	-
Movement in subordinated loan reserve	19				(27,515)	27,515	-	-	-
Balance as at 31 December 2022		455,355	18,038	37,877	6,764	47,464	565,498	100,000	665,498
Balance as at December 2022 (USD'000s)		1,182,740	46,852	98,382	17,569	123,282	1,468,825	259,741	1,728,566

The accompanying notes 1 to 41 form an integral part of these financial statements

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2023

31 December 2022 USD'000	31 December 2023 USD'000	OPERATING ACTIVITIES	Note	31 December 2023 RO'000	31 December 2022 RO'000
98,742	**190,029**	Profit before tax		**73,161**	38,016
		Adjustments for:			
9,540	**10,390**	Depreciation	12	**4,000**	3,673
-	**4,408**	Amortization of intangible asset	13	**1,697**	-
103,011	**272,905**	Loan impairment charges and other credit risk provisions (net)	29	**105,069**	39,659
1,266	**4,387**	Net loss from investments and sale of fixed assets	27	**1,689**	487
(4,473)	**(3,979)**	Income from Islamic investment securities	26	**(1,532)**	(1,722)
(78,299)	**(134,533)**	Interest on investments	24	**(51,796)**	(30,145)
-	**(238,313)**	Gain on bargain purchase	40	**(91,751)**	-
6,312	**39**	Interest on subordinated loans	25	**15**	2,430
136,099	**105,333**	**Cash from operating activities before changes in operating assets and liabilities**		**40,552**	52,398
(16,429)	**(285,109)**	Due from banks		**(109,767)**	(6,325)
(923,997)	**114,810**	Loans, advances and financings (net)		**44,202**	(355,739)
251,966	**222,270**	Other assets		**85,574**	97,007
(31,039)	**(215,397)**	Due to banks		**(82,928)**	(11,950)
430,216	**2,298,951**	Customer deposits		**885,096**	165,633
(216,517)	**(190,348)**	Other liabilities		**(73,284)**	(83,359)
(369,701)	**2,050,510**	**Cash from/(used in) operating activities**		**789,445**	(142,335)
(15,815)	**(8,834)**	Income tax paid		**(3,401)**	(6,089)
(385,516)	**2,041,676**	**Net cash from/(used in) operating activities**		**786,044**	(148,424)
		INVESTING ACTIVITIES			
(39,745)	**45,774**	Movement of investments (net)		**17,623**	(15,302)
6,979	**55,826**	Proceeds from sale of investments		**21,493**	2,687
(10,153)	**(22,855)**	Purchase of property and equipment		**(8,799)**	(3,909)
4,091	**4,829**	Income from Islamic investment activities		**1,859**	1,575
78,299	**134,535**	Interest received on investments		**51,796**	30,145
-	**2,043,790**	Cash and cash equivalents received from business combination		**786,859**	-
-	**(644,525)**	Merger consideration paid in cash		**(248,142)**	-
39,471	**1,617,374**	**Net cash from investing activities**		**622,689**	15,196
		FINANCING ACTIVITIES			
(31,065)	**(53,649)**	Dividends paid		**(20,655)**	(11,960)
415,584	**-**	Rights issue of ordinary shares		**-**	160,000
(259,740)	**-**	Redemption of perpetual tier 1 capital securities		**-**	(100,000)
(89,649)	**(1,260)**	Repayment of subordinated loans on maturity		**(485)**	(34,515)
(7,332)	**(39)**	Interest paid on subordinated loans		**(15)**	(2,823)
(39,611)	**(19,481)**	Interest paid on perpetual tier 1 capital securities		**(7,500)**	(15,250)
(11,813)	**(74,429)**	**Net cash used in financing activities**		**(28,655)**	(4,548)
(357,858)	**3,584,621**	**NET CHANGE IN CASH AND CASH EQUIVALENTS**		**1,380,078**	(137,776)
1,540,847	**1,182,988**	**CASH AND CASH EQUIVALENT AT BEGINNING OF YEAR**		**455,450**	593,226
1,182,989	**4,767,609**	**CASH AND CASH EQUIVALENTS AT END OF YEAR**		**1,835,528**	455,450
		Represented by:			
325,683	**532,891**	Cash and available balance with Central Bank	6	**205,162**	125,388
251,705	**1,336,408**	Due from banks with original maturity (OM) of 90 days or less		**514,518**	96,905
1,001,896	**3,172,614**	Investment securities with OM of 90 days or less	8.2	**1,221,455**	385,730
(396,295)	**(274,304)**	Due to banks with OM of 90 days or less		**(105,607)**	(152,573)
1,182,989	**4,767,609**			**1,835,528**	455,450

The accompanying notes 1 to 41 form an integral part of these financial statements

1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

1.1 Sohar International Bank SAOG

Sohar International Bank SAOG ("the Bank"), formerly Bank Sohar SAOG, was established in the Sultanate of Oman on 4 March 2007 as a public joint stock company and is primarily engaged in commercial, investment and Islamic banking through a network of seventy six commercial banking branches and nine Islamic banking branches within the Sultanate of Oman. The Bank operates under commercial, investment and an Islamic banking licence issued by the Central Bank of Oman (CBO) and is covered by its deposit insurance scheme. The Bank started commercial operations from 9 April 2007. The registered address of the Bank is PO Box 44, Hai Al Mina, Postal Code 114, Muscat, Sultanate of Oman. The Bank has its primary listing on the Muscat Securities Market.

With effect from 30 April 2013, the Bank obtained a license to operate an Islamic Banking Window ("Sohar Islamic"). Sohar Islamic offers a full range of Islamic banking services and products. The principal activities of the window include accepting Shari'a compliant customer deposits, providing Shari'a compliant financing based on Murabaha, Mudaraba, Musharaka, Ijarah, Istisna'a, Salam and providing commercial banking services, investment and other activities permitted under Islamic Banking Regulatory Framework (IBRF).

The Bank established a branch in Riyadh, Kingdom of Saudi Arabia in November 2022, Commercial Registration No. 1010839168 dated 07/11/2022. In October 2023 the Saudi Central Bank (SAMA) approved the commencement of operations of KSA Branch which will initially provide commercial and Islamic banking services.

The Bank employed 1,548 employees as of 31 December 2023 (31 December 2022: 884).

1.2 Merger by incorporation with HSBC Bank Oman SAOG

The merger by incorporation with HSBC Bank Oman SAOG (HBON) was completed as of 17th August 2023 (merger date). The merger resulted in all of HBON's rights, obligations, assets (including contracts and employees) and liabilities transferring to the Bank by operation of law (as a going concern). HBON has accordingly been delisted from the Muscat Stock Exchange (MSX).

The shareholders of HBON received their full consideration for the merger, either in the form of fully paid up ordinary shares in the Bank, or a combination of cash and shares with cash component being a maximum of 70%, in accordance with the terms of the merger agreement dated 15 November 2022 (as amended from time to time) (note 40).

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB) the relevant requirements of the Commercial Companies Law and disclosure requirements of the Capital Market Authority of the Sultanate of Oman and the applicable regulations of the CBO.

In accordance with the Royal Decree 69/2012 regarding the amendment in the Banking Law 2000, CBO has issued circular no. IB - 1 under which a complete IBRF has been promulgated. The framework identifies the permissible form of trade-related modes of financing including purchase of goods by banks from their customers and immediate resale to them at appropriate profit in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such, but are restricted to the amount of facility actually utilised and the appropriate portion of profit thereon.

The Bank also prepares a separate set of financial statements for Sohar Islamic in accordance with the requirements of Section 1.2 of Title 3 of the IBRF issued by the CBO. The separate set of financial statements of its IBW are prepared in accordance with Financial Accounting Standards issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), the Sharia Rules and Principles as determined by the Sharia Supervisory Board (SSB) of Sohar Islamic and other applicable requirements of CBO. Sohar Islamic financial statements are then converted into IFRS compliant financial statements and consolidated in these financial statements.

Sohar Islamic intercompany balances & transactions have been eliminated on consolidation.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention except for the following:

- derivative financial instruments are measured at fair value;
- financial instruments classified as fair value through profit or loss (FVTPL) are measured at fair value;
- financial assets classified at fair value through other comprehensive income (FVOCI) are measured at fair value;

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

2. BASIS OF PREPARATION (CONTINUED)

2.3 Functional and presentation currency

These financial statements are presented in Rial Omani (RO), which is the functional currency of the primary economic environment in which the Bank operates. The United States Dollar (USD) amounts selectively disclosed in these financial statements have been translated from Rial Omani at the exchange rate of USD1 = RO 0.385 and are presented for the convenience of the reader only.

All financial information presented in RO and USD has been rounded to the nearest thousand unless otherwise indicated. RO 1 = 1000 baisa, USD 1 = 100 cents.

2.4 Use of estimates and judgements

In preparation of the Bank's financial statements, management requires to make certain estimates and assumptions that affect the reported amount of financial assets and liabilities and the resultant allowances for impairment and fair values. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowances required for impaired loans and receivables as well as allowances for impairment provision for unquoted investment securities. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Estimates considered by the Bank to have a significant risk of material adjustment in subsequent periods are discussed in note 5.

2.5 Going concern

The financial statements are prepared on a going concern basis, as the Bank have the resources to continue in business for the foreseeable future. In making this assessment, the Bank have considered a range of information relating to present and future conditions, including future projections of profitability, cash flows, capital requirements and capital resources.

2.6 Business combinations

Business combinations are accounted for using the acquisition method as at the merger date i.e. the date from which control is transferred to the Bank. Under this method, identifiable assets and liabilities acquired from the merged entity (HBON) are measured at fair value at the merger date except for non-current assets classified as assets held for sale which are accounted for at fair value less costs to sell. Contingent liabilities of the merged entity are not recognised in the consolidated balance sheet unless they represent a present obligation on the acquisition date and their fair value can be measured reliably. Transaction costs are recognised in profit and loss as cost are incurred.

The difference between the total consideration paid and the net fair value of the assets acquired can be positive (goodwill) or negative (bargain purchase). Goodwill is recognised in the Bank's balance sheet, while a gain on bargain purchase is recognised in profit or loss immediately.

In accordance with IFRS3, the Bank initiated an independent Purchase Price Allocation (PPA) review of the fair values of the identifiable assets and liabilities acquired relative to the total consideration paid to identify any intangible assets, changes in fair values, or other adjustments which had not been identified at the merger date and which should be reflected as goodwill or an adjustment to any gain on bargain purchase already recognised. The provisional results of this PPA review are reflected in these financial statements noting that the Bank may recognize such adjustments within 12 months of the merger date.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

3.1 New and amended IFRS applied with no material effect on the financial statements operations

3.1.a International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12

The amendments to IAS 12 have been introduced in response to the Organisation for Economic Cooperation and Development (OECD) BEPS Pillar Two rules and include:

- A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
- Disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

Since the additional disclosures under IAS 12 is applicable to multinational enterprises, the Bank will not be subject to the same and the amendments will have no impact on the financial statements as at 31 December 2023.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

3.1 New and amended IFRS applied with no material effect on the financial statements operations (continued)

3.1.b Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

The amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendments will have no material impact on the Bank's disclosures of accounting policies.

3.1.c IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts (IFRS 17) is effective for reporting periods beginning on or after 1 January 2023. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance, and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features Limited scope exceptions apply. The Bank has not identified contracts that result in the transfer of significant insurance risk, and therefore it has concluded that IFRS 17 does not have a material impact on the financial statements for the year ended 31 December 2023.

3.2 New and amended IFRSs in issue but not yet effective and not early adopted

3.2.a Amendments to IFRS 16: Lease Liability in a Sale and Leaseback

In September 2022, the IASB issued amendments to IFRS 16 to specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16. Earlier application is permitted, and that fact must be disclosed. The Bank is currently assessing the impact of this amendment on its financial statements."

3.2.b Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020 and October 2022, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively. The Bank is currently assessing the impact of this amendment on its financial statements."

3.2.c Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7

In May 2023, the IASB issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures to clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The amendments will be effective for annual reporting periods beginning on or after 1 January 2024. Early adoption is permitted but will need to be disclosed. The Bank is currently assessing the impact of this amendment on its financial statements.

3.3 ECL provisions and management overlays

The Bank continues to assess borrowers for other indications of default, taking into consideration the underlying cause of any financial difficulty and whether it is likely to be temporary or of a longer-term nature. The Bank continues to assess significant corporate exposures impacted by macro-economic events and geo-political factors in addition to those corporates experiencing industry specific financial stress. Similarly, for retail exposures the Bank considers the impact on employees working for industry sectors under financial stress.

Assessing future economic conditions and the potential adverse impact on customers is highly judgmental. The Bank continues to assess on a regular basis the adequacy of its ECL provisioning guided by CBO regulations as well as standards issued by the IASB.

The Bank has included within its loan impairment charges and other credit risk provisions (net) a significant element of management overlay, adopting prudence and being proactive, in considering potential impacts of circumstances such as lag effect of past increases in interest rates on borrowers, increasing global and regional geopolitical events and applying expert credit judgement in relation to other evolving credit risks not reflected within its standard credit models.

Accounting for modification loss:

For both corporate and retail customers, the Bank has added the simple interest accrued during the deferral period (DP) to the principal outstanding and either extended the original maturity period of the loan or increased the instalments at the end of the

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

3.3 ECL provisions and management overlays (continued)

Accounting for modification loss: (continued)

DP. The Bank has determined that the modifications due to deferment of instalment and waiver of profit allowed in line with CBO relaxation measures do not result in de-recognition of financial assets. Further, the impact of day one modification loss was not considered material for the year.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by the Bank to all periods presented in these financial statements.

4.1 Foreign currency transactions and balances

Transactions in foreign currencies are translated into functional currency at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gains or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for the effective interest and payments during the period, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the period. 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 was determined. Foreign currency differences arising on retranslation are recognised in the statement of comprehensive income, except for non-monetary financial assets, such as equities classified as fair value through other comprehensive income, which 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.

4.2 Revenue and expense recognition

4.2a Interest income and expense

Interest income and expense is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost and financial instruments designated at FVTPL. Interest income on interest bearing financial assets measured at FVOCI are recorded by using the EIR method. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

Interest income which is doubtful of recovery is included in impairment allowance and excluded from income until it is received in cash.

When a financial asset becomes credit-impaired (as set out in Note 4.3.f) and is, therefore, regarded as 'Stage 3', the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset.

4.2b Fair value gains and losses

Fair value changes on derivatives held for risk management purposes and FVOCI are presented in other comprehensive income.

Net income from financial assets measured at FVTPL, including all realised and unrealised fair value changes, interest, dividend and foreign exchange differences are presented in the income statement for the year.

4.2c Dividend income

Dividend income is recognised when the right to receive dividend is established.

4.2d Fees and commission

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income, which is not an integral part of the effective interest rate of a financial instrument, is accounted for based on the basis of performance obligation satisfaction criteria. Fee income is measured by the Bank based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Bank recognises revenue when it transfers control over a product or service to a customer.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.2 Revenue and expense recognition (continued)

4.2d Fees and commission (continued)

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

Other fees and commission income including account or loan servicing fees, advisory fee, investment management fees and sales commission are recognised as the related services are performed. Loan syndication fees and placement fees are recognised when

the loan has been arranged where either the Bank retained any package of the Loan or retained the package at equivalent risk. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

4.2e Provisions

A provision is recognised if, as a result of a 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 obligation. Provisions are equivalent to the amortised value of the future liabilities which is 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.

4.2f Offsetting of income and expense

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

4.2g Temporary significant influence

The Bank is exempt from applying the equity method when significant influence over an associate is intended to be temporary. The temporary significant influence infers that there is an evidence that an associate is acquired with the intention to reduce its stake that it no more has a significant influence on the investee company by soliciting investors to inject fresh capital to the investee company. The investment is classified as FVOCI in the financial statements.

4.3 Financial instruments

4.3a Date of recognition and initial measurement

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

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

4.3b Day 1 profit or loss

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

4.3c Measurement categories of financial assets and liabilities

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

- Amortised cost, as explained in note 4.3.c (i);
- FVOCI, as explained in notes 4.3.c (iv) and 4.3.c (v); or
- FVTPL, as explained in note 4.3.c (vii)

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

The Bank classifies and measures its derivative and trading portfolio at FVTPL. The Bank may designate financial instruments at FVTPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

(i) Due from banks, loans, advances and financings and financial investments at amortised cost

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Financial instruments (continued)

4.3c Measurement categories of financial assets and liabilities (continued)

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

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

The details of these conditions are outlined below.

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

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

- *Business model assessment*

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

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

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

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

- *Assessment whether contractual cash flows are solely payments of principal and interest (The 'SPPI' test)*

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

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

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

The Bank holds a portfolio of long-term fixed rate loans for which the Bank has the option to revise the interest rate at periodic

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Financial instruments (continued)

4.3c Measurement categories of financial assets and liabilities (continued)

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

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

(ii) Derivatives recorded at fair value through profit or loss

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the 'underlying');
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors;
- It is settled at a future date.

The Bank enters into derivative transactions with various counterparties. These include interest rate swaps, futures, cross-currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. The notional amount and fair value of such derivatives are disclosed separately in Note 36. Changes in the fair value of derivatives are included in net trading income unless hedge accounting is applied. Hedge documentation, effectiveness assessment, and discontinuation accounting disclosures are provided in Note 4.3.n.

Embedded derivatives:

Derivatives may be embedded in another contractual arrangement (a host contract). The Bank accounts for an embedded derivative separately from the host contract when:

- the host contract is not an asset in the scope of IFRS 9;
- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract;
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

(iii) Debt instruments at FVOCI

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

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

These instruments largely comprise assets that had previously been classified as financial investments available for sale under IAS 39.

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

- interest revenue using the effective interest method;
- 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Financial instruments (continued)

4.3c Measurement categories of financial assets and liabilities (continued)

(iv) Equity instruments at FVOCI

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

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

(v) Debt issued and other borrowed funds

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

(vi) Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVTPL upon initial recognition when one of the following criteria is met. Such designation is determined on an instrument by instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or

- The liabilities are part of a group of financial liabilities or financial assets, or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- The liabilities containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

(vii) Financial guarantees, letters of credit and undrawn loan commitments

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

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the statement of comprehensive income and an Expected Credit Loss (ECL) provision as set out in note 4.3.f.

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

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position.

(viii) Financial liabilities

IFRS 9 largely retains the existing requirements of IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Financial instruments (continued)

4.3d De-recognition

(i) 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 asset have expired; or
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  - 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 of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

For de-recognition due to substantial modification, refer note 4.3.o.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition 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.

4.3e Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Bank intends to either settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards or for gains and losses arising from a group of similar transactions.

4.3f Impairment of financial assets

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

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

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

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

(i) Measurement of ECL

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Financial instruments (continued)

4.3f Impairment of financial assets (continued)

(ii) Overview of the ECL principles

The Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

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

The 12mECL 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 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

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

Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and Purchased or Originated and Credit Impaired (POCI), as described below:

Stage 1

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

Stage 2

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

Stage 3

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

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

POCI is a restructured financial exposure which results in a net present value of the future cash flows from the restructured arrangement exceeding the original carrying value by greater than 30%.

Stage 1

Credit risk has not increased significantly since initial recognition – recognise 12m ECL.

Stage 2

Credit risk has increased significantly since initial recognition – recognise lifetime expected credit losses.

Stage 3

There is objective evidence of impairment as at the reporting date to recognise lifetime expected credit losses, with revenue being based on the net amount of the asset (i.e. based on the impaired amount of the asset).

Movement between the stages

(iii) The calculation of ECL

The Bank calculates ECL 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 an entity in accordance with the contract and the cash flows that the entity expects to receive.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Financial instruments (continued)

4.3f Impairment of financial assets (continued)

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

- PD - The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD - The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest 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. It is usually expressed as a percentage of the EAD.

(iv) 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;
- Debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

(v) Debt instruments measured at FVOCI

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

(vi) Purchased or originated credit impaired financial assets (POCI)

For POCI financial assets, the Bank only recognises the cumulative changes in LTECL since initial recognition is in the loss allowance.

(vii) Credit cards and other revolving facilities

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

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, but greater emphasis is also given to qualitative factors such as changes in usage.

The interest rate used to discount the ECL for credit cards is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently charged no interest.

(viii) Forward looking information

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- Gross domestic product
- Savings and investment
- Inflation
- Trade statistics

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Financial instruments (continued)

4.3f Impairment of financial assets (continued)

- Demographics
- Revenue and expenditure
- Public debt
- Real estate
- Composite indicators
- Oil prices and production

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments are made as temporary adjustments to ECL when such differences are considered by management to be significant.

(ix) Collateral valuation

To mitigate its credit risks on financial assets the Bank seeks to use collateral where possible. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECL. It is generally assessed, at a minimum, at inception and re-assessed periodically based on the type of asset, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Non-financial collateral, such as real estate, is valued by certified third party valuers.

(x) Write-offs

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.

4.3g 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 de-recognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in de-recognition of the existing asset, then the expected amortised fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its de-recognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of de-recognition to the reporting date using the original effective interest rate of the existing financial asset.

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

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

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

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

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

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Financial instruments (continued)

4.3h Fair value measurement

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

4.3i 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 effective interest rate of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

4.3j Fair value measurement

A number of the Bank's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on a number of accounting policies and methods. Where applicable, information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible to the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

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

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Financial instruments (continued)

4.3k Cash and cash equivalents

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

Securities sold with a commitment to repurchase (repos) at a specified future date are recognised in the statement of financial position and are measured in accordance with accounting policies for trading securities or investment securities. The counterparty liability for amounts received under these agreements is included in 'due to banks'. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repo agreement.

Securities purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the statement of financial position and the amounts paid under these agreements are included in 'due from banks'. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repo agreement.

4.3l 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.

4.3m Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or trading liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position. The treatment of changes in their fair value depends on their classification into the following categories:

(i) Fair value hedge

When a derivative is designated as a hedge of the change in fair value of a recognised asset or liability or a firm commitment, changes in the fair value of the derivative are recognised immediately in statement of comprehensive income together with changes in the fair value of the hedged item that are attributable to the hedged risk.

If the derivative expires or is sold, terminated, or exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued. Any adjustment up to that point, to a hedged item for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

(ii) Cash flow hedge

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or a liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income in hedging reserve. The amount recognised in other comprehensive income is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of comprehensive income. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then the hedge accounting is discontinued prospectively. In a discontinued hedge of a forecast transaction the cumulative amount recognised in other comprehensive income from the period when the hedge was effective is reclassified from the equity to statement of comprehensive income as a reclassification adjustment when the forecast transaction occurs and affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is reclassified immediately to profit or loss as a reclassification adjustment.

(iii) Other non-trading derivative

When a derivative is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in statement of comprehensive income.

4.3n Reclassifications

The Bank does not reclassify its financial assets subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2023.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Financial instruments (continued)

4.3o Modifications of financial assets and liabilities

Financial assets

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, the original financial asset is derecognised and a new financial asset is recognised at fair value. If the cash flows are not substantially different, then the modification does not result in de-recognition 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 the statement of comprehensive income. 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 were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre-modification interest rate.

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at either amortised cost or fair value. The difference between the carrying amount of the financial liability derecognised and the new financial liability with modified terms is recognised in the statement of comprehensive income.

4.4 Property and equipment

Items of property and equipment are measured at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the asset and preparing the asset for its intended use. Depreciation is provided on a straight-line basis over the estimated useful lives of property and equipment, except freehold land. The estimated useful lives for the current year are generally as follows:

Asset	Years
Motor vehicles	5
Furniture and fixtures	6-7
Office equipment	6-7
Software	10
Buildings	25

Freehold land and capital work in progress are not depreciated, but tested for impairment. The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each reporting date.

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

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

4.5 Investment properties

Investment properties are carried at cost less accumulated impairments, if any.

4.6 Goodwill and acquired intangibles

Goodwill acquired in a business combination represents the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable net assets, including intangibles, liabilities and contingent liabilities of the acquiree. When the excess is negative (bargain purchase), it is recognised immediately in the income statement.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.6 Goodwill and acquired intangibles (continued)

Intangibles acquired separately in a business combination are shown at fair value as at the date of acquisition. Following initial recognition, intangibles are further reduced by any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible asset are assessed to be either finite or indefinite. Intangibles with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangibles may be impaired. The amortisation period and amortisation method for intangibles with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embedded in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in an accounting estimate. The amortisation expense on intangibles with finite lives is recognised in the income statement in the expense category consistent with the function of the intangibles.

The estimated useful life of the intangibles is 15 years.

4.7 Deposits, debt securities issued and subordinated liabilities

All money market and customer deposits are initially measured at fair value plus transaction cost and subsequently carried at amortised cost. Deposits, debt securities issued and subordinated liabilities are measured at their amortised cost using the effective interest method.

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

4.8 Taxation

Taxation is provided in accordance with Omani fiscal regulations. Income tax comprises current and deferred tax. Income tax expense is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity or other comprehensive income.

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 adjustment to tax payable in respect of previous years.

Deferred tax assets/liabilities are calculated using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary difference when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax from business combination is recognised on the net assets and liabilities acquired as the differences between the accounting and tax base for any exempt income.

4.9 Leases

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

IFRS 16 results in accounting for most leases by a lessee within the scope of the standard in a manner similar to that in which finance leases were accounted for under IAS 17 'Leases'. Lessees recognise a 'right of use' asset and a corresponding financial liability. The right of use asset is amortised over the length of the lease, and the financial liability is measured at amortised cost. Lessor accounting remains substantially the same as under IAS 17. The Bank applied the IFRS 16 standard using a modified retrospective approach and therefore comparatives are not restated.

The Bank initially measures the right-of-use asset at cost; and the lease liability at the present value of the future lease payments. The amount is discounted using the interest rate implicit in the lease if this can be readily determined; otherwise, the incremental borrowing rate. The commencement date is the date on which a lessor makes an underlying asset available for use. After initial recognition, the Bank measures the right-of-use asset at cost less accumulated amortization and accumulated impairment losses.

After initial recognition, the Bank measures the lease liability by (a) increasing the carrying amount to reflect interest on the lease liability; (b) reducing the carrying amount to reflect the lease payments made; and (c) re-measuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments. Interest on the lease liability is the amount that produces a constant periodic rate of the interest on the remaining balance of the lease liability. The periodic rate of interest is the rate used to discount the lease payments to calculate the lease liability.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.10 Financial guarantees

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

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was issued. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of initial measurement, less amortisation calculated to recognise in the statement of comprehensive income the fee income earned on the straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management.

Any increase in the liability relating to guarantees is taken to the statement of comprehensive income. For ECL assessment on financial guarantees ref note 4.3f.

4.11 Employee benefits

4.11a Terminal benefits

End of service benefits are accrued in accordance with the terms of employment of the Bank's employees at the reporting date, having regard to the requirements of the Oman Labour Law 2003, as amended. Contributions to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurances Law of 1991 are recognised as an expense in the statement of comprehensive income as incurred.

4.11b Short term benefits

Short term benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

4.11c Compensation Deferment Policy

In accordance with CBO deferral rules, 45% of variable pay awards greater or equal to RO 35,000 is deferred and paid over the following three years. Such payments are also in accordance with the Bank's human resources policy regarding eligibility.

4.12 Earnings per share

The Bank presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year.

4.13 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 disclosed as an event subsequent to balance sheet date.

4.14 Segmental reporting

An operating segment is the component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenue and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by the Bank's CEO (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

4.15 Directors' remuneration and sitting fees

The Board of Directors' remuneration is determined within the limits specified by the Capital Market Authority and the requirements of the Commercial Companies Law of the Sultanate of Oman. Distribution of directors' remuneration is from the net profits after deduction of taxes, legal and optional reserves and the funds allocated from the profits for capitalization and dividends. Sitting fees are paid and expensed in the month of service. Remuneration is accrued monthly in line with the annual budget and paid following approval of shareholders at the ordinary annual general meeting. The Bank has previously expensed the director's remuneration in the year of payment.

The ordinary annual general meeting determine the directors' remuneration as follows:

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.15 Directors' remuneration and sitting fees (continued)

a) will not exceed in total RO 300,000 where realized net profits equal or exceed the profits realized in the previous financial year and there is no accumulated losses or losses in the capital.

b) will not exceed in total RO 150,000 where realized net profits are less than the profits realized in the previous financial year and no losses in the capital.

Sitting fees, as approved by the ordinary annual general meeting, shall not exceed RO 10,000 for each director per annum.

4.16 Perpetual tier I capital securities

The Bank classifies perpetual tier I capital securities as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the securities. The Bank's perpetual tier I capital securities are not redeemable by holders and bear an entitlement to distribution that is non-cumulative and at the discretion of the Board of Directors. Accordingly, they are presented as a component of total equity.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires 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 period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The Bank's significant accounting estimates are on:

5.1 Inputs, assumptions and techniques used for ECL calculation – IFRS 9 Methodology

The measurement of impairment losses both under IFRS 9 and IAS 39 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 a number of factors, changes in which can result in different Levels of allowances. The Bank's ECL calculations are outputs of complex models with a 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, which assigns PD to the individual grades;
- 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 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 PD, EAD and LGD;
- Selection of forward looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

5.2 Fair value of derivatives and other 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 Bank uses its judgement to select a variety of methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period. The Bank uses expected cash flow analysis for certain FVOCI that are not traded in active markets.

5.3 Fair value estimation of unquoted securities

In cases where the underlying assets are fair valued such as private equity funds, management uses net assets value. Management believes that net assets values of these investments are representative of their fair values as the majority of the underlying assets are fair valued and the reported net assets of those entities takes into account the updated fair values changes.

5.4 Fee and commission income

The recognition of fee and commission income depends on the purpose for which fees are assessed and the basis of accounting for any associated financial instrument. Management applies certain assumptions and judgements to determine the fees that are an integral part of the effective interest rate of a financial instrument, fees that are earned as services are provided, and fees that are earned on the execution of a significant act.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

5.5 Taxation

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

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

5.6 Determination of lease term

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

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

6. CASH AND BALANCES WITH CENTRAL BANK

	31 December 2023 RO'000	31 December 2022 RO'000
Cash	**60,100**	29,065
Balance with CBO	**145,062**	96,323
Cash and available balance with CBO	**205,162**	125,388
Capital deposit with CBO	**507**	507
	205,669	125,895

(i) TOhe Capital deposit with CBO is restricted and cannot be withdrawn without CBO approval.
(ii) Average minimum balance to be kept with CBO as statutory reserves during the year is RO 163.9 million (2022: RO 98.3 million).

7. DUE FROM BANKS

	31 December 2023 RO'000	31 December 2022 RO'000
Local currency:		
Money market placements	**90,281**	-
Foreign currency:		
Money market placements	**404,024**	87,891
Demand balances	**158,195**	16,055
Gross carrying amount	**652,500**	103,946
Less: ECL provision	**(496)**	(1)
	652,004	103,945

Analysis of changes in the gross carrying amount and corresponding ECL provision on due from banks:

	31 December 2023			**RO'000**	31 December 2022 RO'000
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Total
At 1 January	**103,946**	**-**	**-**	**103,946**	172,960
New assets originated or purchased	**548,554**	**-**	**-**	**548,554**	5,129
Assets derecognised or matured	**-**	**-**	**-**	**-**	(74,143)
Gross carrying amount	**652,500**	**-**	**-**	**652,500**	103,946

7. DUE FROM BANKS (CONTINUED)

	Note	Stage 1	Stage 2	Stage 3	Total	December 31 2022 RO'000 Total
		December 31 2023 RO'000				
At 1 January		1	(1)	-	-	1
Net impairment charge	29	496	-	-	496	-
ECL provision		**497**	**(1)**	**-**	**496**	1

8. INVESTMENT SECURITIES

	31 December 2023 RO'000	31 December 2022 RO'000
Equity investments:		
Held at FVOCI	1,885	6,319
Held at FVTPL	603	2,219
Total equity investments	**2,488**	8,538
Debt investments:		
Held at FVTPL	**91,314**	91,353
Held at FVOCI	1,221,455	394,119
Less : ECL provision	-	(438)
Held at FVOCI (net)	**1,221,455**	393,681
Held at amortised cost	396,033	360,721
Less : ECL provision	(108)	(450)
Held at amortised cost (net)	**395,925**	360,271
Total debt investments	**1,708,694**	845,305
Total investment securities	**1,711,182**	853,843

8.1 Held at FVTPL

	31 December 2023 RO'000	31 December 2022 RO'000
Unquoted equity investment - Oman		
Service sector	500	2,115
Quoted equity investments – Foreign		
Service sector	103	104
Quoted debt investments – Oman		
Government development bonds (GDB)	91,314	91,353
Total FVTPL investments	**91,917**	93,572

8. INVESTMENT SECURITIES (CONTINUED)

8.1 Held at FVTPL (continued)

8.1.1 Unquoted equity investment represents an investment in the Oman Development Fund SAOC (Fund). The Fund was incorporated on 7 May 2014 under license no. 1196427 with the Bank being the founder shareholder. The purpose of the Fund is to identify mid-segment industrial and manufacturing sectors that leverage Oman's unique advantages such as its infrastructure, tax treaties, geography and natural mineral resources for potential investment opportunities. The Bank currently holds a 12.66 % stake in the Fund (31 December 2022: 12.66%). The Bank has an Investment Management Agreement with the Fund. In the current year the Bank has obtained an independent valuation. Management believes that net asset value of this investment is representative of the fair value of the underlying assets that are fair valued.

8.2 Held at FVOCI

	Carrying /fair value 31 December 2023 RO'000	Cost 31 December 2023 RO'000	Carrying /fair value 31 December 2022 RO'000	Cost 31 December 2022 RO'000
Quoted equity investments – Oman				
Service Sector	1,386	1,777	5,643	5,972
Unquoted equity investments – Oman				
Service sector	499	676	676	709
Total equity investments	**1,885**	**2,453**	6,319	6,681
Quoted debt investments – Oman				
Real estate sector	-	-	8,389	7,854
Less : ECL provision	-	-	(438)	-
Treasury bills	540	540	29,854	30,000
Quoted debt investments – Foreign				
Treasury bills	1,220,915	1,227,540	355,876	357,594
Total debt investments	**1,221,455**	**1,228,080**	393,681	395,448
Total investments held at FVOCI	**1,223,340**	**1,230,533**	400,000	402,129

USD Treasury bills of RO 354.2 million (31 December 2022: RO 357.6 million) are assigned as collateral against USD borrowings of RO 354.2 million (31 December 2022: RO 354.2 million).

The analysis of changes in the ECL allowance on debt investments classified as FVOCI is as follows:

	Note	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000	31 December 2022 RO'000
As at 1 January 2023		-	438	-	438	797
Net impairment release	29	-	(438)	-	(438)	(359)
At 31 December 2023		-	-	-	-	438

8. INVESTMENT SECURITIES (CONTINUED)

8.3 Held at amortised cost

	31 December 2023 RO'000	31 December 2022 RO'000
Quoted debt investments – Oman		
Government Development Bonds	**381,818**	337,575
Service sector	**14,215**	23,146
	396,033	360,721
Less: ECL provision	**(108)**	(450)
Total investments held at amortised cost	**395,925**	360,271

The analysis of changes in the fair value and the corresponding ECL allowance on debt investments classified as held at amortised cost is as follows:

	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
At 1 January 2023	**337,412**	**8,223**	**-**	**345,635**
Assets purchased/(matured)	**58,621**	**(8,223)**	**-**	**50,398**
Gross carrying amount	**396,033**	**-**	**-**	**396,033**

	Note	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
At 1 January 2023		**91**	**359**	**-**	**450**
Net impairment release	*29*	**(69)**	**(273)**	**-**	**(342)**
ECL		**22**	**86**	**-**	**108**

	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
At 1 January 2022	337,412	8,223	-	345,635
Assets purchased	15,086	-	-	15,086
ECL	352,498	8,223	-	360,721

	Note	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
At 1 January 2022		1,554	393	-	1,947
Net impairment release	*29*	(1,463)	(34)	-	(1,497)
ECL		91	359	-	450

9. LOANS, ADVANCES AND ISLAMIC FINANCINGS (NET)

	31 December 2023 RO'000	31 December 2022 RO'000
Corporate	**2,809,678**	2,078,958
Retail	**1,398,703**	987,309
Gross loans, advances and Islamic financings	**4,208,381**	3,066,267
Less: ECL provision	**(237,030)**	(113,549)
Less: Contractual interest/profit not recognised	**(50,159)**	(28,424)
	(287,189)	(141,973)
Loans, advances and Islamic financings (net)	**3,921,192**	2,924,294

Gross loans, advances and financings include RO 522.62 million (31 December 2022: RO 424.73 million) of Sohar Islamic financing activities.

Loans, advances and Islamic financings (net) comprise:

	31 December 2023 RO'000	31 December 2022 RO'000
Loans	**3,628,890**	2,601,370
Overdrafts	**351,744**	373,057
Loans against trust receipts	**215,124**	78,674
Bills discounted	**12,623**	13,166
Gross loans, advances and Islamic financings	**4,208,381**	3,066,267
Expected credit loss allowance	**(237,030)**	(113,549)
Contractual interest not recognised	**(50,159)**	(28,424)
	(287,189)	(141,973)
Loans, advances and Islamic financings (net)	**3,921,192**	2,924,294

9. LOANS, ADVANCES AND ISLAMIC FINANCINGS (NET) (CONTINUED)

The analysis of changes in the gross carrying amount and corresponding ECL allowance on loans, advances and Islamic financings is as follows:

	Note	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
At 1 January 2023		**2,573,987**	**333,095**	**159,185**	**3,066,267**
Assets acquired		**738,722**	**389,613**	**42,590**	**1,170,925**
New assets originated or purchased		**434,768**	**87,765**	**9,736**	**532,269**
Assets derecognised or repaid		**(154,318)**	**(382,832)**	**(10,148)**	**(547,298)**
Written off		**-**	**-**	**(2,375)**	**(2,375)**
Transferred to memoranda portfolio		**-**	**-**	**(15,408)**	**(15,408)**
Written back from memoranda portfolio		**-**	**-**	**4,001**	**4,001**
Transfers to Stage 1		**15,213**	**(9,774)**	**(5,439)**	**-**
Transfers to Stage 2		**(172,615)**	**173,777**	**(1,162)**	**-**
Transfers to Stage 3		**(6,829)**	**(12,792)**	**19,621**	**-**
Gross carrying amount		**3,428,928**	**578,852**	**200,601**	**4,208,381**

	Note	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
At 1 January 2023		**13,389**	**36,785**	**63,375**	**113,549**
Expected credit losses recognised		**14,850**	**85,400**	**33,857**	**134,107**
Recoveries from expected credit losses		**(15,343)**	**(678)**	**(12,559)**	**(28,580)**
Net impairment charge / (release)	*29*	**(493)**	**84,722**	**21,298**	**105,527**
Written off		**-**	**-**	**(2,397)**	**(2,397)**
Transferred to memoranda portfolio		**-**	**-**	**(22,050)**	**(22,050)**
Written back from memoranda portfolio		**-**	**-**	**4,001**	**4,001**
ECL on acquired assets		**2,542**	**10,248**	**25,610**	**38,400**
Transfers to Stage 1		**3,022**	**(496)**	**(2,526)**	-
Transfers to Stage 2		**(170)**	**703**	**(533)**	-
Transfers to Stage 3		**(74)**	**(645)**	**719**	-
ECL provision		**18,216**	**131,317**	**87,497**	**237,030**

	Note	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
At 1 January 2022		2,252,908	348,564	147,991	2,749,463
New assets originated or purchased		655,863	57,200	8,326	721,389
Assets derecognised or repaid		(303,214)	(54,054)	(5,101)	(362,369)
Written off		-	-	(3,554)	(3,554)
Transferred to memoranda portfolio		-	-	(40,842)	(40,842)
Written back from memoranda portfolio		-	-	2,180	2,180
Transfers to Stage 1		13,785	(11,676)	(2,109)	-
Transfers to Stage 2		(38,813)	39,499	(686)	-
Transfers to Stage 3		(6,542)	(46,438)	52,980	-
Gross carrying amount		2,573,987	333,095	159,185	3,066,267

	Note	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
At 1 January 2022		5,206	34,123	72,784	112,113
Expected credit losses recognised		11,073	14,693	32,845	58,611
Recoveries from expected credit losses		(4,049)	(2,377)	(8,533)	(14,959)
Net impairment charge	*29*	7,024	12,316	24,312	43,652
Written off		-	-	(3,554)	(3,554)
Transferred to memoranda portfolio		-	-	(40,842)	(40,842)
Written back from memoranda portfolio		-	-	2,180	2,180
Transfers to Stage 1		1,418	(611)	(807)	-
Transfers to Stage 2		(152)	386	(234)	-
Transfers to Stage 3		(107)	(9,429)	9,536	-
ECL provision		13,389	36,785	63,375	113,549

9. LOANS, ADVANCES AND ISLAMIC FINANCINGS (NET) (CONTINUED)

The analysis of the changes in contractual interest not recognised is as follows:

	31 December 2023 RO'000	31 December 2022 RO'000
Contractual interest not recognised		
Balance at beginning of year	**28,424**	25,142
Not recognised during the year	**29,877**	9,383
Written back due to recovery/write off	**(8,142)**	(6,101)
Balance at end of the year	**50,159**	28,424

All loans, advances and Islamic financings require payment of interest, some at fixed rates and others at rates that reprice prior to maturity. Interest reserve account is maintained to comply with rules, regulations and guidelines issued by CBO on loans, advances and financings that are impaired. As of 31 December 2023, loans, advances and Islamic financings on which interest was not being accrued or where interest was reserved amounted to RO 201 million. (31 December 2022: RO 159 million).

Concentration of gross loans and advances by economic sector:

	31 December 2023 RO'000	31 December 2022 RO'000
Personal	**1,410,506**	987,309
Services	**549,102**	448,034
Construction	**431,801**	404,307
Wholesale and retail	**420,746**	339,577
Manufacturing	**391,170**	383,769
Government	**221,818**	12,609
International trade	**191,351**	18,938
Mining and quarrying	**171,115**	156,032
Electricity, gas and water	**160,611**	135,493
Financial institutions	**126,961**	71,805
Transport and communication	**104,271**	103,214
Agriculture and allied activities	**13,344**	3,572
Non - resident	**11,453**	-
Other	**4,132**	1,608
	4,208,381	3,066,267

10. OTHER ASSETS

	Note	December 31 2023 RO'000	December 31 2022 RO'000
Acceptances		**28,956**	45,943
Prepayments		**1,926**	1,987
Receivables		**10,118**	2,684
Positive fair value of derivatives	*36.2*	**1,432**	76
Others		**11,156**	15,985
		53,588	66,675

11. INVESTMENT PROPERTIES

Investment properties represent two vacant plots of land granted by the Government of Sultanate of Oman in 2008. Independent valuations in 2008 determined the carrying value at RO 2.9 million. The estimated fair value as at 31 December 2023 is in line with the carrying value.

12. PROPERTY AND EQUIPMENT

	Freehold land & Buildings	**Software**	**Furniture and fixtures**	**Office equipment**	**Motor vehicles**	**Right-to-use assets**	**Capital work-in-progress**	**Total**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Cost:								
1 January 2023	**20,509**	**26,867**	**11,483**	**10,797**	**1,064**	**13,203**	**8,446**	**92,369**
Additions/(disposals)	**-**	**2,614**	**1,019**	**667**	**11**	**2,408**	**2,080**	**8,799**
Assets acquired on business combination	**30,756**	**-**	**11,157**	**4,040**	**103**	**5,357**	**-**	**51,414**
As at 31 December 2023	**51,265**	**29,481**	**23,659**	**15,504**	**1,178**	**20,968**	**10,526**	**152,582**
Accumulated depreciation:								
1 January 2023	**-**	**14,983**	**7,301**	**7,931**	**935**	**7,770**	**-**	**38,920**
Depreciation	**49**	**1,928**	**1,141**	**841**	**41**	**-**	**-**	**4,000**
Amortization	**-**	**-**	**-**	**-**	**-**	**2,654**	**-**	**2,654**
Assets acquired on business combination	**14,378**	**-**	**10,109**	**3,550**	**96**	**3,304**		**31,437**
As at 31 December 2023	**14,427**	**16,911**	**18,551**	**12,322**	**1,072**	**13,728**	**-**	**77,011**
Net book value as at 31 December 2023 (RO'000)	**36,838**	**12,570**	**5,108**	**3,182**	**106**	**7,240**	**10,526**	**75,571**

	Freehold land & Buildings	Software	Furniture and fixtures	Office equipment	Motor vehicles	Right-to-use assets	Capital work-in-progress	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cost:								
1 January 2022	20,509	25,041	11,504	10,102	945	12,131	7,115	87,347
Additions/(disposals)	-	1,826	(21)	695	119	1,072	1,331	5,022
As at 31 December 2022	20,509	26,867	11,483	10,797	1,064	13,203	8,446	92,369
Accumulated depreciation:								
1 January 2022	-	13,023	6,383	7,165	906	5,498	-	32,975
Depreciation	-	1,960	918	766	29	-	-	3,673
Amortization	-	-	-	-	-	2,272	-	2,272
As at 31 December 2022	-	14,983	7,301	7,931	935	7,770	-	38,920
Net book value as at 31 December 2022 (RO'000)	20,509	11,884	4,182	2,866	129	5,433	8,446	53,449

13. INTANGIBLE ASSETS

The preliminary Purchase Price Allocation exercise identified a core deposit intangible (CDI). CDI is a unique intangible to the banking sector and is intended to capture the benefit of having access to a cheap source of funding as there Is typically inherent value in certain deposit products and customer segments with relatively low-cost structure and high customer loyalty. The value of the CDI is derived from the difference between the cost of the core deposit compared with the most favourable market alternative which represents marginal cost of funds that the Bank has access to. The income approach - favourable source of funds method was used to arrive at the value for the CDI. This was calculated based on the present value of the difference between the cost of existing core deposits and cost of obtaining alternative funds, over the determined useful life of the core deposit base.

	Note	**31 December 2023 RO'000**
Cost:		
1 January 2023		-
Assets acquired on business combination	*40*	**68,311**
As at 31 December 2023		**68,311**
Amortisation:		
1 January 2023		**-**
Amortization for the period 18 August to 31 December		1,697
		1,697
Net book value as at 31 December 2023		**66,614**

14. DUE TO BANKS

	31 December 2023 RO'000	31 December 2022 RO'000
Local currency:		
Money market borrowings	**17,082**	8,857
Demand balances	**49,934**	11,833
	67,016	**20,690**
Foreign currency:		
Money market borrowings	**574,690**	765,819
Demand balances	**34,414**	-
Syndicated borrowings	**-**	19,506
	609,104	785,325
Due to banks	**676,120**	806,015

Foreign currency money market borrowings include bank borrowings amounting to RO 354.2 million (December 2022: RO 354.2 million) with underlying collateral in the form of USD Treasury bills of RO 354.2 million (December 2022: USD 357.6 million).

15. CUSTOMER DEPOSITS

	31 December 2023			31 December 2022		
	Conventional banking RO'000	Islamic banking RO'000	Total RO'000	Conventional banking RO'000	Islamic banking RO'000	Total RO'000
Term deposits	1,253,587	277,561	1,531,148	752,047	175,263	927,310
Demand deposits	2,536,020	123,265	2,659,285	877,262	181,559	1,058,821
Saving deposits	736,699	103,730	840,429	463,598	44,220	507,818
Margin accounts	69,925	2,258	72,183	64,780	1,369	66,149
Total	4,596,231	506,814	5,103,045	2,157,687	402,411	2,560,098

16. OTHER LIABILITIES

	Note	31 December 2023 RO'000	31 December 2022 RO'000
Acceptances		28,956	45,943
Staff entitlements		3,499	2,026
Income tax provision	*30.b*	6,178	6,594
Negative fair value of derivatives	*36.2*	3,165	28
Deferred tax liability (net)	*30.c*	10,893	1,186
Other accruals and provisions		47,482	36,654
Subordinated loan	*19.d*	-	485
ECL provision on loan commitments financial guarantees & acceptances		1,572	1,690
Lease liability on right-of-use assets		5,736	4,784
Total		107,481	99,390
Staff entitlements:			
End of service benefits		1,429	595
Other liabilities		2,070	1,431
		3,499	2,026
Movement in the end of service benefits liability			
At 1 January		595	494
Expenses recognised in the profit or loss		1,410	182
End of service benefits paid		(576)	(81)
		1,429	595

The analysis of changes in the gross carrying amount and corresponding ECL allowance on loan commitments, financial guarantees and acceptances is as follows:

16. OTHER LIABILITIES (CONTINUED)

	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
At 1 January 2023	871,116	28,043	2,594	901,753
New assets originated or purchased	129,506	5,524	108	135,138
Assets derecognised or repaid	(286,923)	(6,743)	(185)	(293,851)
Transfers to Stage 1	87	(87)	-	-
Transfers to Stage 2	(29,891)	29,891	-	-
Transfers to Stage 3	(147)	(113)	260	-
Outstanding exposure	683,748	56,515	2,777	743,040

	Note	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
At 1 January 2023		330	213	1,147	1,690
Expected credit losses recognised		535	268	-	803
Recoveries from expected credit losses		(124)	(22)	(831)	(162)
Net impairment charge/ (release)	*29*	411	246	(831)	(174)
Written off		-	-	56	56
Transfers to Stage 1		-	-	-	-
Transfers to Stage 2		-	19	(19)	-
Transfers to Stage 3		-	(1)	1	-
ECL		741	477	354	1,572

	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
As at 1 January 2022	943,193	46,995	2,774	992,962
New assets originated or purchased	311,209	4,968	-	316,177
Assets derecognised or repaid	(378,975)	(28,211)	(200)	(407,386)
Transfers to Stage 1	346	(346)	-	-
Transfers to Stage 2	(4,657)	4,657	-	-
Transfers to Stage 3	-	(20)	20	-
Outstanding exposure	871,116	28,043	2,594	901,753

	Note	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
As at 1 January 2022		1,673	727	1,428	3,828
Expected credit losses recognised		61	3	142	206
Recoveries from expected credit losses		(1,386)	(532)	(426)	(2,344)
Net impairment charge/ (release)	*29*	(1325)	(529)	(284)	(2,138)
Transfers to Stage 1		-	-	-	-
Transfers to Stage 2		(18)	18	-	-
Transfers to Stage 3		-	(3)	3	-
ECL		330	213	1,147	1,690

17. SHARE CAPITAL AND SHARE PREMIUM

The authorised share capital of the Bank is RO 1 billion (31 December 2022: RO 1 billion). The issued shares of the Bank are 5,467,888,500 shares (31 December 2022: 4,590,062,290 shares) The fully paid up capital of the Bank is RO 561.572 million (31 December 2022: RO 455.355 million).

In August 2023, the Bank issued 877,826,210 fully paid up ordinary shares valued at 121 baisa per share to the shareholders of HBON, amounting to RO 106.216 million, as part consideration for the merger.

As at 31 December 2023, the following shareholders held 10% or more of the Bank's capital, either individually or together with related parties:

	Number of shares	*Holding %*
The Royal Court of Affairs	**752,157,388**	**13.76**
Oman Investment & Finance Co SAOG	**712,173,041**	**13.02**

The share premium of RO 18.038 million (31 December 2022: RO 18.038 million) represents premium collected on rights shares issued prior to 2019.

17.a Proposed dividend

For the year 2023 the Board of Directors propose a cash dividend of 5.5 baisa per share amounting to RO 30.07 million and bonus shares of 2.0 baisa per share amounting to RO 10.94 million (31 December 2022: cash dividend of 4.5 baisa per share amounting to RO 20.66 million). The proposed dividend is subject to approval of the shareholders at the Annual General Meeting. The proposed cash dividend is a deduction from CET 1 capital for the purpose of calculating the Bank's capital adequacy ratios (note 38). The proposed bonus shares will be an appropriation from retained earnings with no impact on CET1 capital.

18. LEGAL RESERVE

In accordance with the Commercial Companies Law of Oman., an annual appropriation of 10% of the profit for the year is required to be made to legal reserve until such time that the accumulated reserve is equal to at least one third of the Bank's issued share capital.

19. OTHER RESERVES

	General reserve RO'000	Fair value reserve RO'000	Impairment reserve RO'000	Subordinated loan reserve RO'000	Fair value reserve on acquisition RO'000	Total RO'000
Balance as at 1 January 2023	**988**	**(173)**	**5,464**	**485**	**-**	**6,764**
Transfer to retained earnings	**-**	**-**	**-**	**(485)**	**-**	**(485)**
Net changes in fair value of equity instruments at FVOCI	**-**	**(410)**	**-**	**-**	**-**	**(410)**
Fair value reserve on acquisition	**-**	**-**	**-**	**-**	**(11,411)**	**(11,411)**
Reclassification of net changes in fair value of equity instruments upon de recognition	**-**	**15**	**-**	**-**	**-**	**15**
Balance as at 31 December 2023	**988**	**(568)**	**5,464**	**-**	**(11,411)**	**(5,527)**

	General reserve RO'000	Fair value reserve RO'000	Impairment reserve RO'000	Subordinated loan reserve RO'000	Fair value reserve on acquisition RO'000	Total RO'000
Balance as at 1 January 2022	988	(2,181)	5,464	28,000	-	32,271
Transfer to retained earnings	-	-	-	(27,515)	-	(27,515)
Net changes in fair value of equity and debt instruments at FVOCI	-	1,252	-	-	-	1,252
Reclassification of net changes in fair value of equity instruments upon de recognition	-	756	-	-	-	756
Balance as at 31 December 2022	988	(173)	5,464	485	-	6,764

19. OTHER RESERVES (CONTINUED)

19.a General reserve

General reserve was created to cover the losses incurred by Sohar Islamic window for the year 2013 and 2014. Sohar Islamic subsequently reported net profits and no further allocation is required.

19.b Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of the investment securities held as FVOCI net of applicable income tax until the investment is derecognised, sold or impaired.

19.c Impairment reserve

As per the CBO circular BM 1149, in the year of adoption, if IFRS9 based provision for impairment is lower than the provision for the impairment as per regulatory guidelines, the excess, shall be transferred as appropriation from profit for the year to a regulatory reserve "Impairment reserve" under shareholder's equity. In subsequent years, if IFRS9 based provision for impairment is lower than provision for impairment as regulatory guidelines, the excess shall be transferred as appropriation from profit for the year to the Impairment reserve.

The regulatory impairment reserve cannot be used by the Bank for capital adequacy calculation or for declaration of any dividends. Utilization of the impairment reserve created above would require prior approval of the Central Bank of Oman.

19.d Subordinated loan reserve

The Bank raised unsecured subordinated loans of RO 35 million during the year 2016 with a maturity of 7 years. These instruments are unlisted, non-transferable, non-negotiable, non-convertible and carry a fixed rate of interest payable semi-annually. The principal amount of the subordinated loans is repayable on maturity unless early repayment is mutually agreed by the investor and the Bank. The Bank is required to create a subordinated loan reserve from retained earnings, equal to 20% of the issue value, at the end of each of the last five years of the term of the subordinated loans.

In accordance with CBO regulations the amount of subordinated loans as reduced by the subordinated loan reserve is considered as Tier 2 capital for capital adequacy purposes. Given there was no Tier 2 benefit to be recognised as at 31 December 2022 the Bank agreed with investors to repay the subordinate loan agreements in December 2022, ahead of the 2023 maturity dates. Subordinated loans of RO 34.515 million were repaid and the subordinated loan reserve of RO 27.515 million was transferred to retained earnings in 2022. Outstanding subordinated loans including accrued interest as of 31 December 2023 is RO Nil (2022: RO 0.485 million).

19.e Fair value reserve on acquisition

The fair value reserve on acquisition represents the difference between the fair value and the issuance value of the ordinary share issued to the shareholders of HBON on the merger date. The quoted market price at date of merger was 108 baisa per share compared to the issue price of 121 baisa per share.

20. PERPETUAL TIER 1 CAPITAL SECURITIES

The Bank issued its first perpetual tier 1 capital Securities amounting to RO 100 million on 25 September 2017. These securities bear interest on their nominal amount from the issue date to the first call date at a fixed annual rate of 7.75% with interest rate reset at five year intervals. The interest is payable semi-annually in arrears and treated as a deduction from equity. On 25th September 2022 the Bank, after prior consent from the CBO, exercised its option to redeem the securities in full.

On 14 March 2019, the Bank issued its second perpetual tier 1 capital Securities amounting to RO 100 million. These securities bear interest on their nominal amount from the issue date to the first call date at a fixed annual rate of 7.50% with interest rate reset at five year intervals. The interest is payable semi-annually in arrears and treated as a deduction from equity.

Both the securities constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. They do not have a fixed or final maturity date. The Bank may at its discretion and after prior consent from the relevant regulatory authority, exercise its option to redeem the securities in full (not in part) on the first Call Date, i.e. the 5th anniversary of the Issue Date, and every six months thereafter, again subject to the prior consent of the regulatory authorities.

The Bank at its sole discretion may elect not to pay the interest. This is not considered as an event of default. If the Bank does not pay the interest, on a scheduled payment date (for whatever reason), it cannot make any other distribution or payment on or with respect to its ordinary shares or any of its other Common Equity Tier 1 instruments or securities, ranking junior to or pari-passu with the perpetual tier 1 capital securities unless and until it has paid one interest payment in full on the securities. The terms of the perpetual tier 1 capital securities issuance allow the Bank to write-down (in whole or in part) any amounts due to the holders of the securities under certain circumstances.RO 7,500 million was paid as interest for the period ended 31December 2023 (31 December 2022: RO 15.250 million) and is recognised in the statement of changes in equity.

21. CONTINGENT LIABILITIES AND COMMITMENTS

21.a Contingent liabilities

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

	31 December 2023 RO'000	31 December 2022 RO'000
Guarantees	570,214	219,843
Documentary letters of credit	103,651	69,231
	673,865	289,074

21.b Commitments

Credit related commitments include commitments to extend credit, standby letters of credit and guarantees that are designed to meet the requirements of the Bank's customers. Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates or other termination clauses and require the payment of a fee. Since commitments may expire without being drawn upon, the total contracted amounts do not necessarily represent future cash obligations.

	31 December 2023 RO'000	31 December 2022 RO'000
Capital commitments	2,962	3,816
Credit related commitments	975,366	566,736
	978,328	570,552

22. LITIGATION

Litigation is a common occurrence in the Banking industry due to the nature of the business it undertakes. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes provision for such loss within its financial statements. No provision (2022: None) has been made as at 31 December 2023, as professional advice indicates that it is unlikely that any significant loss will arise.

23. NET ASSETS PER SHARE

The calculation of net assets per share is based on net assets of RO 713.485 million as at 31 December 2023 (31 December 2022: RO 565.498 million) attributable to ordinary shareholders of 5,467,888,500 ordinary shares (31 December 2022: 4,590,062,290 ordinary shares), being the number of shares outstanding as at 31 December 2023.

24. INTEREST INCOME

	31 December 2023 RO'000	31 December 2022 RO'000
Due from banks	14,985	2,053
Loans and advances (net)	173,351	135,145
Investment securities	51,796	30,145
	240,132	167,343

25. INTEREST EXPENSE

	31 December 2023 RO'000	31 December 2022 RO'000
Due to banks	37,393	15,282
Customer deposits	84,270	55,024
Subordinated loans	15	2,430
	121,678	72,736

26. NET INCOME EARNED FROM ISLAMIC FINANCING AND INVESTING ACTIVITIES

Gross income earned from Islamic financing and investing activities

	31 December 2023 RO'000	31 December 2022 RO'000
Due from banks	754	254
Financing	24,720	19,016
Investment securities	1,532	1,722
	27,006	20,992
Profit paid to depositors and banks		
Profit paid to depositors	17,943	10,615
Profit paid to banks	1,638	1,301
	19,581	11,916
Net income from Islamic financing and investing activities	7,425	9,076

27. OTHER OPERATING INCOME

	31 December 2023 RO'000	31 December 2022 RO'000
Fees and commissions (net)	21,356	22,186
Net gains from foreign exchange dealings	17,583	7,072
Dividend income	273	388
Bad debt recovery	5	4
Profit on sale of fixed assets	-	41
Net Loss from investments	(1,689)	(528)
	37,528	29,163

28. OTHER OPERATING EXPENSES

	Note	31 December 2023 RO'000	31 December 2022 RO'000
Operating and administration costs		**18,807**	11,964
Amortisation of intangible asset	*13*	**1,697**	-
Amortisation of right-to-use assets	*12*	**2,654**	2,272
Occupancy cost		**4,450**	3,641
Directors remuneration		**300**	600
Directors sitting fees		**67**	81
Shari'a supervisory board remuneration and sitting fees		**49**	55
		28,024	18,613

29. LOAN IMPAIRMENT CHARGES AND OTHER CREDIT RISK PROVISIONS, NET

	Note	31 December 2023 RO'000	31 December 2022 RO'000
Net impairment charge / (release):			
Loans, advances and Islamic financings (net)	9	**105,527**	43,652
Loan commitments and financial guarantees	16	**(174)**	(2,138)
Due from banks	7	**496**	-
Debt securities at amortised cost	8.3	**(342)**	(1497)
Debt securities at FVOCI	8.2	**(438)**	(359)
Loan impairment charges and other credit risk provisions (net)		**105,069**	39,659

30. TAXATION

30.a Income tax expense

The Bank is liable for income tax for the year in accordance with the income tax laws of the Sultanate of Oman at the rate of 15% on its taxable profits.

	31 December 2023 RO'000	31 December 2022 RO'000
Profit before tax for the year	**73,161**	38,016
Income tax @ 15%	**10,974**	5,702
Tax impact of:		
Non-deductible expenses/losses	**273**	45
Tax exempt income	**(8,421)**	(58)
Prior year adjustments	**-**	(2,551)
Income tax expense	**2,826**	3,138

30. TAXATION (CONTINUED)

30.a Income tax expense (continued)

Income tax expense movements:		
Current year	**2,985**	5,618
Prior year adjustments	**-**	(2,551)
Deferred tax	**(159)**	71
Income tax expense	**2,826**	3,138

30.b Income tax provision

Tax assessments of the Bank for the years 2007 to 2020 have been completed and adjustments recognised in the financial statements for the year ended 2022. The Bank is of the opinion that additional taxes, if any, related to the open tax year 2021 and 2022 would not be significant to the financial position of the Bank as at 31 December 2023.

	31 December 2023 RO'000	31 December 2022 RO'000
Balance at the beginning of the year	**6,594**	9,616
Charge during the year	**2,985**	5,618
Prior year adjustments	**-**	(2,551)
Paid during the year	**(3,401)**	(6,089)
Balance at the end of the year	**6,178**	6,594

30.c Deferred tax liability (net)

	31 December 2023 RO'000	31 December 2022 RO'000
Balance at the beginning of the year	**1,186**	1,115
Current year	**(159)**	71
Arising from gain on bargain purchase	**9,866**	-
Balance at the end of the year	**10,893**	1,186
Deferred tax asset	**(1,086)**	(104)
Deferred tax liability	**11,979**	1,290
Balance at the end of the year	**10,893**	1,186

31. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing net profit for the year by the weighted average number of shares outstanding during the year. Diluted earnings per share are equivalent to basic earnings per share.

	31 December 2023 RO'000	31 December 2022 RO'000
Profit for the year	**70,335**	34,878
Less: Interest paid on perpetual tier 1 capital securities	**(7,500)**	(15,250)
	62,835	19,628
Weighted average number of shares outstanding during the year (in '000)	**4,917,143**	3,439,914
Basic earnings per share for the year (baisa)	**12.78**	5.71

32. IMPAIRMENT OF FINANCIAL INSTRUMENTS

The following table compares the provision held as per IFRS 9 versus CBO circular BM 977

31 December 2023 Classification: CBO	**IFRS 9**	**Gross Carrying amount RO'000**	**CBO Provision[ii] RO'000**	**IFRS9 Provisions RO'000**	**Difference RO'000**	**Net carrying amount RO'000**	**CBO Reserve interest[iii] RO'000**
		(1)	**(2)**	**(3)**	**(4)=(2)-(3)**	**(5)=(1)-(3)**	
Standard	Stage 1	**3,345,357**	**40,198**	**16,484**	**23,714**	**3,328,873**	**-**
	Stage 2	**96,133**	**1,071**	**100,024**	**(98,953)**	**(3,891)**	**-**
	Stage 3	**-**	**-**	**-**	**-**	**-**	**-**
Sub Total		**3,441,490**	**41,269**	**116,508**	**(75,239)**	**3,324,982**	**-**
Special mention	Stage 1	**83,571**	**733**	**1,733**	**(1,000)**	**81,838**	**-**
	Stage 2	**482,719**	**11,008**	**31,292**	**(20,284)**	**451,427**	**-**
	Stage 3	**-**	**-**	**-**	**-**	**-**	**-**
Sub Total		**566,290**	**11,741**	**33,025**	**(21,284)**	**533,265**	**-**
Sub standard	Stage 1	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 2	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 3	**10,168**	**2,475**	**3,620**	**(1,145)**	**6,548**	**110**
Sub Total		**10,168**	**2,475**	**3,620**	**(1,145)**	**6,548**	**110**
Doubtful	Stage 1	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 2	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 3	**18,779**	**9,224**	**6,393**	**2,831**	**12,386**	**1,030**
Sub Total		**18,779**	**9,224**	**6,393**	**2,831**	**12,386**	**1,030**
Loss	Stage 1	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 2	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 3	**171,654**	**127,422**	**127,643**	**(221)**	**44,011**	**49,019**
Sub Total		**171,654**	**127,422**	**127,643**	**(221)**	**44,011**	**49,019**
Gross Loans, advances and financings							
	Stage 1	**3,428,928**	**40,931**	**18,217**	**22,714**	**3,410,711**	**-**
	Stage 2	**578,852**	**12,079**	**131,316**	**(119,237)**	**447,536**	**-**
	Stage 3	**200,601**	**139,121**	**137,656**	**1,465**	**62,945**	**50,159**
Sub Total		**4,208,381**	**192,131**	**287,189**	**(95,058)**	**3,921,192**	**50,159**
	Stage 1	**3,958,914**	**-**	**739**	**(739)**	**3,958,175**	**-**
Due from banks,	Stage 2	**72,241**	**-**	**477**	**(477)**	**71,764**	**-**
Investment securities, Loan commitments & Financial Guarantees [i]	Stage 3	**10,822**	**-**	**354**	**(354)**	**10,468**	**-**
Sub Total		**4,041,977**	**-**	**1,570**	**(1,570)**	**4,040,407**	**-**
	Stage 1	**7,387,842**	**40,931**	**18,956**	**21,975**	**7,368,886**	**-**
	Stage 2	**651,093**	**12,079**	**131,793**	**(119,714)**	**519,300**	**-**
	Stage 3	**211,423**	**139,121**	**138,010**	**1,111**	**73,413**	**50,159**
	Total	**8,250,358**	**192,131**	**288,759**	**(96,628)**	**7,961,599**	**50,159**

[i] Other items not covered under CBO circular BM 977 and related instructions.
[ii] CBO reserve interest equals IFRS 9 interest in suspense / contractual interest and profit rate not recognised.
[iii] CBO provisions exclude reserve interest / contractual interest and profit rate not recognised.

32. IMPAIRMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

Classification: CBO	IFRS 9	Gross Carrying amount RO'000	CBO Provision[ii] RO'000	IFRS9 Provisions RO'000	Difference RO'000	Net carrying amount RO'000	CBO Reserve interest[iii] RO'000
		(1)	**(2)**	**(3)**	**(4)=(2)-(3)**	**(5)=(1)-(3)**	
Standard	Stage 1	2,493,682	28,741	12,705	16,036	2,480,977	-
	Stage 2	78,931	869	1,784	(915)	77,147	-
	Stage 3	-	-	-	-	-	-
Sub Total		2,572,613	29,610	14,489	15,121	2,558,124	-
Special mention	Stage 1	80,305	733	684	49	79,621	-
	Stage 2	254,164	8,931	35,001	(26,070)	219,163	-
	Stage 3	-	-	-	-	-	-
Sub Total		334,469	9,664	35,685	(26,021)	298,784	-
Sub standard	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	10,635	2,731	4,317	(1,586)	6,318	137
Sub Total		10,635	2,731	4,317	(1,586)	6,318	137
Doubtful	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	11,664	5,273	4,223	1,050	7,441	382
Sub Total		11,664	5,273	4,223	1,050	7,441	382
Loss	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	136,886	94,264	83,259	11,005	53,627	27,905
Sub Total		136,886	94,264	83,259	11,005	53,627	27,905
Gross Loans, advances and financings							
	Stage 1	2,573,987	29,474	13,389	16,085	2,560,598	-
	Stage 2	333,095	9,800	36,785	(26,985)	296,310	-
	Stage 3	159,185	102,268	91,799	10,469	67,386	28,424
Sub Total		3,066,267	141,542	141,973	(431)	2,924,294	28,424
	Stage 1	3,958,914	-	739	(739)	3,958,175	-
Due from banks,	Stage 2	72,241	-	477	(477)	71,764	-
Investment securities, Loan commitments & Financial Guarantees[i]	Stage 3	10,822	-	354	(354)	10,468	-
Sub Total		4,041,977	-	1,570	(1,570)	4,040,407	-
	Stage 1	7,387,842	40,931	18,956	21,975	7,368,886	-
	Stage 2	651,093	12,079	131,793	(119,714)	519,300	-
	Stage 3	211,423	139,121	138,010	1,111	73,413	50,159
	Total	8,250,358	192,131	288,759	(96,628)	7,961,599	50,159

[i] Other items not covered under CBO circular BM 977 and related instructions.
[ii] CBO reserve interest equals IFRS 9 interest in suspense / contractual interest and profit rate not recognised.
[iii] CBO provisions exclude reserve interest / contractual interest and profit rate not recognised.

32. IMPAIRMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

In accordance with CBO requirements, where the aggregate provision on portfolio & specific basis computed as per CBO norms is higher than the impairment allowance computed under IFRS9, the difference, net of impact of taxation, will be transferred to an impairment reserve as an appropriation from the retained earnings. The Bank generally transfers this amount at year end, if applicable.

CBO circular BSD/CB & FLC/2022/001, provided temporary dispensation from the requirement for the year ended 31 December 2022.

31 December 2023	CBO RO'000	IFRS 9 RO'000	Difference RO'000
Loan impairment charges and other credit risk provisions (net)	22,165	105,069	82,904
Total ECL provision and contractual interest/profit rate not recognised	242,290	288,759	46,469
Gross NPL ratio	4.77	4.77	-
Net NPL ratio	0.29	1.61	1.32

31 December 2022	CBO RO'000	IFRS 9 RO'000	Difference RO'000
Loan impairment charges and other credit risk provisions (net)	34,376	39,659	5,283
Total ECL provision and contractual interest/profit rate not recognised	169,966	144,552	(25,414)
Gross NPL ratio	5.19	5.19	-
Net NPL ratio	0.98	2.30	1.32

(NPL ratio denominator is funded non-performing loans, advances and Islamic financings)

Comparison of ECL provision under IFRS 9 and extant CBO norms:

	31 December 2023		31 December 2022	
	RO'000	RO'000	RO'000	RO'000
	CBO	IFRS 9	CBO	IFRS 9
Gross loans advances and Islamic financings	192,131	237,030	141,542	113,549
Due from banks	-	496	-	1
Investment securities (amortised cost)	-	108	-	450
Investment securities (FVOCI)			-	438
Loan commitments and financial guarantees	-	966	-	1,690
Total ECL	192,131	238,600	141,542	116,128
Contractual interest/profit rate not recognised	50,159	50,159	28,424	28,424
Total ECL provision and contractual interest/profit rate not recognised	242,290	288,759	169,966	144,552

32. IMPAIRMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

Analysis of changes in the IFRS 9 ECL provision on Due from banks, Loans, advances and Islamic financings (net) (excluding contractual interest/profit not recognised), Investment securities and Loan commitments and financial guarantees.

	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
At 1 January 2023	13,810	37,796	64,522	116,128
ECL on assets acquired	2,542	10,248	25,610	38,400
Impairment charge	15,690	85,668	33,857	135,215
Impairment release	(15,467)	(1,289)	(13,390)	(30,146)
Loans written off	-	-	(2,397)	(2,397)
Loans transferred to memorandum portfolio	-	-	(22,601)	(22,601)
Loans transferred from memorandum portfolio	-	-	4,001	4,001
Transfers to Stage 1	2,623	(649)	(1,975)	-
Transfers to Stage 2	(170)	666	(496)	-
Transfers to Stage 3	(74)	(646)	720	-
Total ECL provision	18,954	131,794	87,851	238,600

Loans with renegotiated terms are defined as loans, advances and financings that have been restructured due to deterioration in the borrower's financial position, for which the Bank has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Bank had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, early repayment or write-off.

31 December 2023

Classification: CBO	IFRS 9	Gross Carrying amount RO'000	CBO Provision RO'000	IFRS9 Provisions RO'000	Difference RO'000	Net carrying amount RO'000
	Stage 1	130,846	1,595	1,860	(265)	128,986
	Stage 2	169,861	8,041	14,383	(6,342)	155,478
Classified as performing	Stage 3	-	-	-	-	-
Sub Total		300,707	9,636	16,243	(6,607)	284,464
Classified as non-performing	Stage 1	-	-	-	-	-
	Stage 2	-	-	-	-	-
	Stage 3	55,961	17,586	19,777	(2,191)	36,184
Sub Total		55,961	17,586	19,777	(2,191)	36,184
Total	Stage 1	130,846	1,595	1,860	(265)	128,986
	Stage 2	169,861	8,041	14,383	(6,342)	155,478
	Stage 3	55,961	17,586	19,777	(2,191)	36,184
Total		356,668	27,222	36,020	(8,798)	320,648

32. IMPAIRMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

Classification: CBO	IFRS 9	Gross Carrying amount RO'000	CBO Provision RO'000	IFRS9 Provisions RO'000	Difference RO'000	Net carrying amount RO'000
31 December 2022						
	Stage 1	84,076	787	1,665	(878)	82,411
	Stage 2	162,314	5,519	13,574	(8,055)	148,740
Classified as performing	Stage 3	-	-	-	-	-
Sub Total		246,390	6,306	15,239	(8,933)	231,151
Classified as non-performing	Stage 1	-	-	-	-	-
	Stage 2	-	-	-	-	-
	Stage 3	-	-	-	-	-
Sub Total		-	-	-	-	-
Total	Stage 1	84,076	787	1,665	(878)	82,411
	Stage 2	162,314	5,519	13,574	(8,055)	148,740
	Stage 3	-	-	-	-	-
Total		246,390	6,306	15,239	(8,933)	231,151

33. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value (FV) 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:

i) In the accessible principal market for the asset or liability; or
ii) In the absence of a principal market, in the most advantageous accessible market for the asset or liability.

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted prices in active markets for the same instrument without modification or repacking;
Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and
Level 3: valuation techniques for which any significant input is not based on observable market data.

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair value of assets and liabilities.

Loans, advances and financings

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

Investment securities carried at amortised cost and derivatives

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

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

33. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Bank and customer deposits

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

Other on-balance sheet financial instruments

The fair values of all other on-balance sheet financial instruments are considered to approximate their book values.

Off-balance sheet financial instruments

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

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

33. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Off-balance sheet financial instruments (continued)

The Bank considers that the fair value of financial instruments is not significantly different to their carrying value (including accrued interest) at year end. The table below sets out the classification and fair value of each class of financial assets and liabilities including accrued interest.

At 31 December 2023	Amortised cost	FVOCI	FVTPL	Total Carrying value	Total Fair value
Assets	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Cash and balances with Central Bank	**205,669**	**-**	**-**	**205,669**	**205,669**
Due from banks	**652,004**	**-**	**-**	**652,004**	**652,004**
Investment securities	**395,925**	**1,223,340**	**91,917**	**1,711,182**	**1,711,182**
Loans, advances and Islamic financings (net)	**3,932,603**	**-**	**-**	**3,932,603**	**3,932,603**
Other assets (excluding prepayments)	**50,230**	**-**	**1,432**	**51,662**	**51,662**
Total	**5,236,431**	**1,223,340**	**93,349**	**6,553,120**	**6,553,120**
Liabilities					
Due to banks	**676,120**	-	**-**	**676,120**	**676,120**
Customer deposits	**4,893,650**	-	**209,395**	**5,103,045**	**5,104,816**
Other liabilities (excluding accruals and provisions)	**56,228**	-	**3,165**	**59,393**	**59,393**
Total	**5,625,998**	-	**212,560**	**5,838,558**	**5,840,329**

At 31 December 2022	Amortised cost	FVOCI	FVTPL	Total Carrying value	Total Fair value
Assets	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Bank	125,895	-	-	125,895	125,895
Due from banks	103,945	-	-	103,945	103,945
Investment securities	360,271	400,000	93,572	853,843	853,843
Loans, advances and Islamic financings (net)	2,924,294	-	-	2,924,294	2,924,294
Other assets (excluding prepayments)	64,612	-	76	64,688	64,688
Total	3,579,017	400,000	93,648	4,072,665	4,072,665
Liabilities					
Due to banks	806,015	-	-	806,015	806,015
Customer deposits	2,560,098	-	-	2,560,098	2,560,098
Other liabilities (excluding accruals and provisions)	67,022	-	-	67,022	67,022
Subordinated loans	485	-	-	485	485
Total	3,433,620	-	-	3,433,620	3,433,620

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33. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments measured at fair value at the end of the reporting year:

31 December 2023	Investment securities	Positive FV of derivatives	Negative FV of derivatives	Customer deposits	Total
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Level 1	**549**	**-**	**-**	**-**	**549**
Level 2	**1,314,208**	**1,432**	**(3,165)**	**209,355**	**1,521,830**
Level 3	**500**	**-**	**-**	**-**	**500**
	1,315,257	**1,432**	**(3,165)**	**209,355**	**1,522,879**

31 December 2022	Investment securities	Positive FV of derivatives	Negative FV of derivatives	Customer deposits	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Level 1	5,201	-	-	-	5,201
Level 2	485,195	76	(28)	-	485,243
Level 3	3,176	-	-	-	3,176
	493,572	76	(28)	-	493,620

Level 3 investment securities are investments in shares of an unquoted company, the shares of which are thinly traded. The management values the investment using net asset value of the investee based on the investee's financial statements, plus an applicable premium. Management considers the carrying value of the investment to approximate its fair value as a significant portfolio of the underlying investments of the investee company (a major turnkey project) is currently in the construction phase. Therefore, the carrying value is representative of fair value of the investments.

34. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank enters into transactions with certain of its directors, shareholders, senior management, Shari'a supervisory board, Shari'a reviewer and companies in which they have a significant interest. These transactions are conducted on an arm's length basis and are approved by the Bank's management and Board of Directors.

The aggregate amount of balances and the income and expenses generated with such related parties are as follows:

	31 December 2023 RO'000	31 December 2022 RO'000
Directors & Senior management		
Loans, advances and Islamic financings end of year	**4,569**	3,305
Disbursed during the year	**1,730**	632
Repaid during the year	**(732)**	(399)
Deposits end of year	**602**	890
Received during the year	**589**	983
Matured/paid during the year	**(64)**	(992)
Interest income during the year	**167**	109
Interest expense during the year	**33**	21
Directors' sitting fees and remuneration	**367**	681
Shari'a Supervisory Board members	**49**	55
Other related parties		
Loans, advances and Islamic financing end of year	**94,158**	100,570
Disbursed during the year	**52,249**	49,685
Repaid during the year	**(9,301)**	(3,859)
Deposits at end of year	**12,401**	8,055
Received during the year	**8,684**	2,379
Matured/paid during the year	**(1,977)**	(3,483)
Interest income during the year	**4,760**	4,303
Interest expense during the year	**293**	247

Key management compensation:

The Bank considers 7 (2022:7) senior executives to be key management personnel for the purposes of IAS 24 Related Party Disclosures.

In the ordinary course of business, the Bank conducts transactions with certain of its key management personnel and companies in which they have a significant interest. The balances in respect of these key management personnel included in the Bank's statement of financial position as at the reporting date are as follows:

	31 December 2023 RO'000	31 December 2022 RO'000
Loans, advances and Islamic financings	**1,295**	1,380
Customer Deposits	**48**	182

34. RELATED PARTY TRANSACTIONS (CONTINUED)

The income and expenses, accrued or paid, in respect of these key management personnel as included in the Bank's statement of comprehensive income for the year are as follows:

	31 December 2023 RO'000	31 December 2022 RO'000
Interest income during the year	**49**	45
Interest expense during the year	**1**	2
Salaries and other short term benefits (1)	**3,131**	2,550
Post-employment benefits	**78**	43

Certain components of key management compensation are paid on a deferral basis in accordance with regulatory guidelines.

The aggregate amount of balances and the income and expenses generated with shareholders holding 10% or more of the Banks' shares are as follows:

	31 December 2023 RO'000	31 December 2022 RO'000
Loans, advances and Islamic financing at end of year	**15,100**	12,800
Disbursed during the year	**9,512**	12,800
Repaid during the year	**(412)**	(196)
Deposits at end of year	**38**	127
Received during the year	**14**	82
Matured/paid during the year	**(22)**	(6)
Interest income during the year	**797**	357
Interest expense during the year	**1**	3

As at 31 December 2023, no loans to related parties are classified under stage 3 (31 December 2022: Nil)

35. FIDUCIARY ACTIVITIES

The Bank's fiduciary activities consist of portfolio and investment management and custodial services. The aggregated assets under management, which are not included in the Bank's statement of financial position as at 31 December 2023 is RO 411 million (31 December 2022: RO 270 million).

36. DERIVATIVES

In the ordinary course of business, the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rate or index. These derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Unrealised gains or losses are included in the statement of comprehensive income. The derivative financial instruments used by the Bank are described below:

36.1 Derivative product types

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counter parties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

36. DERIVATIVES (CONTINUED)

36.1 Derivative product types

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

36.2 Derivatives held or issued for hedging purposes

As part of its asset and liability management the Bank uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. This is achieved by hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall statement of financial position exposures.

The Bank uses forward foreign exchange contracts, to hedge against specifically identified currency risks and to comply with the net open position limit as specified by CBO.

Strategic hedging is carried out for interest rate risk by monitoring the re-pricing of financial assets and liabilities and entering into interest rate swaps to hedge a proportion of the interest rate exposure. As strategic hedging does not qualify for special hedge accounting, the related derivatives are accounted for as trading instruments.

The table below sets out the positive and negative fair values of derivative financial instruments, together with their notional amounts, analysed by term to maturity. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the end of the period, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Bank's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor to market risk.

				Notional amounts by term to maturity		
At 31 December 2023	**Positive FV**	**Negative FV**	**Notional amount**	**Within 3 months**	**3 - 12 months**	**More than 1 year**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Forward foreign exchange purchase contracts	123	14	489,696	484,473	5,223	-
Forward foreign exchange sales contracts	21	92	490,800	485,573	5,227	-
Interest rate swaps	1,288	3,059	221,650	57,750	77,000	77,000
Total	1,432	3,165				

				Notional amounts by term to maturity		
At 31 December 2022	Positive FV	Negative FV	Notional amount	Within 3 months	3 - 12 months	More than 1 year
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Forward foreign exchange purchase contracts	66	13	349,825	303,710	46,115	-
Forward foreign exchange sales contracts	10	15	346,082	300,036	46,046	-
Total	76	28				

36. DERIVATIVES (CONTINUED)

36.3 Fair value hedges

36.3a Interest rate swaps

The bank has entered into fixed-for-floating interest rate swap amounting to RO 211.750 million to manage the exposure for changes in fair value due to movements in market interest rates on certain fixed rate customer deposits which are not measured at FVTPL.

37. FINANCIAL RISK MANAGEMENT

The primary objective of risk management is to safeguard the Bank's capital and its financial resources from various risks. The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. Such responsibility is discharged by the Board through four sub-committees being Executive Nomination & Remuneration Committee (ENRC), Board Audit Committee (BAC), Credit Approval Committee (CAC) and Board Risk Committee (BRC).

Executive Nomination & Remuneration Committee

The ENRC assists the Directors to discharge the Board's responsibilities of oversight and governance in relation to : (1) General Performance aspects of the Bank such as strategy setting and implementation, banking business, annual budget recommendations, information technology and generally to assist the board in reviewing business proposals and other related issues that require a detailed study and analysis. (2) HR, Nomination and Remuneration issues such as to provide direction and guidance to have the right CEO and Senior Management team and provide support and direction to the Bank and its stakeholders and ensure their interests are protected, etc.

Board Audit Committee

The main functions of BAC are to assess and review the financial reporting system of the Bank to ensure that the financial statements are correct, sufficient and credible. The Committee reviews with the Management the quarterly / annual financial statements before their submission to the Board for adoption. The Committee also reviews the adequacy of regulatory compliance, regulatory reporting, internal control systems and structure of Internal Audit and Compliance Departments. The Committee also holds discussions with the internal auditors / external auditors on significant finding on the control environment.

The role of Head of Internal Audit is to provide reasonable assurance that the management control framework used within the Bank is operating effectively. The role of Head of Compliance is to ensure that the Bank complies with all the Laws, rules and regulations as applicable under the regulatory framework in Sultanate of Oman and international best practice. Both heads report directly to the Audit committee of the Board.

Credit Approval Committee

The CAC approves facilities, which are above the lending mandate of Executive Credit Committee (ECC) of the management. The committee also reviews credit product policies, Lending policy, credit portfolio and existing credit facilities on annual basis. Detailed roles of the committees are covered in their respective charters

Board Risk Committee

The BRC is vested with the Board's responsibilities of oversight and governance in relation to the risk performance of the Bank. The Committee is responsible for making recommendations to the Board of Directors on the risk appetite of the Bank in relation to credit, interest rate, market, liquidity and operational risk.

The committee ensures the implementation of risk strategy and policy in addition to ensuring that a robust risk framework is in place within the Bank which optimises the quality and return on deployment of assets. The Committee also provides guidance and direction on all credit, market, interest rate, liquidity and operational risk policy matters.

The Banks risk management policies focus on identification, measurement, monitoring and mitigation of risk, irrespective of its manner of manifestation. In this process, the Bank recognises that the dynamics of markets may necessitate decisions that may deviate on occasions from the principles of Credit Risk Management (CRM). For such requirements, minimal and requisite level of flexibilities are defined within the Risk Management policies, along with suitable and adequate safeguards/controls.

Internal Audit department undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

There are sub-committees at management level for managing risks. The Asset and Liability Committee (ALCO) manages the risks in the balance sheet arising out of liquidity management, interest rates management as well as tenor of exposures taken by the Bank. ALCO provides management with guidance on managing these risks. Risk appetite is articulated through various limits, ratios and caps. Operational Risk and Information security risk is managed under the guidance of Management Risk Committee (MRC) at the management level. A separate ALCO has also been established to monitor the performance of the assets of Sohar Islamic. IFRS Steering Committee manages the governance requirements of IFRS-9 model/standard, while and Stress Assets Management Committee monitors assets warranting enhanced monitoring. The Bank's MRC oversees the risk management functions across the Bank.

37.1 Credit risk

Credit risk is the risk of financial loss to the Bank if counterparty to a financial instrument fails to meet its contractual obligations. Credit risk represents the probability of default by any counterparty in repayment of principal obligations and / or servicing interest obligations in accordance with the set redemption schedule or terms of contract.

Management of credit risk

The Board of Directors manage credit risk through the Board Risk Committee (BRC) which is responsible for the overall risk framework of the Bank covering both conventional and Islamic banking. The Bank's Chief Risk Officer heads the Risk Management department with a direct reporting line to the Board Risk Committee. Credit risk management includes:

- setting up a strong risk culture within the Bank through risk limits and boundaries, within the regulatory guidelines, for risk origination to be within the approved risk appetite of the Bank;
- Robust lending policy and governed delegation of authorities for both conventional and Islamic banking division;
- Time tested and a credit appraisal process which includes independent credit risk review of individual corporate credit proposals duly adhering the Bank's lending policy and through a Board approved retail products policy and template lending. Retail exceptions are reviewed by Credit Risk function;
- Robust Portfolio monitoring and periodic client level review through an independent Loan Review Mechanism reporting to Board Risk Committee
- Limiting concentrations of exposure to counterparties, geographic locations and industries (for loans and advances), and by issuer, market liquidity and country (for investment securities) to promote best practice throughout the Bank in the management of credit risk.

The Bank employs a range of policies and practices to mitigate credit risk. The Bank follows a risk mitigation practice of identifying business cash flows as the primary driver for the advances extended. These cash flows are then tested for sustainability over the tenor of the credit facility and a suitable mechanism is put in place to capture the same into the client account with the Bank. To cover unforeseen risk, which dries up the cash flows, additional tangible securities are taken such as Cash Margin, Mortgages, Equities etc. The Bank implements guidelines on the acceptability of specific classes of collateral credit risk mitigation. The principal types of collaterals for loans and advances are:

- Mortgages over Assets;
- charges of assets under Murabaha agreements;
- ownership/title of assets under Ijarah financing;
- charges over business assets such as premises inventory and accounts receivable; and
- charges over financial instruments such as debt securities and equities.

All loans and advances of the Bank are regularly monitored to ensure compliance with the stipulated repayment terms. Those loans and advances are classified into one of the 5 risk classification categories: Standard, Special Mention, Substandard, Doubtful and Loss – as required by CBO regulations and guidelines. Further, as mandated by IFRS 9, the loans and advances are also classified into stage 1, stage 2, stage 3 based on delay in repayment on due date the internal credit ratings / significant increase in credit risk criteria / requirements of CBO circular BM 1149, including POCI assessment. There is a dedicated team to manage stress accounts with periodic review by risk management department with Management & Board Committees oversight

Accounting for modification loss

For corporate customers the Bank added the simple interest accrued during the deferral period to the principal outstanding and either extended the original maturity period of the loan or increased the instalments at the end of the deferment period. The Bank has determined that the modifications due to deferment of instalment and waiver of profit allowed in line with CBO relaxation measures for 2022 did not result in de-recognition of financial assets. The impact of day one modification loss on prior year deferrals is not considered material as at 31 December 2023.

The Bank continues to monitor the stressed portfolio, which previously availed certain relaxation under CBO guidelines on deferral of credit facilities for effected borrowers. Prudent ECL provisioning on these credit facilities have been maintained and considered as part of the management overlay.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.1 Credit risk (continued)

Post-model adjustments and management overlays

Where appropriate, the Bank adjusts its ECL outside the Bank's regular modelling process to reflect management judgments in the form of management overlays, to reflect unforeseen and evolving credit risks not otherwise captured within the modelling parameters.

PMA are adjustments to the ECL that may occur as a result of management's assessment of the outcomes from the Bank's stress testing modelling of credit risk under various stressed macro-economic scenarios. Such scenarios consider for instance the impact of 100% upside, 100% downside and base case of the macro-economic weights assigned for ECL computation.

The Bank has internal governance frameworks and controls in place to assess the appropriateness of all post model adjustments, if any, and management overlays.

37.1a Sensitivity of impairment estimates

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

Net increase / (decrease) in carrying value for the year

	At 31 December 2023		At 31 December 2022	
	ECL	Impact on ECL	ECL	Impact on ECL
	RO 000's	RO 000's	RO 000's	RO 000's
ECL on non-impaired loans under IFRS9	**138,129**	**-**	50,174	-
Simulations				
Upside case - 100% weighted	**126,023**	**12,106**	46,123	4,051
Base case - 100% weighted	**138,129**	**-**	49,192	982
Downside scenario - 100% weighted	**127,825**	**10,304**	55,825	(5,651)

37.1b Exposure to credit risk

Impact on the Capital Adequacy

Besides, the Bank has also applied in its capital adequacy calculations the "Prudential filter" under interim adjustment arrangement for Stage-1 and Stage-2 ECL. The impact of above filter on the Bank's regulatory capital is 8 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.

Low Credit Risk Exemption

Under IFRS 9, Stage 2 consists of facilities where there has been a significant increase in credit risk since initial recognition (unless they are classified under low credit risk at reporting date). The Bank measures loss allowance at an amount equal to the life time ECL, except for the below where 12 M ECL are applied:

- sovereign (including quasi sovereign) exposures/debt investment securities that are determined to have low credit risk at the reporting date
- Other financial instruments on which Credit Risk has not significantly increased since initial recognition.

The Bank does not apply low credit exemption to any other financial instruments.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.1b Exposure to credit risk (continued)

Low Credit Risk Exemption (continued)

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

31 December 2023	Performing RO'000	Past due but not impaired RO'000	Credit impaired RO'000	Total RO'000
Loans, advances and Islamic financings - corporate				
Performing loans (Grades 1-5)	**1,522,166**	**68,563**	**-**	**1,590,729**
Performing loans (Grades 6)	**552,531**	**200,817**	**-**	**753,349**
Performing loans (Grades 7)	**-**	**290,528**	**-**	**290,528**
Non-performing loans (Grades 8-10)	**-**	**-**	**163,269**	**163,269**
	2,074,697	**559,908**	**163,269**	**2,797,875**
Loans, advances and Islamic financings - retail				
Performing loans (Grades 1-7)	**1,354,230**	**18,944**	**-**	**1,373,174**
Non-performing loans (Grades 8-10)	**-**	**-**	**37,332**	**37,332**
	1,354,230	**18,944**	**37,332**	**1,410,506**
Total gross loans, advances and Islamic financings	**3,428,927**	**578,853**	**200,601**	**4,208,381**
Credit related contingent items				
Performing loans (Grades 1-5)	**1,387,206**	**3,172**	**-**	**1,390,378**
Performing loans (Grades 6)	**217,417**	**16,782**	**-**	**234,199**
Performing loans (Grades 7)	**-**	**23,533**	**-**	**23,533**
Non-performing loans (Grades 8-10)	**-**	**-**	**1,120**	**1,120**
Total gross contingent items to customers	**1,604,623**	**43,487**	**1,120**	**1,649,231**
Due from banks	**652,500**	**-**	**-**	**652,500**
Investment securities	**1,703,067**	**8,223**	**-**	**1,711,290**
Grand Total	**7,389,117**	**630,563**	**201,721**	**8,221,402**

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.1 Credit risk (continued)

37.1b Exposure to credit risk (continued)

31 December 2022	Performing RO'000	Past due but not impaired RO'000	Credit impaired RO'000	Total RO'000
Loans, advances and Islamic financings - corporate				
Performing loans (Grades 1-5)	1,409,394	43,770	-	1,453,164
Performing loans (Grades 6)	217,017	120,808	-	337,825
Performing loans (Grades 7)	-	156,098	-	156,098
Non-performing loans (Grades 8-10)	-	-	131,941	131,941
	1,626,411	320,676	131,941	2,079,028
Loans, advances and Islamic financings - retail				
Performing loans (Grades 1-7)	947,576	12,420	-	959,996
Non-performing loans (Grades 8-10)	-	-	27,243	27,243
	947,576	12,420	27,243	987,239
Total gross loans, advances and Islamic financings	2,573,987	333,096	159,184	3,066,267
Credit related contingent items				
Performing loans (Grades 1-5)	736,767	5,415	-	742,182
Performing loans (Grades 6)	134,349	9,444	-	143,793
Performing loans (Grades 7)	-	13,183	-	13,183
Non-performing loans (Grades 8-10)	-	-	2,595	2,595
Total gross contingent items to customers	871,116	28,042	2,595	901,753
Due from banks	103,946	-	-	103,946
Investment securities	743,209	16,612	-	759,821
Grand Total	4,292,258	377,750	161,779	4,831,787

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.1 Credit risk (continued)

37.1b Exposure to credit risk (continued)

Maximum exposure to credit risk before collateral held or other credit enhancements for all on-balance sheet assets are based on net carrying amounts as reported in the statement of financial position.

The maximum credit risk exposures relating to off-balance sheet items calculated as per Basel guidelines are provided in note 38. The amounts represented in note 38 represent a worst case scenario of credit risk exposure as of 31 December 2023 and 2022, without taking into account of any collateral held or other credit enhancements attached.

Impairment assessment

Definition of default and cure

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

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances (in line with CBO circular BM 1149) that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default and/or substantial downgrade of rating
- Borrower is subject to litigation by third parties that may have a significant impact on his financial position
- A material decrease in the underlying collateral value
- A material covenant breach not waived by the Bank
- Unexplained delay in commencement of commercial operation
- Unreliable or delay in submission of financial statements the debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection

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

Incorporation of forward-looking information

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

Given the nature of the Bank's exposures and availability of historical statistically reliable information, the Bank derives the point-in-time (PIT) probability of default (PD) using the through-the-cycle (TTC) PD data computed from historical bank default data for each rating category. The Bank follows Roll rate estimation to calculate the through the cycle PDs and the PD term structure for calculating lifetime PiT PDs. Macroeconomic models are to adjust PDs to reflect the impact of the macroeconomic variables, thus making them forward looking. Bank has adopted Vasicek framework to transform long term unconditional PD or through the cycle PD estimates into conditional PiT PDs.

The Bank's internal rating and PD estimation process

The Bank's independent Credit Risk Department operates its internal rating models. The Bank runs separate models for its key portfolios in which its customers are rated from 1 to 10 using 22 internal grades. Granular scales were implemented in 2021 as a part of the overall enhancement to the Obligor Risk Rating framework. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. Where practical, they also build on information from Good Rating Agency. These information sources are first used to determine the PDs within the Bank's Basel III framework. The internal credit grades are assigned based on these Based III grades.

PDs are then adjusted for IFRS 9 ECL calculations to incorporate forward looking information and the IFRS 9 Stage classification of the exposure. This is repeated for each economic scenario as appropriate.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.1 Credit risk (continued)

37.1b Exposure to credit risk (continued)

Generating the term structure of Probability of Default (PD)

The Bank employs statistical models to analyse the data collected and generate estimates of PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, across various geographies in which the Bank has exposures.

The Bank's internal credit rating grades along with the respective PDs are as below:

Internal rating grades	Internal rating grade description	PD range (%)
1	Investment Grade	0.53% to 3.23%
2+	Investment Grade	
2	Investment Grade	
2-	Investment Grade	
3+	Investment Grade	
3	Investment Grade	
3-	Investment Grade	
4+	Investment Grade	
4	Investment Grade	
4-	Investment Grade	
5+	Investment Grade	
5	Investment Grade	
5-	Investment Grade	
6+	Investment Grade	
6	Investment Grade	
6-	Investment Grade	
7+	Sub Investment Grade	3.59% to 5.67%
7	Sub Investment Grade	
7-	Sub Investment Grade	
8 to 10	Non-Performing	100%

Economic variable assumptions

The Bank obtains the data used from third party sources (Moody's) for Bank's macro-economic /ECL models and determines weights attributable to multiple scenarios. A correlation analysis has been performed among historical default rate of the portfolio with the macro-economic factors to identify the factors to be considered to compute the macro-economic impact. The macro-economic factors that are having good correlation with the historical movements of default rate are further put to regression analysis to identify the appropriate combination of macro-economic factors to be considered. Several macroeconomic variables (MEVs) were explored to decide on the best set of independent variables in order to explain the historical credit losses. These included Real GDP, Real GDP growth rate, Oil price, Unemployment, etc. The final ones to be selected for the Wholesale Banking Portfolio were:

a) External debt/Current-account receipts
b) Domestic credit/GDP
c) Global price of Brent Crude

The final ones to be selected for the Retail Banking Portfolio were:

a) Current-account balance/GDP
b) Global price of Brent Crude
c) Nominal GDP (% change, local currency)

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgment has also been applied in this process. Forecasts of these economic variables (the "base economic scenario") are collected from statistical database of Moody's to provide the best estimate view of the economy.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.1 Credit risk (continued)

37.1b Exposure to credit risk (continued)

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-linear and asymmetries within the Bank's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis.

Treasury, trading and interbank relationships

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

Corporate and small business lending

For corporate and investment banking loans, the borrowers are assessed by the business teams duly complemented by an independent review by Credit Risk Management Team. The credit risk assessment is based on a robust credit scoring model that takes into account various historical, current and forward-looking information such as:

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

Consumer lending and retail mortgages

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

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

Exposure at default

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

Exposure at default (continued)

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

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

Loss given default

LGD is the share of an asset that is lost when a borrower default. The recovery rate is defined as 1 minus the LGD, the share of an asset that is recovered when a borrower default. Loss given default is facility-specific because such losses are generally understood to be influenced by key transaction characteristics such as the presence of collateral and the degree of subordination, if any.

The Bank segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. This comprehensive loan portfolio segmentation strategy enabled the Bank to quickly identify the underlying behaviours that drive credit risk. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

Further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the Bank.

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

Significant Increase in Credit Risk

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

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

a. Inadequate or unreliable financial or other information such as unavailability of audited financial statements and non-cooperation by borrower in matters pertaining to documentation.
b. Borrower is subject to litigation by third parties that may have a significant impact on his financial position.
c. Frequent changes in key senior management personnel without acceptable successors or professional management.
d. Significant Intra Group transfer of funds without underlying transactions.
e. Deferment/delay in the date for commencement of commercial operations by more than one year except in Government projects or delays are due to Government approvals.
f. Modifications of terms resulting in concessions granted to the borrower (after examining the cash flows of the borrower/financial position/ability to repay) including extension of moratorium, deferment of payment, waiver of covenants etc. This requirement shall be in conformity to the restructuring guidelines issued by CBO from time to time.
g. A fall of 25% or more in the turnover or in the EBIT as compared to the previous year except in the case of change in business model/one of material events.
h. A fall in Debt Service coverage ratio to below 1 except in cases which have acceptable external credit support.
i. 7 notch downgrade in Master Rating Scale (MRS) of the Bank along with associated downgrade in PD except for accounts rated as 1 at origination for which a 3 notch downgrade in sub investment grades
j. Erosion in net worth by more than 20% compared to previous year coupled with increase in leverage by 1.5 times.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.1 Credit risk (continued)

37.1b Exposure to credit risk (continued)

Model risk management:

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

To manage the model risks, the Bank has established the IFRS 9 Steering Committee thus building a robust framework around the governance of the ECL Models and all other such models that directly affect the financial reporting on Expected Loss (EL). Banks ECL Models were also subject to an independent third party validation in 2022.

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

37.1c Credit rating analysis

The table below presents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation, based on Moody's ratings or equivalent.

	31 December 2023 RO'000	31 December 2022 RO'000
Ba2	5,915	13,792
Ba3	8,192	7,910
Caa2	-	7,951
Unrated bonds	-	994
Sovereign securities	1,694,587	814,658
Total	**1,708,694**	845,305

The following table shows the gross placements held with counterparties at the reporting date:

	31 December 2023 RO'000	31 December 2022 RO'000
Aaa1 to Aaa3	99,732	12,560
A1 to A3	120,553	6,975
Baa1 to Baa3	69,852	4,500
Ba1 to Ba3	113,124	13,489
B1 to Ca	249,239	66,422
Total	**652,500**	103,946

The Bank performs an independent assessment based on quantitative and qualitative factors in cases where a bank is unrated.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.1 Credit risk (continued)

37.1d Collateral securities

The Bank holds collateral against loans, advances and financings in the form of mortgage interests over property, other registered securities, assets and guarantees. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing and updated once every three years (or at such extended intervals as may be permitted by the regulator from time to time), except when a loan is individually assessed as impaired. In appropriate cases, two valuation reports are also obtained for validation. The shares of MSX listed companies obtained as securities are valued minimum monthly unless the share price is highly volatile, in which case valuation is performed on a more frequent basis.

Estimate of the fair value of collateral and other security enhancements held against loans, advances and financings:

	31 December 2023 RO'000	31 December 2022 RO'000
Against past due but not impaired		
Property	6,602	176,437
Equity	6,930	12,880
Commercial mortgage	601,244	73,416
Vehicles	2,797	1,816
Fixed deposits	270	574
Total	**617,843**	265,123
Against past due and impaired		
Property	10,675	55,848
Commercial mortgage	167,810	36,839
Fixed deposits	50	502
Vehicles	144	493
Guarantees	1,658	-
Total	**180,337**	93,682
Against neither past due nor impaired		
Property	690,242	825,702
Commercial mortgage	1,026,746	168,041
Guarantees	104,000	104,000
Fixed deposits	21,398	6,880
Equity	118,386	46,175
Vehicles	1,483	15,885
Total	**1,962,255**	1,166,683
Total collateral held	**2,760,435**	1,525,488

37.1e Settlement risk

Settlement risk is the risk that the settlement or clearance of transactions will fail. It arises whenever the exchange of cash, securities and/or other assets is not simultaneous.

In foreign exchange trades, though there is fulfilment of both the legs of the transaction on the settlement date as is common practice between trading partners (free settlement), there will be risk on account of different time zones. In these cases, daily settlement limits shall control the aggregate size of FX notional amounts permitted to settle with a counterparty on any given settlement date.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.1 Credit risk (continued)

37.1f Concentrations

Concentrations of credit risk arise when a number of counter- parties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

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

Concentration of the gross credit exposure:

	31 December 2023			31 December 2022		
	Loans, advances and financings	Due from banks	Debt securities	Loans, advances and financings	Due from banks	Debt securities
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Concentration by sector						
Corporate	2,809,678	-	14,107	2,078,958	-	30,647
Personal	1,398,703	-		987,309	-	-
Sovereign	-	-	1,694,587	-	-	814,658
Banks	-	652,500	-	-	103,946	-
	4,208,381	652,500	1,708,694	3,066,267	103,946	845,305
Concentration by location						
Middle east	4,199,334	339,224	487,780	3,066,267	92,094	489,430
Europe	9,047	258,885	434,090	-	4,288	-
North America	-	977	766,349	-	241	355,875
Asia	-	53,414	20,475	-	7,323	-
	4,208,381	652,500	1,708,694	3,066,267	103,946	845,305

Refer note 9 for analysis by economic sector

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FOR THE YEAR ENDED 31 DECEMBER 2023

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.1 Credit risk (continued)

37.1f Concentrations (continued)

Concentration by location for loans and advances is measured based on the location of the entity holding the asset, which has a high correlation with the location of the borrower. Concentration by location for investment securities is measured based on the location of the issuer of the security. The Bank seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risk with banks or customers in a specific currency. It also obtains security when appropriate.

37.2 Liquidity risk

Liquidity risk is the risk arises from the Bank's potential inability either to meet all payment obligations or only being able to meet such obligations at higher cost. It is the current and prospective risk to the Bank's earnings and equity arising out of inability to meet the obligations as and when they become due. The objective of the Bank's liquidity risk management framework is to ensure that the Bank can meet all its payment obligations as and when it is due and thus managing the Bank's liquidity and funding risks within the Board approved risk appetite. The bank shall identity all material sources of liquidity and funding risks and assess appropriate levels of required Liquid Assets Buffers and contingency funding actions.

Management of Liquidity Risk

The Bank's approach to managing liquidity is to ensure that it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking damage to the Bank's reputation. The Bank has a robust Liquidity Contingency Plan to facilitate management of liquidity under stressed conditions.

The Bank's treasury is mandated to manage the overall liquidity and funding position for the bank under the guidance and supervision of the ALCO. The sources and maturities of assets and liabilities are closely monitored to avoid any undue concentration and to ensure that the Bank is fully prepared to meet any unforeseen stress conditions.

The Bank maintains a diversified sources of funding that includes retail deposits, wholesale deposits and certain high quality bonds. These funding sources along with the Bank's equity and asset quality ensures that the Bank has adequate liquidity buffer at all times at competitive rates.

The Bank uses the following tools to manage liquidity and funding:

- Liquidity gaps in line with regulatory and internal thresholds.
- Periodic stress testing and simulation of liquidity buffer to ensure "crisis survivability"
- Liquidity Early Warning Indicators are monitored by ALCO
- Compliance and adequate maintenance of regulatory ratios such as LCR and NSFR
- The Bank's risk management performs periodic stress testing and simulation of liquidity buffer and all the material cash inflows and outflows that impact the bank's liquidity. The simulation results are presented to ALCO for deliberation and further action plan. As part of ICAAP submission, the Bank performs liquidity sensitivity analysis and based on the outcome the Bank provides economic capital under Pillar II. Further, the Bank performs a quarterly liquidity stress testing in line with CBO guidelines and the results are submitted to CBO.

37.2a Exposure to liquidity risk

Liquidity management in the Bank considers both the stock approach and the cash flow approach. Under the stock approach, liquid assets to total assets, lending ratio, loan to deposits etc. are closely monitored.

The lending ratio, that measures total loans and advances to customer deposits plus capital, is monitored on a daily basis in line with regulatory guidelines. Internally the lending ratio threshold is set at a more conservative level than required by regulator. On a monthly frequency the Bank also manages its liquidity risk by monitoring the liquid ratio, i.e. net liquid assets to total assets. For this purpose, net liquid assets include cash and cash equivalents and investment grade debt securities for those securities that has an active and liquid market. Last year, the Bank has taken a number of initiatives to increase customer deposits progressively. Under the cash flow approach, the Bank spread it assets and liabilities over various time buckets based on a residual maturity basis. to ascertain liquidity gaps.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.2 Liquidity risk (continued)

37.2a Exposure to liquidity risk (continued)

Details of the reported lending and liquid ratio:

	31 December 2023		31 December 2022	
	Lending ratio	Liquid ratio	Lending ratio	Liquid ratio
Average for the year	72.54%	20.17%	72.9%	16.9%
Maximum for the year	78.52%	26.34%	82.6%	19.6%
Minimum for the year	66.59%	17.02%	67.6%	14.5%

The Bank also monitors the liquidity through Liquidity Coverage ratio (LCR) and Net Stable Funding Ratio (NSFR).

Current levels of these ratios:

	31 December 2023	31 December 2022
LCR	204.91%	154.3%
LCR (average for the quarter)	177.38%	140.7%
NSFR	137.28%	112.0%
Leverage ratio	10.28%	15.2%

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.2 Liquidity risk (continued)

37.2a Exposure to liquidity risk (continued)

The Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) is calculated in accordance with Basel III framework and guidelines adopted by CBO vide circular BM 1127 and BM 1147. The complete disclosures required under these circulars are available on the Investor Relations page of the Bank's website.

The table below summarises the maturity profile of the Bank's liabilities as on the reporting date based on contractual repayment arrangements. The contractual maturities of liabilities have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds. Gross nominal outflow includes contractual interest to maturity.

	Carrying amount RO'000	Gross nominal outflow RO'000	Within 3 months RO'000	3 - 12 months RO'000	Over 1 year RO'000
31 December 2023					
Non – derivative liabilities					
Due to banks	676,120	678,663	216,880	107,576	354,207
Customer deposits	5,103,045	5,253,025	3,821,242	721,688	710,095
Other liabilities	107,481	107,481	107,481	-	-
Total	5,886,646	6,039,169	4,145,603	829,264	1,064,302

	Carrying amount RO'000	Gross nominal outflow RO'000	Within 3 months RO'000	3 - 12 months RO'000	Over 1 year RO'000
31 December 2022					
Non – derivative liabilities					
Due to banks	806,015	807,191	225,275	227,697	354,219
Customer deposits	2,560,098	2,626,190	1,551,827	510,604	563,759
Other liabilities	99,390	99,390	99,390	-	-
Total	3,465,503	3,532,771	1,876,492	738,301	917,978

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.3 Market risk

Market risk is defined as potential losses on account of changes in market variables. The sources of market risk include changes in interest rate, foreign exchange rates, credit spreads, commodity prices, equity prices and so on. Some of the Bank's business lines are subject to such market risks.

Interest rate benchmark reforms

IASB issued amendments to IFRS 9, IAS 39 and IFRS 7 in September 2019 through Interest Rate Benchmark Reforms. The application of the amendments has no significant impact on the Bank's accounting as currently the Bank has limited exposure to hedge accounting relationships. The Bank has modest volumes of derivative and non-derivative financial instruments, mostly within its Banking Book, that are not included in hedge accounting relationships. The fair value of these financial assets and liabilities reflects the uncertainties arising from the interest rate benchmark reforms.

The Bank considers its market risk exposures resulting from the transition from IBOR to alternative reference rates to be minimal.

Measurement and management of market risk

One of the primary objectives of Market Risk Management (MRM), a part of the Bank's independent Risk Management Department (RMD) function, is to ensure that the business units do not expose the Bank to unacceptable exposures outside of the Bank's Board approved risk appetite Market Risk Management works closely together with risk takers ("the business units") and other control and support groups to achieve this objective.

The Market Risk Function covers the assessment of the market risk for treasury portfolio and non-treasury positions, evaluate/validate methods for monitoring market risk, prescribe the control processes and define the framework for risk appetite in form of limits/trigger levels. They also conduct review of the valuation models, and the conventions for various market risk factors in the valuation and risk system that are proposed by Treasury department.

The Bank has an independent Market risk Middle Office (Middle office function) within the Bank's Risk Management Department (RMD), which is responsible for day to day monitoring of treasury, investment banking and FIG limit. The Middle Office monitors and reports adherence to set risk thresholds and escalates breaches, if any, for timely remedial action. The process ensures that the risks assumed by various front office desks are within the Board approved risk appetite and related policies of the Bank.

37.3a Exposure to Interest Rate Risk – non trading portfolios

The market risk management monitor the following limits and approved / thresholds:

- Exposure limits, variation margin limits with counterparties and credit risk equivalent (CRE) for derivatives
- Permitted derivative structures
- Stop loss thresholds for investments
- Open currency position thresholds
- Regulatory limits for investments under various categories
- Dealer limits
- Nostro Balances

The risk management function is responsible for development of detailed risk management policies (subject to approval by ALCO and BRC). The market and liquidity risk policy is periodically reviewed and updated based on the evolving business environment and regulatory changes.

Interest rate risk arises from the adverse impact on the Bank's financial position because of change in market interest rates. The trading book impact is reflected by way of change in the value of investments. The banking book impact is reflected through the change in Net Interest Income (NII) and Economic Value of Equity (EVE). The Bank's Asset Liability Committee (ALCO) is responsible for managing interest rate risk. Regular reports to ALCO report include interest rate risk reports, currency wise as well as consolidated balance sheet positions, liquidity gaps and measurement of NII and EVE. The ALCO regularly reviews the reports and provide direction to treasury to manage interest rate risk. Further key information related to interest rate risk is periodically reported to the Bank's Board Risk Committee (BRC).

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.3 Market risk (continued)

37.3a Exposure to Interest Rate Risk – non trading portfolios

Interest rate sensitivity position based on contractual re-pricing arrangements:

	Effective annual interest rate %	Within three months RO'000	Four months to 12 months RO'000	Over one year RO'000	Non-sensitive to interest rate RO'000	Total RO'000
31 December 2023						
Assets						
Cash and balances with Central Banks	0.01	507	-	-	205,162	205,669
Due from banks	1.74	586,763	25,059	21,417	18,765	652,004
Investment securities	3.30	1,348,731	62,744	299,044	663	1,711,182
Loans, advances and Islamic financings (net)	5.67	1,666,931	566,413	1,657,628	30,220	3,921,192
Other assets		-	-	-	53,588	53,588
Investment properties		-	-	-	2,900	2,900
Property and equipment		-	-	-	75,571	75,571
Intangible assets		-	-	-	66,614	66,614
Total assets		3,602,932	654,216	1,978,089	453,483	6,688,720
Liabilities and equity						
Due to banks	1.95	484,463	111,542	-	80,115	676,120
Customer deposits	2.93	1,189,309	391,472	670,302	2,851,962	5,103,045
Other liabilities		-	-	-	107,481	107,481
Total equity		-	-	-	802,074	802,074
Total liabilities and equity		1,673,772	503,014	670,302	3,841,632	6,688,720
Interest sensitivity gap		1,929,160	151,202	1,307,787	(3,388,149)	-
Cumulative Gap		1,929,160	2,080,362	3,388,149	-	-

	Effective annual interest rate %	Within three months RO'000	Four months to 12 months RO'000	Over one year RO'000	Non-sensitive to interest rate RO'000	Total RO'000
31 December 2022						
Assets						
Cash and balances with Central Banks	0.01	507	-	-	125,388	125,895
Due from banks	1.36	80,885	7,004	-	16,056	103,945
Investment securities	3.32	448,665	56,216	340,440	8,522	853,843
Loans, advances and Islamic financings (net)	5.47	1,210,674	435,233	1,253,324	25,063	2,924,294
Other assets	-	-	-	-	66,675	66,675
Investment properties	-	-	-	-	2,900	2,900
Property and equipment	-	-	-	-	53,449	53,449
Total assets		1,740,731	498,453	1,593,764	298,053	4,131,001
Liabilities and equity						
Due to banks	1.91	567,115	227,017	-	11,883	806,015
Customer deposits	2.63	933,236	582,205	288,945	755,712	2,560,098
Other liabilities	-	-	485	-	98,905	99,390
Total equity	-	-	-	-	665,498	665,498
Total liabilities and equity		1,500,351	809,707	288,945	1,531,998	4,131,001
Interest sensitivity gap Gap		240,380	(311,254)	1,304,819	(1,233,945)	-
Cumulative Gap		240,380	(70,874)	1,233,945	-	-

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.3 Market risk (continued)

37.3a Exposure to interest rate risk – non trading portfolios (continued)

Interest rate risk is managed by taking views on interest rate movements for the year and realigning the portfolios and covenants of lending, so as to be proactive and minimise adverse effects. The benchmark presently available in Oman is the 28-day CBO rates. The trend of the weighted average interest on loans and cost of deposits for the year is provided below:

2023	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Lending rate	5.61%	5.65%	5.65%	5.64%	5.74%	5.71%	5.70%	5.74%	5.74%	5.72%	5.78%	n/a
Deposit rate	2.13%	2.18%	2.22%	2.29%	2.34%	2.42%	2.39%	2.47%	2.51%	2.61%	2.67%	n/a

n/a* (not available)

2022	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Lending rate	5.10%	5.07%	5.13%	5.14%	5.19%	5.33%	5.38%	5.42%	5.44%	5.47%	5.50%	5.64%
Deposit rate	1.90%	1.89%	1.85%	1.83%	1.84%	1.81%	1.82%	1.86%	1.84%	1.88%	1.95%	2.07%

The management of interest rate risk is one of the critical components of market risk management in banks. Interest rate risk primarily arises on account of mismatch of the Bank's repricing assets with its repricing liabilities that fund the assets. There are basically two approaches to management of interest rate risk in banks, namely "Earnings Approach" and "Economic Value Approach". The interest rate risk is assessed based on the impact of interest rate shock on the Bank's earnings and capital.

The focus of earnings approach understands the impact of interest rate changes (shock) of assets and liabilities on the Net Interest Income of the Bank. It measures the extent of capability of the Bank to absorb decline in net interest income caused by interest rate changes.

Interest rate risk also influences the present value of the Bank's asset and liabilities. Economic value perspective considers the present value of the Bank's assets and liabilities and assesses the potential longer term impact of interest rates on the Bank. This perspective focuses on how the economic value of the Bank's assets and liabilities change with movements in interest rates and it reflects the impact of fluctuation in the interest rates on the economic value of the institution.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.3 Market risk (continued)

37.3a Exposure to interest rate risk – non trading portfolios (continued)

The Basel-II Accord recommended that banks should assess the impact of interest rate risk by applying a 200 bps interest rate sensitivity and accordingly the impact of 200 bps interest rate shock on the Bank's earnings and capital is provided below:

	31 December 2023 RO'000	31 December 2022 RO'000
Net interest income (including Islamic financing)	**125,879**	103,683
Total Regulatory Capital (note 38)	**764,056**	652,726
Based on 50 bps interest rate shock		
Impact of 50 bps interest rate shock	**9,726**	930
Impact as % to net interest income	**7.73%**	0.90%
Impact as % to capital	**1.27%**	0.14%
Based on 100 bps interest rate shock		
Impact of 100 bps interest rate shock	**19,451**	1,860
Impact as % to net interest income	**15.45%**	1.79%
Impact as % to capital	**2.55%**	0.29%
Based on 200 bps interest rate shock		
Impact of 200 bps interest rate shock	**38,903**	3,721
Impact as % to net interest income	**30.91%**	3.59%
Impact as % to capital	**5.09%**	0.57%

37.3b Exposure to other market risks

Investment value risk is the risk of reduction in the market value of the Bank's portfolio as a result of diminution in the market value of individual investments. The responsibility for management of investment value risk rests with the Investment division under the supervision and guidance of the Management Investment Committee. The Bank's investments are governed by an investment policy approved by the Board of Directors. The ratings and prices of the instruments are monitored on a regular basis and necessary actions are taken to reduce exposure if needed. The portfolio is revalued at market price to ensure that unrealised losses, if any, on account of reduction in the market value of the investments remains within acceptable parameters.

Security by country	**Changes in fair value +/- 5%**	
	31 December 2023 RO'000	31 December 2022 RO'000
Oman	**87**	400
Other Gulf Co-operation Council (GCC) countries	**4**	4

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.3 Market risk (continued)

37.3b Exposure to other market risks (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on the total open position and open position per currency. The open position limits include overnight and intraday open position. Open positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits. The Bank had the following net open positions denominated in foreign currencies:

	31 December 2023			31 December 2022		
	Assets	Liabilities	Net (liabilities)/ assets	Assets	Liabilities	Net (liabilities)/ assets
	FCY' 000	FCY' 000	FCY' 000	FCY' 000	FCY' 000	FCY' 000
US Dollar	7,040,951	6,813,563	227,388	3,952,860	4,324,210	(371,350)
Euro	1,347,110	1,347,771	(661)	1,271,216	1,272,404	(1,188)
UAE Dirhams	6,718,317	6,782,930	(64,613)	25,101	40,826	(15,725)
Japanese Yen	17,031,136	16,954,053	77,083	71,955	55,152	16,803
Swiss Franc	2,331	2,230	101	70	18	52
Pound Sterling	262,277	261,427	850	6,758	6,735	23
Indian Rupee	20,406	1,128	19,278	25,034	86	24,948

The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

37.4 Operational risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, or from external events and excludes credit, market and liquidity risks. It includes Legal Risk however excludes Strategic and Reputational Risk.

The Bank's objective is to manage operational risk to avoid/reduce financial losses to the Bank by the establishment of the necessary controls, systems and procedures. The Bank recognises that an over-controlled environment will affect the Bank's business and earnings, besides adding to costs. Therefore, the Bank aims to effectively manage operational risk through control optimisation and well established systems, methods and governance framework.

In this regard, the primary responsibility for development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank's standards in the following areas for management of operational risk:

- Clear reporting lines;
- Proper delegation of powers;
- Appropriate segregation of duties and authorisation of transactions through a maker checker system and authorisation matrix;
- Ownership reconciliation and monitoring of accounts;
- Documentation of controls and processes;
- Compliance with regulatory and other legal requirements;
- Periodic assessment of the operational risks faced and evaluating the adequacy of controls and procedures to address the risks identified;
- Reporting of operational losses and incidents triggering operational losses and remedial action;
- Development of contingency plans;
- Training, skill up gradation and professional development;
- Ethical and business standards; and
- Risk mitigation through insurance, wherever desirable.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.4 Operational risk (continued)

It may be noted that compliance with Bank's standards is supported by a program of periodic reviews undertaken by Internal Audit department which includes both 1st and 2nd Line of Defence. The results of internal audit are discussed with the business unit heads and summary observations of audit are placed to Audit Committee and Senior Management of the Bank for corrective action.

In this regard, Bank has put in place a Board approved Operational Risk Management Policy & Framework which ensures compliance with all applicable local Regulatory guidelines as well as global standards, stipulated in the Basel Committee on Banking Supervision (BCBS). The core objective of the Operational Risk Management Policy & Framework is to continuously ensure that risks related to people, processes, systems and external events are adequately managed, through a set of well-defined policies and procedures / guidelines. These policies & procedures in the Bank are supported with robust systems, applications & workflows, together with well training & skilled staff in respective business, operations and support divisions.

The Bank has an independent Operational Risk Management Department, reporting to Chief Risk Officer (CRO) and it is adequately staffed, comprising of specialised resources / staff with adequate levels of experience and knowledge in different areas of banking business, wherein the Head of Operational Risk is directly involved in the recruitment, objective setting and appraisal of the staff. For effective management of Operational Risk, the core Operational Risk Management Department staff / risk officers, closely interacts / collaborates with Risk & Control Managers (RCM) from 1st and 2nd Line, who are nominated staff within all critical lines of business & operations, and responsible for ensuring Operational Risk policy requirements are adequately adhered, thereby improving the overarching internal control environment in the Bank. These RCMs acts as subject matter experts with deep technical and functional knowledge along with adequate understanding of Bank's Operational Risk Policy & Regulatory requirements, and together with core Operational Risk Management Department, they regularly oversee, support and challenge activities of business and operations and ensures optimization of risk –reward trade-off, by aligning risk taking and strategic planning.

It is pertinent to note that Bank has implemented all key control measures necessary to mitigate Operational Risk, which includes but not limited to, adequate segregation of duties, access control, robust change management governance, sound business continuity planning and physical security controls, alongside Data back, disaster recovery measures and need-based staff training & awareness.

Furthermore, Bank has implemented a structured Operational Risk Loss Event reporting process / system to promptly identify and mitigate any control deficiencies / process lapses. In addition, the Bank has a comprehensive Risk Control Self-assessment (RCSA) process in place which is conducted on periodic basis for all critical business lines, with the aim to identify, assess, mitigate, monitor and report all key risks. In line with Regulatory requirements, Bank maintains a comprehensive Operational Risk incident / internal loss database, duly categorising them as per BCBS requirements to study the loss trends and for preparing towards higher approaches for Operational Risk Management.

With respect to Management and Board oversight, Bank has instituted a strong governance framework through formulation of committees at different levels, for effective management and implementation of Operational Risk Management Framework (ORMF). In this regard, at Board level, the Board Risk Committee (BRC), has been delegated the task of implementing and effective ORMF within the Bank, while at the Executive Management level, the Management Risk Committee (MRC) is responsible to periodically review, monitor and provide suitable guidance / instruction on bank's non-financial risk areas, namely Operational Risk, Compliance Risk, Information Security Risk and Legal Risk and further ensure appropriate Management actions are undertaken where necessary. For the purpose, the Operational Risk Management Department submits periodic reports to both MRC and BRC and discusses various key issues, incidents and emerging risks along with mitigation measures which are in place.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.5 Business Continuity Management

The Bank has established a Business Continuity Management (BCM) Program designed to minimize service disruption and the potential impact on the Bank, our customers and our staff. This includes a BCM Policy that is approved by our Board together with written Business Continuity and Disaster Recovery plans (DRPs) and procedures that are subject to periodic independent review. Although the specific details of our BCM arrangements are confidential for security reasons, the bank maintains Business Continuity Plans (BCPs) that address risk scenarios and events of varying scope including, but not exclusively, loss of services or infrastructure, denial of access, cyber-attack, pandemics and regional crises.

Sohar International BCPs are focused on maintaining critical processes, including treasury, capital & liquidity and payment services, providing customers with uninterrupted access to their funds and maintaining effective communications with our customers, staff and other stakeholders."

38. CAPITAL MANAGEMENT

The Bank's lead regulator, the CBO, sets and monitors the capital requirements for the Bank as a whole. In implementing current capital requirements CBO requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets. The Bank calculates capital requirements for market risk and operational risk based upon the model prescribed by the CBO as follows:

- Claims against sovereign entities in the respective national currencies – Nil
- Claims against sovereign entities in other currencies – 100% risk weighting is applied as prescribed by the CBO
- Retail and Corporate loans – In the absence of credit rating model 100% risk weighting is applied
- Off balance sheet items – As per credit conversion factors and risk weighting prescribed by the CBO

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital includes ordinary share capital, share premium, perpetual tier 1 capital securities classified as innovative Tier 1 securities, retained earnings, translation reserve and minority interests after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital includes qualifying subordinated liabilities, collective impairment allowances and unrealised losses on equity instruments classified as available for sale investments.

Various limits are applied to elements of the capital base. The amount of innovative tier 1 securities cannot exceed 15 per cent of total tier 1 capital; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 per cent of tier 1 capital. There are also restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of banks and certain other regulatory items.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The Bank's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

In order to smoothen the higher volatility in ECL computation and its impact on regulatory capital of the Banks due to Covid19, CBO has issued a new interim requirement to apply a "prudential filter" on IFRS 9 ECL provisions for calculating the regulatory capital. The impact of this prudential filter on the Bank's regulatory capital is 8 bps.

The capital adequacy ratio is calculated in accordance with Basel II & Basel III requirements as adopted by CBO. Disclosures required under Basel III and circular BM-1114 dated 17 November 2013 issued by CBO are available on the Investor Relations page of the Bank's website.

38. CAPITAL MANAGEMENT (CONTINUED)

The international standard for measuring capital adequacy is the risk asset ratio, which relates capital to balance sheet assets and off balance sheet exposures weighted according to broad categories of risk. The risk asset ratio calculated in accordance with the capital adequacy guidelines of the Bank for International Settlement is as follows:

	31 December 2023 RO'000	31 December 2022 RO'000
CET 1 capital		
Ordinary share capital	**561,572**	455,355
Share premium	**18,038**	18,038
Legal reserve	**44,910**	37,877
General reserve	**988**	988
Subordinated loan reserve	**-**	485
Retained earnings [1]	**53,008**	26,809
Fair value reserve on acquisition	**(11,411)**	-
Intangible (net) [2]	**(56,622)**	-
Fair value losses	**(645)**	(657)
Total CET 1 capital	**609,838**	538,895
Additional Tier 1 capital		
Perpetual tier 1 capital securities	**100,000**	100,000
Total Tier 1 capital	**709,838**	638,895
Tier 2 capital		
Impairment allowance on portfolio basis	**54,183**	13,810
Fair value gains	**35**	21
Total Tier 2 capital	**54,218**	13,831
Total regulatory capital	**764,056**	652,726
Risk weighted assets		
Credit and market risks	**4,001,541**	2,899,381
Operational risk	**269,921**	215,865
Total risk weighted assets	**4,271,462**	3,115,246
Capital adequacy ratio		
Total regulatory capital expressed as a percentage of total risk weighted assets	**17.89 %**	20.95%
Total tier I capital expressed as a percentage of total risk weighted assets	**16.62%**	20.51%
Total CET 1 capital expressed as a percentage of total risk weighted assets	**14.28%**	17.30%

(1) Retained earnings for the year 2023 is stated after deducting proposed dividend of RO 30.07 million (31 December 2022: RO 20.66 million).

(2) Intangible assets net of deferred tax liability is a deduction from CET1 capital.

39. SEGMENTAL INFORMATION

Segmental information is presented for the Bank's operating segments. For management purposes the Bank is organised into the following key operating segments:

Retail banking:

- Retail banking offers a broad range of products and services to meet personal banking needs of individual customers and deposits from small and medium enterprises (SME)

Wholesale banking:

- Wholesale banking provides tailored financial solutions to corporate and institutional clients across large and mid-sector, government & public sector, SME lending and private banking.

- Services provided include working capital, term loan financing, project finance & structured products, payment services, international trade facilities as well as expertise in access to money market instruments, derivatives and foreign exchange products. It also offers business advisory, transaction banking and cash management services, proprietary investments, correspondent and investment banking services.

Islamic banking

- Including Islamic financing activities, current accounts, unrestricted investment accounts and other products and services to corporate and individual customers under Shari'a principles.

Head office

- Includes establishment expenses of branch operations in the Kingdom of Saudi Arabia.
- Includes balance sheet, income and expense related items that are not directly related to the Bank's operating segments.

The CEO monitors the operating results of business units separately for the purpose of making decisions about resource allocation and performance assessment.

Transfer pricing between operating segments is on an arm's length basis in a manner similar to transactions with third parties.

No revenue from transactions with a single external counterparty or customer amounted to 10% or more of the Bank's total revenue in 2023 and 2022.

39. SEGMENTAL INFORMATION (CONTINUED)

31 December 2023	Retail banking RO'000	Wholesale banking RO'000	Islamic banking RO'000	Head Office RO'000	Total RO'000
PROFIT AND LOSS					
Net interest income	14,808	103,646	-	-	118,454
Net income from Islamic financing and investing activities	-	-	7,425	-	7,425
Other operating income	10,737	23,581	3,210	-	37,528
Total Operating Income	25,545	127,227	10,635	-	163,407
Total Operating Expenses	(32,233)	(34,505)	(5,552)	(4,638)	(76,928)
Net Operating Income Before Impairment Provisions	(6,688)	92,722	5,083	(4,638)	86,479
Loan impairment charges and other credit risk provisions (net)	15,418	(119,423)	(1,064)	-	(105,069)
Gain on bargain purchase	-	-	-	91,751	91,751
Profit before tax	8,730	(26,701)	4,019	87,113	73,161
Income tax expense	(1,310)	3,836	(603)	(4,749)	(2,826)
Profit for the year	7,420	(22,865)	3,416	82,364	70,335
FINANCIAL POSITION					
Assets					
Cash and balances with Central Bank	-	167,437	38,232	-	205,669
Due from banks	-	633,227	18,777	-	652,004
Investment securities	-	1,686,630	24,552	-	1,711,182
Loans, advances and Islamic financings (net)	1,231,608	2,171,271	518,313	-	3,921,192
Other assets	-	30,340	1,777	21,471	53,588
Investment properties	-	-	-	2,900	2,900
Property and equipment	-	-	2,361	73,210	75,571
Intangible assets				66,614	66,614
TOTAL ASSETS	1,231,608	4,688,905	604,012	164,195	6,688,720
Liabilities					
Due to banks	-	650,954	25,166	-	676,120
Customer deposits	992,936	3,603,295	506,814	-	5,103,045
Other liabilities	-	32,117	3,275	72,089	107,481
TOTAL LIABILITIES	992,936	4,286,366	535,255	72,089	5,886,646
Internal Funding (net)	238,672	402,539		(641,211)	-
TOTAL EQUITY	-	-	68,757	733,317	802,074
TOTAL LIABILITIES & EQUITY	1,231,608	4,688,905	604,012	164,195	6,688,720

39. SEGMENTAL INFORMATION (CONTINUED)

31 December 2022	Retail banking RO'000	Wholesale banking RO'000	Islamic banking RO'000	Head Office RO'000	Total RO'000
PROFIT AND LOSS					
Net interest income	22,879	71,728	-	-	94,607
Net income from Islamic financing and investing activities	-	-	9,076	-	9,076
Other operating income	10,149	16,895	2,119	-	29,163
Total Operating Income	33,028	88,623	11,195	-	132,846
Total Operating Expenses	(24,132)	(26,050)	(4,989)	-	(55,171)
Net Operating Income Before Impairment Provisions	8,896	62,573	6,206	-	77,675
Loan impairment charges and other credit risk provisions (net)	473	(40,055)	(77)	-	(39,659)
Profit before tax	9,369	22,518	6,129	-	38,016
Income tax expense	(777)	(1,442)	(919)	-	(3,138)
Profit for the year	8,592	21,076	5,210	-	34,878
FINANCIAL POSITION					
Assets					
Cash and balances with Central Bank	-	99,228	26,667	-	125,895
Due from banks	-	96,624	7,321	-	103,945
Investment securities	-	826,604	27,239	-	853,843
Loans, advances and Islamic financings (net)	810,566	1,691,684	422,044	-	2,924,294
Other assets	-	45,971	1,197	24,940	72,108
Investment properties	-	-	-	2,900	2,900
Property and equipment	-	-	634	47,382	48,016
TOTAL ASSETS	810,566	2,760,111	485,102	75,222	4,131,001
Liabilities					
Due to banks	-	781,507	24,508	-	806,015
Customer deposits	917,552	1,240,135	402,411	-	2,560,098
Other liabilities	-	45,967	2,681	50,257	98,905
Subordinated loans	-	-	-	485	485
TOTAL LIABILITIES	917,552	2,067,609	429,600	50,742	3,465,503
Internal Funding (net)	(106,986)	692,502	-	(585,516)	-
TOTAL EQUITY	-	-	55,502	609,996	665,498
TOTAL LIABILITIES & EQUITY	810,566	2,760,111	485,102	75,222	4,131,001

40. BUSINESS COMBINATION – PURCHASE CONSIDERATION AND IDENTIFIABLE NET ASSETS ACQUIRED

The merger by incorporation with HBON has been accounted for using the acquisition method of accounting. Accordingly, assets acquired, liabilities assumed, and consideration exchanged are recorded at estimated fair value on the acquisition date.

The purchase consideration (also referred to as "purchase price") has been allocated to the acquired assets and liabilities using their provisional fair values at the merger date. The calculation of the purchase consideration and its allocation to the net assets of the merged entity is based on their respective fair values as of the merger date and the resulting bargain purchase is detailed below.

Gain on bargain purchase is based on provisional purchase price allocation and represents the difference between purchase consideration and fair value of identifiable net assets. The allocation of the purchase price may be modified within a period of twelve months from the date of business combination, as more information is obtained about the fair value of assets acquired and liabilities assumed, including alignment in business models as appropriate. The gain on bargain purchase is therefore a provisional recognition.

The fair value of identifiable assets and liabilities of HBON as at the merger date and subsequent provisional fair value adjustments are as follows:

Assets	**RO'000**
Cash and balances with Central Bank	**456,817**
Due from Banks	**477,913**
Investment securities	**62,087**
Loans and advances (net)	**1,123,979**
Other assets	**38,913**
Property and equipment	**19,977**
Intangible assets	**68,311**
Total assets	**2,247,997**
Liabilities	
Due to Banks	**65,728**
Customer deposits	**1,654,871**
Other liabilities	**92,700**
Total liabilities	**1,813,299**
Fair value of net identifiable assets at merger date (a)	**434,698**
Less: Consideration for the merger	
Ordinary shares (note 17)	106,216
Fair value reserve on acquisition (note 19)	(11,411)
Fair value of shares issued	94,805
Cash	248,142
Total Consideration Paid (b)	**342,947**
Gain on bargain purchase (a) – (b)	**91,751**
Net cash flow on acquisition:	
Cash and cash equivalents acquired	786,859
Purchase consideration	(248,142)
Net cash flow on acquisition	538,717

The consideration for the merger consists of the issue of 877,826,210 new shares to the shareholders of HBON. Issue costs which were directly attributable to the issue of the shares were not material to these financial statements. As a result of issuance of shares, there was an increase in share capital of the Bank by RO 106,216,971 (note 17).

Direct costs related to the merger of RO 1.36 million are included in other operating expenses.

41. COMPARATIVE FIGURES

Certain comparative figures for 2022 have been reclassified in order to conform to the presentation for the current period. Such reclassifications do not affect previously reported net profit or shareholders' equity.

REGULATORY DISCLOSURES
(SOHAR INTERNATIONAL)

GOVERNANCE AT THE ROOT OF
AMPLIFIED
SUCCESS

Deloitte.

Report of factual findings to the Board of Directors of Sohar International Bank SAOG in respect of Basel II - Pillar III Disclosures and Basel III related disclosures

Purpose of the Agreed Upon Procedures Report and Restriction on Use and Distribution

Our report is solely for the purpose of assisting the **Sohar International Bank SAOG** ("the Bank") in reporting factual findings to the Board of Directors of the Bank in respect of Basel II - Pillar III Disclosures and Basel III related disclosures and may not be suitable for another purpose.

The report is intended solely for the Sohar International Bank SAOG (the "Engaging Party") and **Board of Directors of Sohar International Bank SAOG**, and should not be used by, or distributed to, any other parties. Our report is not to be used for any other purpose, recited or referred to in any document, copied or made available (in whole or in part) to any other person without our prior written express consent. We accept no duty, responsibility or liability to any other party in connection with the report or this agreed upon procedures engagement. This report relates only to the matters specified below and does not extend to any financial statements of Sohar International Bank SAOG taken as a whole.

Responsibility of the Engaging Party

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

The Bank is responsible for the subject matter on which the agreed upon procedures are performed.

Practitioner's Responsibilities

We have conducted the agreed upon procedures engagement in accordance with the International Standard on Related Services 4400 (Revised), Agreed Upon Procedures Engagements. An agreed upon procedures engagement involves our performing the procedures that have been agreed with the Engaging Party, 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.

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 ethical requirements of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* ("IESBA Code") and the independence requirements in accordance with local laws.

Our firm applies International Standard on Quality Management ("ISQM") 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or 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 agreed with you in our letter dated 28 March 2023 and as prescribed in the Central Bank of Oman ("CBO") Circular No BM 1027 dated 4 December 2007, with respect to the Basel II - Pillar III disclosures and Basel III related disclosures (the disclosures) of the Sohar International Bank SAOG ("the Bank") set out on the attached pages as at and for the year ended 31 December 2023. The disclosures were prepared by the management in accordance with the CBO's Circular No. BM 1009 dated 13 September 2006 and Circular No. BM 1027 dated 4 December 2007 and BM 1114 dated 17 November 2013. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements (ISRS 4400 (Revised)). The procedures, as set out in Circular No. BM 1027 dated 4 December 2007, were performed solely to assist you in evaluating the Bank's compliance with the disclosure requirements set out in CBO's Circular number BM 1009 dated 13 September 2006 and BM 1114 dated 17 November 2013.

We report no findings based on the work performed.

You have acknowledged that the agreed upon procedures are appropriate for the purpose of the engagement.

This report is based on the information provided to us by the management of the Engaging Party. We did not subject the information contained in our report or given to us by management to checking or verification procedures except to the extent expressly stated above. This is normal practice when carrying out such limited scope procedures, but contrasts significantly with, for example, an audit. The procedures we performed were not designed to and are not likely to reveal fraud.

All monetary amounts noted are in OMR unless otherwise stated.

Deloitte & Touche

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
12 March 2024

1. PURPOSE AND BASIS OF REGULATORY DISCLOSURES

The following disclosures are being made in accordance with the revised capital adequacy rules under the Basel II & Basel III framework issued by the Central Bank of Oman (CBO) through circular number BM 1009 dated 13 September 2006 and BM 1114 dated 17 November 2013. The CBO guidelines for banks are structured around three pillars such as the Pillar I Minimum Capital Requirements, the Pillar II Supervisory review process and the Pillar III the Market discipline. The Pillar III disclosures complement Pillar I and Pillar II. The disclosures aim to provide market participants material qualitative and quantitative information about Sohar International Bank's (the bank) risk management processes, risk exposures, risk management strategies and processes of capital adequacy status.

2. SUBSIDIARIES AND SIGNIFICANT INVESTMENTS

The Bank has no subsidiaries or significant investments. However, Bank has introduced Islamic Banking through an Islamic window named as "Sohar Islamic". Accordingly, the information in the document pertains to the consolidated entity i.e., for both conventional banking & Islamic window. The disclosure pertaining to Window is provided separately.

3. INTRODUCTION AND OVERVIEW

The bank's business model requires the bank to identify, assess, measure, aggregate and manage the risks, and to allocate capital among the bank's businesses. The bank's material risks can be categorized as financial risks and non-financial risks. Financial risk comprises credit risk (including default, transaction, settlement, exposure, country, mitigation and concentration risks), market risk (including interest-rate, foreign exchange and investment price risk), liquidity risk and business (strategic) risk. Non-financial risk comprises operational risks and reputational risks (including compliance risk, legal risk, fraud risk, and information security risk).

The bank manages identification, assessment and mitigation of top and emerging risks through an internal governance process and also with the use of risk management tools and processes. The bank's approach to risk identification and impact assessment aims to ensure that the bank mitigates the impact of these risks in its financial results, long term strategic goals and reputation.

4. RISK MANAGEMENT PROCESS & FRAMEWORK

Overall risk management strategy of the bank is based on the following three pillars:

(i) Risk governance: That defines the roles and responsibilities with respect to approval, reporting and escalations
(ii) Oversight: Carry on periodic portfolio reviews and ensure various Board and senior management level risk reporting to ensure sound monitoring of Risk
(iii) Control: include a range of policies encompassing all risk-taking businesses, which are updated and reviewed regularly.

The overall responsibility of risk management lies with the bank's Board of Directors managed through Board Risk Committee (BRC). The Board regularly monitors the risk and capital profile. For the purpose of day-to-day management of risks, the bank has created an independent Risk Management Department (RMD). The RMD objectively reviews and ensures that the various functions of the bank operate within the risk parameters set by the BRC. RMD ensures prudent management of risks assumed by the bank in its normal course of business. Further, the bank through the Management Risk Committee (MRC) ensures that all the key non-financial risks which predominantly that the bank faces are addressed and also to ensure that the bank's strategic objectives are achieved within the Board approved risk appetite.

Risk and capital are managed through a framework of principles, policies, organizational structures, measurement and monitoring processes. Responsible stakeholders ensure that such risks are closely aligned with the activities of the divisions and business units. The bank operates on a Three Lines of Defense risk management model in which risk taking, risk monitoring and risk reporting responsibilities are clearly defined.

Defense line	I	II	III
Role	Risk	Risk Review	Assurance
Stakeholders	Business	Risk Management & Compliance	Internal Audit
Process	Generate risks in line with Risk Appetite	Risk measurement, risk monitoring and risk reporting	Assure alignment with risk appetite and risk strategy
	Transparent and complete disclosure of all risks	Escalate breaches / deviations / concerns for action	Major deviations analyzed & escalates non-alignment
	Pro-active post approval monitoring	Facilitate Risk Appetite framework	Major losses analyzed and recommend corrective actions

REGULATORY DISCLOSURES UNDER BASEL II & BASEL III FRAMEWORK
AS AT 31 DECEMBER 2023

4. RISK MANAGEMENT PROCESS & FRAMEWORK (CONTINUED)

Risk Management is an enterprise wide responsibility. The roles and responsibilities are clearly segregated and thus three lines of defense model promotes transparency, accountability and consistency between various stakeholders.

5. RISK APPETITE

The Bank maintains a prudent and disciplined approach to risk taking through a well defined Risk Appetite Statement, comprehensive set of risk management policies & processes and involvement of professionally qualified risk personnel with appropriate skills Risk Appetite Framework is a critical tool for the banks to manage their risks and achieve their strategic objectives. Effective implementation of a Risk Appetite Framework can aid banks manage their risks more effectively and make informed decision making in pursuit of achieving their long term objectives

Risk appetite is the amount of risk an organization is willing to take in pursuit of achieving its strategic objectives. Risk appetite is also construed as the maximum amount of residual risk a bank is willing to accept after controls and other measures have been put in place. Risk tolerance, by contrast, is the amount of deviation from its risk appetite that an a bank is willing to accept to achieve a specific objective based on parameters that include industry best standards or those based on the bank's specific parameters.

Risk appetite is an an integral component of enterprise risk management and is generally influenced by a wide variety of factors, including the following:

- Culture of an organization;
- Industry
- Competition
- Growth objectives being pursued
- Financial strength

with the above view, the bank maintains a risk appetite framework that enables the bank to carry risks according to its risk capacity and monitor various risks against the internal and regulatory risk thresholds. Risk appetite statements are complemented by a number of specific risk metrics and tolerances which assist management in assessing whether outcomes are consistent with the Bank's risk appetite. These are usually quantitative and/or qualitative for each of its principal risks.

The qualitative aspects represent the bank's business model which is based on the fundamental principles that ensures sustainability, growth and profitability. The quantitative aspects consist of key metrics that covers the areas such as credit risk, market risk, liquidity risk operational risk, capital and so on.

The business activities of the bank underpin the following set of principles:

Regulatory: Adherence and compliance with local supervisory and applicable international regulations

Investor Confidence: The bank promotes economic growth by reinforcing the trust and confidence of the bank's shareholders and investors.

Rating Agency Confidence: The bank to maintain a favorable credit rating from external credit rating agencies by maintaining strong capital adequacy ratio, sound risk management practices and adequate liquidity buffer.

Liquidity: The bank shall ensure that it has sufficient liquidity buffer in order to meet all funding obligations from its depositors and creditors

Reputation: This is the risk of damage to the bank's brand and its subsequent impact on earnings, capital and liquidity. The bank's reputation is founded on the trust of customers, shareholders, employees, regulators and the public. The bank shall always endeavor to maintain its reputation and perception to all stakeholders and associated parties.

The risk appetite thresholds and actual positions are updated and monitored on a monthly basis at management level and quarterly basis at Board Risk Committee (BRC) level. The breach of thresholds is escalated to management and or to Board, according to the level of breach, to decide the corrective remedial action. The risk appetite framework is reviewed and updated annually based on the evolving business environment, regulatory changes, business strategy and objectives. The outcome of the updated framework is shared with BRC.

6. CAPITAL STRUCTURE

The authorised share capital of the Bank is RO 1 billion (31 December 2022: RO 1 billion). The issued shares of the Bank are 5,467,888,500 shares (31 December 2022: 4,590,062,290 shares) The fully paid up capital of the Bank is RO 561.572 million (31 December 2022: RO 455.355 million).

In August 2023, the Bank issued 877,826,210 fully paid up ordinary shares valued at 1.21 baisa per share to the shareholders of HBON, amounting to OMR 106.216 million, as part consideration for the merger.

The Bank issued its first perpetual tier 1 capital Securities amounting to RO 100 million on 25 September 2017. These securities bear interest on their nominal amount from the issue date to the first call date at a fixed annual rate of 7.75% with interest rate reset at five year intervals. The interest is payable semi-annually in arrears and treated as a deduction from equity. On 25th September 2022 the Bank, after prior consent from the CBO, exercised its option to redeem the securities in full.

On 14 March 2019, the Bank issued its second perpetual tier 1 capital Securities amounting to RO 100 million. These securities bear interest on their nominal amount from the issue date to the first call date at a fixed annual rate of 7.50% with interest rate reset at five year intervals. The interest is payable semi-annually in arrears and treated as a deduction from equity.

Both the securities constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. They do not have a fixed or final maturity date. The Bank may at its discretion and after prior consent from the relevant regulatory authority, exercise its option to redeem the securities in full (not in part) on the first Call Date, i.e. the 5th anniversary of the Issue Date, and every six months thereafter, again subject to the prior consent of the regulatory authorities.

The Bank at its sole discretion may elect not to pay the interest. This is not considered as an event of default. If the Bank does not pay the interest, on a scheduled payment date (for whatever reason), it cannot make any other distribution or payment on or with respect to its ordinary shares or any of its other Common Equity Tier 1 instruments or securities, ranking junior to or pari-passu with the perpetual tier 1 capital securities unless and until it has paid one interest payment in full on the securities. The terms of the perpetual tier 1 capital securities issuance allow the Bank to write-down (in whole or in part) any amounts due to the holders of the securities under certain circumstances.RO 7,500 million was paid as interest for the period ended 31December 2023 (31 December 2022: RO 15.250 million) and is recognised in the statement of changes in equity.

The Bank raised unsecured subordinated loans of RO 35 million during the year 2016 with a maturity of 7 years. These instruments are unlisted, non-transferable, non-negotiable, non-convertible and carry a fixed rate of interest payable semi-annually. The principal amount of the subordinated loans is repayable on maturity unless early repayment is mutually agreed by the investor and the Bank. The Bank is required to create a subordinated loan reserve from retained earnings, equal to 20% of the issue value, at the end of each of the last five years of the term of the subordinated loans.

In accordance with CBO regulations the amount of subordinated loans as reduced by the subordinated loan reserve is considered as Tier 2 capital for capital adequacy purposes. Given there was no Tier 2 benefit to be recognised as at 31 December 2022 the Bank agreed with investors to repay the subordinate loan agreements in December 2022, ahead of the 2023 maturity dates. Subordinated loans of RO 34.515 million were repaid and the subordinated loan reserve of RO 27.515 million was transferred to retained earnings in 2022. Outstanding subordinated loans including accrued interest as of 31 December 2023 is RO Nil (2022: RO 0.485 million).

Tier 1 capital	**RO '000**
Paid-up share capital	561,572
Share premium	18,038
Legal reserve	44,910
General reserve	988
Retained earnings	53,008
Fair value reserve on acquisition	(11,411)
Other capital instruments	100,000
Other amounts deducted from Tier 1 capital including goodwill, deferred tax and investments	(57,267)
Total amount of Tier 1 capital	709,838
Total amount of Tier 2 capital	54,218
Total eligible capital	**764,056**

7. CAPITAL ADEQUACY

The Bank has adopted the standardized approach for credit risk and basic indicator approach for operational risk and standardized duration approach for market risk under the Basel II regulations, as prescribed by the CBO for all banks operating in Oman with effect from 1 January 2007.

The Bank's capital adequacy ratio, calculated according to guidelines set by the Bank of International Settlements (BIS) as adopted by CBO was 17.89 %. While the international requirement as per BIS is 8%, the CBO's regulations stipulate that local banks maintain a minimum capital adequacy ratio of 11% and an additional 2.5% towards capital conservation buffer. For the purposes of supporting the banks to tide over the Covid 19 crisis, CBO introduced policy measures allowing the banks to lower the capital conservation buffer by 50% from 2.5% to 1.25%, thereby reducing the minimum capital adequacy ratio to 12.25%. These measures introduced by CBO are still valid as at 31 December 2023.

The Banks strategy is to maintain adequate capital to allow the Bank to operate under adverse market conditions and which can absorb unforeseen losses.

The Bank has an Internal Capital Adequacy Assessment Process (ICAAP) through which senior management assesses the Bank's capital against its risk profile. Asset Liability Committee (ALCO) is the forum in which the capital adequacy is assessed, based on the next quarter's business forecast and the risk profile envisaged. CBO, vide circular BM 1114 dated November 17, 2013, has issued guidelines on Regulatory Capital under Basel III and on composition of Capital disclosure requirements.

Total and Tier 1 Capital Ratio, Risk Weighted Assets — **RO '000**

S. No.	**Details**	**Gross Balances (Book Value)**	**Net Balances (Book Value)***	**Risk Weighted Assets**
1	On-balance sheet items	**6,768,309**	**6,691,811**	**3,580,506**
2	Off-balance sheet items	**428,555**	**428,361**	**313,259**
3	Derivatives	**3,176**	**3,176**	**4,763**
4	**Total for Credit Risk**	**7,200,040**	**7,123,348**	**3,898,528**
5	**Market Risk**		-	**103,013**
6	**Operations Risk**		-	**269,921**
7	**Total Risk Weighted Assets**		**7,123,348**	**4,271,462**
8	Tier 1 capital		709,838	
9	Tier 2 capital		54,218	
10	**Total Regulatory Capital**		**764,056**	
10.1	Capital requirement for credit risk			**526,301**
10.2	Capital requirement for market risk			**13,907**
10.3	Capital requirement for operational risk			**36,439**
11	**Total required capital**			**576,647**
12	**Tier 1 Ratio**			**16.62%**
13	**Total capital Ratio**			**17.89%**
*	***Net of provisions reserve interest and eligible collaterals***			

The capital adequacy ratio is calculated in accordance with the Basel II & Basel III norms as adopted by CBO. Disclosures required under Basel III and circular BM-1114 dated 17 November 2013 issued by Central Bank of Oman are available at investor relations section of the banks website.

8. RISK EXPOSURE AND ASSESSMENT

8.1 Management of risk in Sohar International Bank - approach and policy

The Bank's activities expose it to a variety of financial risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The risks in the Bank are managed through a "Three Lines of Defense model", with all Businesses acting as the front line by owning the respective risks and managing them. The second line of defense comprises Risk,Compliance and legal. While Risk provides "Functional Leadership" to the businesses by educating and training them on the policies, processes and controls set by Risk and also identifying risks, measuring and reporting to the management. Compliance ensures application of all the policies and processes conform with the current regulatory guidelines and applicable laws of Oman. Internal Audit acts as the third line of defense through reviews and exercising oversight of the first two lines of defense. The review findings act as a risk reporting tool for the Board and as inputs for upgrading of processes and plugging gaps in controls by Risk. Thus an "Integrated Risk Management" practice is followed by Sohar International Bank.

The Risk department prepares a comprehensive risk profile of the Bank at the least quarterly covering credit risk, market risk and operational risk. In addition to standalone risk, risk at the portfolio level, risk movement across the portfolio etc. are tracked. The risk profile indicates the state of various risks and risk recommendations for mitigation and control of risk. The report is placed before the top management every month and quarterly to the Board Risk Committee.

Bank's philosophy is to undertake risks which are well understood and within the laid down risk appetite of the Bank.

8.2 Credit risk management

Credit risk is the risk that a customer or a counterparty fails to perform under its contractual payment obligations thus causing the Bank to suffer a loss in terms of cash flow or market value. Credit risk is the predominant risk type faced by the Bank in its banking, investment and treasury activities, both on- and off-balance sheet.

The credit risk management framework of the bank encompasses credit risk governance structure, credit risk appetite, credit risk strategies and lending policies that are fully compliant with the CBO regulations.

Credit risk is managed at three stages - at the origination stage, approval stage and at the transaction/portfolio monitoring stage.

Credit risk is actively managed and rigorously monitored in accordance with well-defined credit policies and procedures. The credit risk assessment includes among others, generating internal credit risk rating for each counterparty using the bank's internal obligor rating tool. Only those clients/counterparties with acceptable ratings as per the Bank's wholesale lending policy are considered for credit approval subject to internal approval guidelines. For cross border transactions, an analysis of country risk is also conducted.

The Bank has a credit approval delegation matrix in place approved by the board of directors, which is risk sensitized and backed by strong governance.

For retail loans products the Board has approved policies for various retail lending products based on approval parameters.

The Bank follows standardised approach for Credit Risk with risk weights as recommended by the CBO.

8.3 Credit risk measurement

The Bank measures credit risk in terms of asset quality using two primary measures, the provisioning ratio and the non-performing loans ratio. The provisioning ratio is total ECLs as a percentage of Non Performing total loans. The non-performing loans ratio is the ratio of nonperforming loans as a percentage of total loans. Further, the risk movement is tracked through portfolio analysis with focus on concentrations.

The Bank strictly adheres to the extant regulatory guidelines of assigning risk weights to its credit exposures based on counterparties involved and risk weights for funded and non-funded exposures after application of credit conversion factors. It has adopted standardized approach in computing capital adequacy.

8.3.1 Counterparty Credit Risk (CCR)

The Basel defined CCR as the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flow. An economic loss would occur if the transaction or a portfolio of transactions with the counterparty has a positive economic value at the time of default. Thus the bank's CCR includes exposure to sovereigns, banks and corporates of other countries.

8. RISK EXPOSURE AND ASSESSMENT (CONTINUED)

8.3.1 Counterparty Credit Risk (CCR) (continued)

The bank has an extensive due diligence process for assessing, measuring and reporting the counterparty credit risk. The bank assesses default risk at country level and at individual bank level. The country limits are set based on external agency credit rating / OECD rating and other subjective assessment such as economic condition, political condition, independence of central bank, relationship outlook and so on. Similarly bank limits are set based on extensive analysis such as credit rating of the bank, audited financial reports, third party bank references and periodic visits by the bank's personnel. Further, Central Bank of Oman (CBO) has issued guidelines vide circular BM 1120 dated March 31, 2014 for monitoring and reporting cross border exposures and the bank's cross border exposures is subject to compliance with CBO guidelines.

Settlement Risk

Settlement risk is the risk that the settlement or clearance of transactions will fail. It arises whenever the exchange of cash, securities and/or other assets is not simultaneous.

In foreign exchange trades, though there is fulfilment of both the legs of the transaction on the settlement date as is common practice between trading partners (free settlement), there will be risk on account of different time zones. In these cases, daily settlement limits shall control the aggregate size of FX notional amounts permitted to settle with a counterparty on any given settlement date.

Definitions of past due and impaired

The classification of credit exposures is considered by the Bank for identifying impaired credit facilities, as per CBO circular number BM 977 dated 25 September 2004.

8.4 Total gross credit risk exposures, plus average gross exposure over the period broken down by major types of credit exposure

RO '000

S. No.	Type of credit exposure	Average gross exposure		Total gross exposure	
		2023	2022	**2023**	2022
		RO'000	RO'000	**RO'000**	RO'000
1	Overdrafts	**362,401**	247,768	**351,744**	373,057
2	Personal loans	**1,193,007**	951,738	**1,398,703**	987,309
3	Loans against trust receipts	**146,899**	74,108	**215,124**	78,674
4	Other loans	**1,922,124**	1,611,858	**2,230,187**	1,614,061
5	Bills purchased /discounted	**12,895**	22,394	**12,623**	13,166
	Total	**3,637,326**	2,907,866	**4,208,381**	3,066,267

8. RISK EXPOSURE AND ASSESSMENT (CONTINUED)

8.5 Geographic distribution of total gross exposures, broken down in significant areas by major type of credit exposure

RO '000

S. No.	Types of credit exposure	Oman	Other GCC countries	Others	Total
1	Overdrafts	351,744	-	-	351,744
2	Personal loans	1,398,703	-	-	1,398,703
3	Loans against trust receipts	215,124	-	-	215,124
4	Other loans	2,217,496	9,047	3,644	2,230,187
5	Bills purchased /discounted	12,623	-	-	12,623
	Total	4,195,690	9,047	3,644	4,208,381

8.6 Industry or counter party type distribution of total gross exposures, broken down by major types of Credit exposure

RO '000

S. No.	Economic sector	Overdraft	Loans	Bills purchased/ discounted	Loans against trust receipts	Total	Off-balance sheet exposure
1	Import & export trade	27,658	77,806	6,975	78,912	191,351	-
2	Wholesale & retail trade	31,691	294,728	715	93,612	420,746	55,877
3	Mining & quarrying	1,552	167,651	173	1,739	171,115	3,390
4	Construction	26,741	394,164	210	10,686	431,801	100,317
5	Manufacturing	38,176	335,044	193	17,757	391,170	32,862
6	Electricity, gas and water	14,624	145,478	-	509	160,611	7,044
7	Transport and communication	1,403	102,868	-	-	104,271	24,427
8	Financial institutions	786	126,175	-	-	126,961	264,544
9	Services	55,305	484,321	2,301	7,175	549,102	114,770
10	Personal loans	28,496	1,382,010	-	-	1,410,506	-
11	Agriculture and allied activities	2,685	7,401	-	3,258	13,344	7
12	Government	121,408	100,410	-	-	221,818	29,633
13	Non-resident lending	19	10,647	787	-	11,453	
14	All others	1,200	187	1,269	1,476	4,132	40,994
	Total	351,744	3,628,890	12,623	215,124	4,208,381	673,865

REGULATORY DISCLOSURES UNDER BASEL II & BASEL III FRAMEWORK
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8. RISK EXPOSURE AND ASSESSMENT (CONTINUED)

8.7 Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposures

RO '000

S. No.	Time band	Overdraft	Loans	Bills purchased / discounted	Loans against trust receipts	Total	Off - balance sheet exposure
1	upto 1 month	351,744	235,793	12,623	215,124	815,284	79,830
2	1 - 3 months	-	107,666	-	-	107,666	87,604
3	3 - 6 months	-	66,445	-	-	66,445	218,474
4	6 - 9 months	-	170,873	-	-	170,873	51,090
5	9 - 12 months	-	83,767	-	-	83,767	37,250
6	1 - 3 years	-	563,233	-	-	563,233	59,992
7	3 - 5 years	-	519,141	-	-	519,141	32,953
8	Over 5 years	-	1,881,972	-	-	1,881,972	106,671
9	**Total**	351,744	3,628,890	12,623	215,124	4,208,381	673,865

8.8 Total loans breakdown by major industry or counter party type

RO '000

S. No.	Economic sector	Gross loans	Of which NPLs as per IFRS 9	Performing loans	Provisions held: Stage1 and Stage 2	Provisions held: Stage 3	Reserve interest	Provisions made during the year
1	Import Trade	191,351	16,124	174,431	3,580	12,173	3,557	8,279
2	Wholesale & Retail Trade	420,746	43,856	336,137	22,459	30,614	15,201	(528)
3	Mining & Quarrying	171,115	8,541	154,033	5,338	4,823	933	5,054
4	Construction	431,801	31,933	271,475	46,046	18,955	10,183	4,406
5	Manufacturing	391,170	38,196	313,179	36,050	24,438	3,144	50,011
6	Electricity, gas and water	160,611	-	160,611	822	-	-	626
7	Transport and Communication	104,271	1,805	102,204	236	1,469	1,388	90
8	Financial Institutions	126,961	-	126,961	827	-	-	748
9	Services	549,102	18,965	451,761	23,377	18,108	6,776	25,796
10	Personal Loans	1,410,506	37,542	1,313,213	10,615	24,639	6,039	11,358
11	Agriculture and Allied Activities	13,344	2,160	11,184	138	1,580	2,086	(360)
12	Government	221,818	-	221,818	-	-	-	(1)
13	Non-Resident Lending	11,453	380	11,073	17	233	1	252
14	All Others	4,131	1,099	3,032	27	624	848	(202)
	Total	4,208,381	200,601	3,651,112	149,533	137,656	50,159	105,527

8. RISK EXPOSURE AND ASSESSMENT (CONTINUED)

8.9 Amount of impaired loans broken down by significant geographic areas including with the amounts of specific and general allowances related to each geographical area

RO '000

S. No.	Countries	Gross loans	Of which NPLs as per IFRS 9	Provisions held: Stage 1and stage 2	Provisions held: Stage 3	Reserve interest	Total Provisions	Advances written off during the year
1	Oman	4,185,043	200,601	149,533	87,497	50,159	287,189	2,375
2	Other GCC countries	14,291	-	-	-	-	-	-
3	OECD countries	9,047	-	-	-	-	-	-
	Total	**4,208,381**	**200,601**	**149,533**	**87,497**	**50,159**	**287,189**	**2,375**

8.10 Movements of gross loans

RO' 000

S.No	Details	Performing loans: Stage 1	Performing loans: Stage 2	Non-Performing loans: Stage 3	Total
1	Opening balance	**2,573,987**	**333,095**	**159,185**	**3,066,267**
2	Assets acquired	**738,722**	**389,613**	**42,590**	**1,170,925**
3	Migration / changes (+/-)	**(318,549)**	**(231,621)**	**2,872**	**(547,298)**
4	New loans*	**434,768**	**87,765**	**9,736**	**532,269**
5	Recovery of loans	-	-	-	**-**
6	Net Movement in memoranda accounts	-	-	**(11,407)**	**(11,407)**
7	Loans written off	-	-	**(2,375)**	**(2,375)**
8	Closing balance	**3,428,928**	**578,852**	**200,601**	**4,208,381**
9	Provisions held	**18,216**	**131,317**	**87,497**	**237,030**
10	Reserve interest	**-**	**-**	**50,159**	**50,159**

*includes interest accrued on stage 3 customers

9. CREDIT RISK: DISCLOSURES FOR PORTFOLIOS SUBJECT TO THE STANDARDIZED APPROACH

9.1 *Qualitative disclosures*: For portfolios under standardised approach

The Bank is following standardised approach in assessing regulatory capital for credit risk. For sovereign risk i.e. claims on the Sultanate of Oman or the Central Bank of Oman in Rial Omani or foreign currency, zero risk weight is applied, whereas for other sovereign risk and central banks' exposures, the exposure will be risk weighted appropriately within a range of 0% to 100% based on the rating awarded by Eligible Credit Assessment Institution (ECAI) approved by CBO like, Moody's Standard & Poor, Fitch and Capital Intelligence. For exposures on banks, the risk weight applied depends on the rating of the banks, subject to the respective country rating. In the absence of external ratings for most of the corporate, the Bank treats them as unrated and applies 100% risk weight on their funded exposures. On the off-balance sheet exposures, the relevant credit conversion factors are applied and aggregated to banks or the corporate, as the case may be, and then the risk weight is applied as stated above. Unavailed or yet to be disbursed exposures are taken under commitments and risk weights assigned as permitted by the CBO guidelines.

9.2 Quantitative disclosures

The Bank is following a uniform approach of considering all corporates as unrated and applying 100% risk weights.

10. CREDIT RISK MITIGATION: DISCLOSURE FOR STANDARDISED APPROACH

The Bank's collateral management framework is integrated with the overall framework of Wholesale Lending policy that lets out the parameters and criteria for the acceptance of collateral and its management.The Bank does not make use of netting whether on or off-balance sheet. The Bank's wholesale lending policy specifies the acceptable types of collateral and source of valuation and frequency of revaluation as once in three years for mortgaged properties and shares are valued on monthly basis unless where there is a high volatility situation where the shares shall be valued at shorter intervals. The frequency is subject to changes as may be modified/permitted by the regulator from time to time. The main types of acceptable collaterals are cash deposits, equity shares listed in the Muscat Securities Market and mortgages. The main type of guarantors are individuals and corporates. The Bank is taking only the cash deposits and equity shares for the purpose of credit risk mitigation under comprehensive approach.

RO '000

	Gross credit Exposure before CCF, CRM and Provisions	Eligible financial Collateral (after Application of Haircuts)	Eligible guarantees
1. Claims on Sovereigns	2,343,324	-	-
2. Claims on Banks	473,753	-	-
3. Claims on Corporates	1,647,812	(74,931)	-
4. Retail	2,095,759	(116)	-
5. Other Exposures	232,324	-	-
Total	**6,793,009**	**(75,047)**	**-**

11. MARKET RISK

Market risk is defined as potential losses on account of changes in market variables. The sources of market risks are changes in interest rate, foreign exchange rates, credit spreads, commodity prices, equity prices and so on. Some of the bank's business lines are subject to such market risks.

11.1 Market Risk Management Framework

One of the primary objectives of the Market Risk Management, a part of the bank's independent Risk management function, is to ensure that the business units do not expose the bank to unacceptable exposures outside of the bank's Board approved risk appetite. Market Risk Management works closely together with risk takers ("the business units") and other control and support groups to achieve this objective.

The Market Risk Function covers the assessment of the market risk for treasury portfolio and non-treasury positions, evaluate/validate methods for monitoring market risk, prescribe the control processes and define the framework for risk appetite in form of limits/trigger levels. They also conduct review of the valuation models, and the conventions for various market risk factors in the valuation and risk system that are proposed by Treasury department.

The bank has an independent Market risk (Middle Office function)) within the bank's Risk Management Department (RMD) which is responsible for the day-to-day monitoring of treasury, investment banking and FIG limit. The Middle - office reports adherence to set risk thresholds and escalates breaches, if any, for timely remedial action. The process ensures that the risks assumed by various front office desks are within the Board approved risk appetite and related policies of the Bank.

The market risk management is monitors the following limits and approved thresholds :

- Exposure limits, variation margin limits with counterparties and credit risk equivalent (CRE) for derivatives
- Permitted derivative structures
- Stop loss thresholds for investments
- Open currency position thresholds
- Regulatory limits for investments under various categories
- Dealer Limits
- Nostro Balances

11. MARKET RISK (CONTINUED)

11.2 Foreign Exchange Risk:

Foreign exchange risk refers to the possibility that an investment's value may decrease due to changes in the relative value of the involved currencies. The foreign exchange risk in the bank is managed and monitored through measurement of open currency positions. The bank has established thresholds for intraday and overnight net open currency positions. The bank's foreign exchange exposures arise from client transactions and balance sheet management with a limited amount of exposure arise from overseas investments. The bank's open currency position predominantly is with USD and other pegged GCC currencies.

The Bank had the following net open positions denominated in foreign currencies as at Dec 2023:

	Assets FCY' 000	Liabilities FCY' 000	Net (liabilities)/assets FCY' 000
US Dollar	7,040,951	6,813,563	227,388
Euro	1,347,110	1,347,771	(661)
UAE Dirhams	6,718,317	6,782,930	(64,613)
Japanese Yen	17,031,136	16,954,053	77,083
Swiss Franc	2,331	2,230	101
Pound Sterling	262,277	261,427	850
Indian Rupee	20,406	1,128	19,278

The bank applies Basel II standardized approach for market risk capital allocation for foreign exchange risk. Market risk capital for the bank's foreign exchange position as at the end of 2023 is RO 8.2 million.

11.3 Investment Price Risk

Investment price risk is the risk of decline in value of the bank's investment portfolio as a result of market price movements. The objective of investment price risk management is to ensure that the potential loss arising out of decline in the value of investments is within the bank's Risk Appetite. The bank's investments are governed by the Board approved investment policy and are subject to rigorous due diligence. Further the bank follows all the regulatory and internal thresholds that are applicable for each type of investment.

The investment committee, comprises of the bank's senior management, monitors investments on a periodic basis.The stop loss thresholds are established for various types of investments through investment policy.The market risk unit in the bank monitor all the investments for compliance and escalate breaches for appropriate corrective action. The bank follows IFRS 9 classifications such as amortized cost, FVOCI and FVTPL for all investments and relative provision / impairment is accounted accordingly.

11.4 Interest Rate Risk

Interest rate risk arises from the adverse impact on the bank's financial position because of change in market interest rates. The trading book impact is reflected by way of change in the value of investments. The banking book impact is reflected through the change in Net Interest Income (NII) and Economic Value of Equity (EvE). The bank's Asset Liability Committee (ALCO) is responsible for managing interest rate risk. Regular reports to ALCO includes interest rate risk reports, currency wise as well as consolidated balance sheet positions, liquidity gaps and measurement of NII and EVE. The ALCO regularly reviews the reports and provide direction to treasury to manage interest rate risk. Further key information related to interest rate risk is periodically reported to the bank's Board Risk Committee (BRC).

11.4.1 Interest Rate Risk in Banking Book (IRRBB)

Interest rate risk in the banking book refers to the potential adverse financial impact on the Bank's banking book from changes in interest rates. The Bank carries various assets, liabilities and off-balance sheet items across markets, maturities and benchmarks exposing it to risks from changing interest rates. The Bank's objective is to maintain IRRBB within tolerable limits.

The bank manages short term interest rate impact through earnings based measures and long term interest rate impact through economic value based measures. The bank measures the change in Economic Value of Equity ("EVE") as the maximum decrease of the banking book economic value under the 6 standard scenarios prescribed by Basel guidelines. The bank maintains economic capital for IRRBB under Pillar II based on the outcome.

11. MARKET RISK (CONTINUED)

11.5 Derivatives

The Bank enters into derivative deals with counterparties based on their financial strength and understanding of derivative products and its risks. The bank offers interest rate and foreign exchange derivatives to its clients for hedging purposes. Such products are offered according to the client's hedging requirements and underlying exposures. Interest rate Swaps for the customer are covered back to back with an interbank counterparty.

The market risk team shall propose appropriate limit for derivative products in line with the global best practices. Such limits are monitored against the exposures and breaches are escalated for corrective action. The mark to market valuation (MTM) of derivatives is measured on daily basis. The bank has executed ISDA and Credit Support Annexure (CSA) with some of the counterparties and variation margins are exchanged based on the MTM and CSA thresholds.

The Bank also undertakes interest rate derivative to manage its own interest rate risk by way of Interest Rate Swaps, Forward Rate Agreements and so on. The transactions are executed after deliberation and direction from the bank's ALCO. Hedge effectiveness for such interest rate derivative are performed periodically and necessary accounting entries are posted as per IFRS hedge accounting guidelines.

12. LIQUIDITY RISK

Liquidity risk is the risk arises from the bank's potential inability either to meet all payment obligations or only being able to meet such obligations at higher cost. It is the current and prospective risk to the Bank's earnings and equity arising out of inability to meet the obligations as and when they become due. The objective of the bank's liquidity risk management framework is to ensure that the bank can meet all its payment obligations as and when it is due and thus managing the bank's liquidity and funding risks within the Board approved risk appetite. The bank shall identity all material sources of liquidity and funding risks and assess appropriate levels of required Liquid Assets Buffers and contingency funding actions.The bank's treasury is mandated to manage the overall liquidity and funding position for the bank under the guidance and supervision of the ALCO. The sources and maturities of assets and liabilities are closely monitored to avoid any undue concentration and to ensure that the bank is fully prepared to meet any unforeseen stress conditions. The bank uses the following tools to manage liquidity and funding:

Liquidity gaps in line with regulatory and internal thresholds

- Periodic stress testing and simulation of liquidity buffer to ensure "crisis survivability"
- Liquidity Early Warning Indicators have established and deliberated at ALCO
- Compliance and adequate maintenance of regulatory ratios such as LCR and NSFR

The bank's risk management performs periodic stress testing and simulation of liquidity buffer and all the material cash inflows and outflows that impact the bank's liquidity. The simulation results are presented to ALCO for deliberation and further action plan. In addition, the bank performs liquidity scenario analysis and based on the outcome the bank provides economic capital under Pillar II as part of ICAAP submission.

12.1 Basel III Liquidity Ratios

Liquidity Coverage Ratio (LCR): LCR measures the stock of unencumbered High Quality Liquid Assets (HQLA) against short-term obligations (30 days). The Bank maintains LCR in excess of the regulatory requirement.

Net Stable Funding Ratio (NSFR): NSFR regulation seeks that the Bank diversify its funding sources and reduce their dependency on short-term wholesale markets. The ratio compares the stock of available Stable Funding against Required Stable Funding. The Bank maintains adequate NSFR ratio above the regulatory threshold to avoid any funding mis-match. The Bank is compliant with the Basel III Liquidity Norms and ratios as of December 2023 are hereunder:

Liquidity Ratio	Ratio as on 31 Dec 2023	Regulatory Threshold
LCR	204.91%	100%
NSFR	137.28%	100%

13. OPERATIONAL RISK

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, systems or from external events. It includes Legal risk, but not limited to fines, penalties or punitive damages, however, excludes Strategic and Reputational Risk.

13. OPERATIONAL RISK (CONTINUED)

Bank's objective is to manage operational risk to avoid / reduce any actual or potential financial losses to the Bank by establishing necessary controls, policies, systems and procedures. The Bank recognises that an over controlled environment might affect Bank's business and earnings, besides adding to costs. Therefore, the Bank aims at effective management of operational risk through control optimisation along with well-established systems, methods and governance framework.

In this regard, the primary responsibility for development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank's standards in the following areas for management of operational risk:

- Clear reporting lines;
- Delegation of authority;
- Appropriate segregation of duties and authorisation of transactions through a maker checker and authorisation matrix, as deemed relevant;
- Ownership, reconciliation and monitoring of accounts;
- Documentation of controls and processes;
- Compliance with regulatory and other legal requirements;
- Periodic assessment of the operational risks and evaluating the adequacy of controls and procedures to address the risks identified;
- Documented processes and controls for all material activities of the Bank
- Timely reporting of operational risk incidents / operational losses and remedial action;
- Development of adequate contingency plans;
- Training, skill up gradation and professional development;
- Ethical and business standards; and
- Risk transfer through insurance, wherever desirable.

It may be noted that compliance with Bank's standards is supported by a programme of periodic reviews undertaken by Internal Audit department which includes both 1st and 2nd Line of Defence. The results of internal audit are discussed with the business unit heads and summary observations of audit are placed to Audit Committee and Senior Management of the Bank for corrective action.

In this regard, Bank has put in place a Board approved Operational Risk Management Policy & Framework which ensures compliance with all applicable local Regulatory guidelines as well as global standards, stipulated in the Basel Committee on Banking Supervision (BCBS). The core objective of the Operational Risk Management Policy & Framework is to continuously ensure that risks related to people, processes, systems and external events are adequately managed, through a set of well-defined policies and procedures / guidelines. These policies & procedures in the Bank are supported with robust systems, applications & workflows, together with well training & skilled staff in respective business, operations and support divisions.

The Bank has an independent Operational Risk Management Department, reporting to Chief Risk Officer (CRO) and it is adequately staffed, comprising of specialised resources / staff with adequate levels of experience and knowledge in different areas of banking business, wherein the Head of Operational Risk is directly involved in the recruitment, objective setting and appraisal of the staff. For effective management of Operational Risk, the core Operational Risk Management Department staff / risk officers, closely interacts / collaborates with Risk & Control Managers (RCM) from 1st and 2nd Line, who are nominated staff within all critical lines of business & operations, and responsible for ensuring Operational Risk policy requirements are adequately adhered, thereby improving the overarching internal control environment in the Bank. These RCMs acts as subject matter experts with deep technical and functional knowledge along with adequate understanding of Bank's Operational Risk Policy & Regulatory requirements, and together with core Operational Risk Management Department, they regularly oversee, support and challenge activities of business and operations and ensures optimization of risk –reward trade-off, by aligning risk taking and strategic planning.

It is pertinent to note that Bank has implemented all key control measures necessary to mitigate Operational Risk, which includes but not limited to, adequate segregation of duties, access control, robust change management governance, sound business continuity planning and physical security controls, alongside Data back, disaster recovery measures and need-based staff training & awareness.

Furthermore, Bank has implemented a structured Operational Risk Loss Event reporting process / system to promptly identify and mitigate any control deficiencies / process lapses. In addition, the Bank has a comprehensive Risk Control Self-assessment (RCSA) process in place which is conducted on periodic basis for all critical business lines, with the aim to identify, assess, mitigate, monitor and report all key risks. In line with Regulatory requirements, Bank maintains a comprehensive Operational Risk incident / Internal loss database, duly categorising them as per BCBS requirements to study the loss trends and for preparing towards higher approaches for Operational Risk Management.

13. OPERATIONAL RISK (CONTINUED)

With respect to Management and Board oversight, Bank has instituted a strong governance framework through formulation of committees at different levels, for effective management and implementation of Operational Risk Management Framework (ORMF). In this regard, at Board level, the Board Risk Committee (BRC), has been delegated the task of implementing and effective ORMF within the Bank, while at the Executive Management level, the Management Risk Committee (MRC) is responsible to periodically review, monitor and provide suitable guidance / instruction on bank's non-financial risk areas, namely Operational Risk, Compliance Risk, Information Security Risk and Legal Risk and further ensure appropriate Management actions are undertaken where necessary. For the purpose, the Operational Risk Management Department submits periodic reports to both MRC and BRC and discusses various key issues, incidents and emerging risks along with mitigation measures which are in place.

Business Continuity

The Bank has established a Business Continuity Management (BCM) Program designed to minimize service disruption and the potential impact on the Bank, our customers and our staff. This includes a BCM Policy that is approved by our Board together with written Business Continuity and Disaster Recovery plans (DRPs) and procedures that are subject to periodic independent review. Although the specific details of our BCM arrangements are confidential for security reasons, the bank maintains Business Continuity Plans (BCPs) that address risk scenarios and events of varying scope including, but not exclusively, loss of services or infrastructure, denial of access, cyber-attack, pandemics and regional crises.

Sohar International BCPs are focused on maintaining critical processes, including treasury, capital & liquidity and payment services, providing customers with uninterrupted access to their funds and maintaining effective communications with our customers, staff and other stakeholders."

Exposure to interest rate risk – Annexure 2

	2023 RO'000
Net interest income	**125,879**
Capital	**764,056**
Based on 50 bps interest rate shock	
Impact of 50 bps interest rate shock	**9,726**
Impact as % to net interest income	**7.73%**
Impact as % to capital	**1.27%**
Based on 100 bps interest rate shock	
Impact of 100 bps interest rate shock	**19,451**
Impact as % to net interest income	**15.45%**
Impact as % to capital	**2.55%**
Based on 200 bps interest rate shock	
Impact of 200 bps interest rate shock	**38,903**
Impact as % to net interest income	**30.91%**
Impact as % to capital	**5.09%**

REGULATORY DISCLOSURES UNDER BASEL II & BASEL III FRAMEWORK & IBRF
AS AT 31 DECEMBER 2023

STATEMENT ON SENSITIVITY OF ASSETS AND LIABILITIES (SAL)

Annexure 1

RO'000

No.	Inflows (Assets and OBS)	Upto 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 2 Years	2 - 3 Years	3 - 4 Years	4 - 5 Years	5 - 7 Years	7 - 10 years	10-15 years	15-20 years	Over 20 Years	Non Sensitive	Total
1	Cash on Hand	-	-	-	-	-	-	-	-	-	-	-	-	-	60,101	60,101
2	Deposits with CBO	-	500	-	-	-	-	-	-	-	-	-	-	-	145,068	145,568
3	Balances due from Other Banks	458,532	128,679	-	25,078	21,433	-	-	-	-	-	-	-	-	18,777	652,499
4	Investments	423,848	924,883	42,622	20,122	47,185	5,520	42,213	105,223	98,903	-	-	-	-	664	1,711,182
5	Bills of Exchange and Promissory Notes	110,135	48,901	36,428	3,259	-	-	94	-	-	-	-	-	-	-	198,817
6	Overdrafts	299,432	-	-	-	-	-	-	-	-	-	-	-	-	-	299,432
7	Loans and Advances	1,128,596	143,438	155,031	378,197	196,056	287,521	306,463	127,443	175,228	182,772	55,939	27,663	314,122	31,373	3,509,843
8	Non Performing Loans	-	-	-	15,099	-	-	-	-	47,543	-	-	-	-	-	62,642
9	Fixed Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	145,085	145,085
10	Accured Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	8,095	8,095
11	Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	16,538	16,538
12	Swaps	490,711	9,625	38,500	257	9,900	-	-	77,000	-	-	-	-	-	-	625,993
	Total	**2,911,255**	**1,256,026**	**272,581**	**442,012**	**274,574**	**293,041**	**348,769**	**309,666**	**321,674**	**182,772**	**55,939**	**27,663**	**314,122**	**425,701**	**7,435,795**

REGULATORY DISCLOSURES UNDER BASEL II & BASEL III FRAMEWORK & IBRF
AS AT 31 DECEMBER 2023

STATEMENT ON SENSITIVITY OF ASSETS AND LIABILITIES (SAL)

Annexure 1 (continue)

RO'000

No.	Outflows (Liabilities and OBS)	Upto 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 2 years	2 - 3 Years	3 - 4 Years	4 - 5 Years	5 - 7 Years	7 - 10 years	10-15 years	15-20 years	Over 20years	Non Sensitive	Total
1	Current Deposits	237,994	29,059	1,903	10	-	-	-	-	-	-	-	-	-	2,392,013	2,660,979
2	Saving Deposits	381,055	-	-	-	-	-	-	-	-	-	-	-	-	457,680	838,735
3	Time Deposits	272,728	198,548	185,273	204,297	164,518	454,317	37,731	13,737	-	-	-	-	-	-	1,531,148
4	Other Deposits	69,925	-	-	-	-	-	-	-	-	-	-	-	-	2,258	72,183
5	Balances due to other Banks	21,313	463,150	-	111,542	-	-	-	-	-	-	-	-	-	80,115	676,120
6	Interest Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	2,346	2,346
7	Capital	-	-	-	-	-	-	-	-	-	-	-	-	-	579,610	579,610
8	Reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	187,636	187,636
9	Retained Earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	17,949	17,949
10	Others (Current Year's Profit/Loss)	-	-	-	-	-	-	-	-	-	-	-	-	-	66,920	66,920
11	Swaps	511,065	9,625	57,750	273	48,400	-	-	-	-	-	-	-	-	-	627,113
12	Other Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	76,180	76,180
13	Others (Specify)	-	-	-	-	100,000	-	-	-	-	-	-	-	-	-	100,000
	Total	**1,494,080**	**700,382**	**244,925**	**316,122**	**312,918**	**454,317**	**37,731**	**13,737**	**-**	**-**	**-**	**-**	**-**	**3,862,707**	**7,436,919**
	Gap	**1,417,174**	**555,645**	**27,656**	**125,890**	**(38,343)**	**(161,275)**	**311,038**	**295,929**	**321,674**	**182,772**	**55,939**	**27,663**	**314,122**	**(3,437,000)**	**(1,116)**
	Cumulative Gap	**1,417,174**	**1,972,819**	**2,000,475**	**2,126,365**	**2,088,021**	**1,926,746**	**2,237,784**	**2,533,713**	**2,855,387**	**3,038,158**	**3,094,097**	**3,121,761**	**3,435,883**	**(1,116)**	

REGULATORY DISCLOSURES UNDER BASEL II & BASEL III FRAMEWORK & IBRF
AS AT 31 DECEMBER 2023

STATEMENT ON MATURITY OF ASSETS AND LIABILITIES (MAL)
Annexure 3

RO'000

No.	Inflows (Assets and OBS)	Upto 1 month	1 - 3 months	3 - 6 months	6 - 9 months	9 - 12 months	1 - 3 Years	3 - 5 Years	Over 5 Years	Total
1	Cash on Hand	60,100	-	-	-	-	-	-	-	60,100
2	Deposits with CBO	38,195	19,298	14,087	10,736	9,658	27,007	5,973	20,615	145,568
3	Balances due from Other Banks	477,309	128,679	-	-	25,078	21,433	-	-	652,499
4	Investments	424,069	925,104	42,843	-	20,122	57,446	142,693	98,903	1,711,180
5	Bills of Exchange and Promissory Notes	110,135	48,901	36,428	3,259	-	-	94	-	198,817
6	Overdrafts	15,196	14,960	14,960	14,960	14,960	74,799	74,799	74,798	299,432
7	Loans and Advances	225,871	106,684	65,541	167,676	81,331	528,670	509,339	1,824,730	3,509,843
8	Non Performing Loans	-	-	-	-	15,660	-	-	46,982	62,642
9	Fixed Assets	-	-	-	-	-	-	-	145,085	145,085
10	Accrued Interest	8,096	-	-	-	-	-	-	-	8,096
11	Other Assets	16,537	-	-	-	-	-	-	-	16,537
12	Spot and Forward Purchases	86,691	3,595	4,115	851	-	-	-	-	95,252
13	Swaps	384,561	9,625	-	257	-	-	-	-	394,443
14	Letters of Credit/Gurantees/Acceptances	11	3,829	13,247	15,404	3,710	410	-	466	37,077
15	Unutilized portion of Overdraft and Loans & Advances	16,669	25,928	2,673	493	300	967	695	5,563	53,289
16	Undrawn Exposure (Syn Loans)	15,000	-	5,857	-	-	3,590	1,000	-	25,447
	Total	**1,878,447**	**1,286,603**	**199,752**	**213,635**	**170,820**	**714,323**	**734,593**	**2,217,142**	**7,415,315**

REGULATORY DISCLOSURES UNDER BASEL II & BASEL III FRAMEWORK & IBRF
AS AT 31 DECEMBER 2023

STATEMENT ON MATURITY OF ASSETS AND LIABILITIES (MAL)
Annexure 3 (continue)

RO'000

No.	Outflows (Liabilities and OBS)	Upto 1 month	1 - 3 months	3 - 6 months	6 - 9 months	9 - 12 months	1 - 3 years	3 - 5 Years	Over 5 Years	Total
1	Current Deposits	532,195	532,195	399,146	266,099	266,098	1	1	665,244	2,660,979
2	Saving Deposits	41,939	41,937	41,937	41,937	41,937	209,683	209,683	209,682	838,735
3	Time Deposits	265,601	193,215	178,934	67,848	114,254	630,363	50,095	30,837	1,531,148
4	Other Deposits	54,147	2,639	9,943	739	665	2,669	808	573	72,183
5	Balances due to Other Banks	101,428	107,376	-	107,689	-	359,627	-	-	676,120
6	Interest Payable	2,346	-	-	-	-	-	-	-	2,346
7	Other Liabilities	73,957	2,223	-	-	-	-	-	-	76,180
8	Spot and Forward Sales	86,687	3,597	4,110	845	-	-	-	-	95,238
9	Swaps	385,665	9,625	-	273	-	-	-	-	395,563
10	Letters of Credit/Guarantees/Acceptances	4,674	18,547	12,158	1,546	124	27	-	-	37,077
11	Unutilized portion of Overdraft and Loans and Advances	17,498	27,203	4,509	2,031	1,925	123	-	-	53,289
12	Others (Specify)	-	-	-	-	-	-	-	100,000	100,000
13	Capital	-	-	-	-	-	-	-	579,610	579,610
14	Reserves	-	-	-	-	-	-	-	187,636	187,636
15	Retained Earnings	-	-	-	-	-	-	-	17,949	17,949
16	Others (Current Year's Profit/Loss)	-	-	-	-	-	-	-	66,920	66,920
17	Undrawn Exposure (Syn Loans)	25,447	-	-	-	-	-	-	-	25,447
18	Current Deposits	532,195	532,195	399,146	266,099	266,098	1	1	665,244	2,660,979
	Total	1,591,584	938,557	650,737	489,008	425,003	1,202,493	260,587	1,858,451	7,416,420
	Cumulative Liabilities	1,591,584	2,530,141	3,180,878	3,669,886	4,094,889	5,297,382	5,557,969	7,416,420	
	Gap	286,864	348,046	(450,986)	(275,373)	(254,184)	(488,170)	474,006	358,691	
	Cumulative Gap	286,864	634,910	183,924	(91,448)	(345,632)	(833,802)	(359,796)	(1,105)	
	Cumulative Gap as a percentage of Cumulative liabilities	18.02	25.09	5.78	(2.49)	(8.44)	(15.74)	(6.47)	(0.01)	

BASEL III COMMON DISCLOSURE TEMPLATE TO BE USED DURING THE TRANSITION OF REGULATORY ADJUSTMENTS 31 DECEMBER 2023

(Please fill in only the cells highlighted in green with numbers and those in yellow with comments, if any)

		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	579,610
2	Retained earnings	53,008
3	Accumulated other comprehensive income (and other reserves)	34,487
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**	**667,105**
	Common Equity Tier 1 capital: regulatory adjustments	
7	Prudential valuation adjustments	57,267
8	Goodwill (net of related tax liability)	-
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-
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)	-
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 REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	-
	Of which: [INSERT NAME OF ADJUSTMENT]	-
	Of which: [INSERT NAME OF ADJUSTMENT]	-
	Of which: [INSERT NAME OF ADJUSTMENT]	-
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-
28	**Total regulatory adjustments to Common equity Tier 1**	**57,267**
29	**Common Equity Tier 1 capital (CET1)**	**609,838**

REGULATORY DISCLOSURES UNDER BASEL II & BASEL III FRAMEWORK & IBRF
AS AT 31 DECEMBER 2023

BASEL III COMMON DISCLOSURE TEMPLATE TO BE USED DURING THE TRANSITION OF REGULATORY ADJUSTMENTS 31 DECEMBER 2023 (CONTINUED)

		RO '000
	Additional Tier 1 capital: instruments	
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	100,000
31	of which: classified as equity under applicable accounting standards 5	100,000
32	of which: classified as liabilities under applicable accounting standards 6	-
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**	**100,000**
	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)	-
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	-
	Of which: [INSERT NAME OF ADJUSTMENT]	-
	Of which: [INSERT NAME OF ADJUSTMENT]	-
	Of which: [INSERT NAME OF ADJUSTMENT]	-
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**	**-**
44	**Additional Tier 1 capital (AT1)**	**100,000**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**709,838**
	Tier 2 capital: instruments and provisions	
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	
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)	35
49	of which: instruments issued by subsidiaries subject to phase out	
50	Provisions	54,183
51	**Tier 2 capital before regulatory adjustments**	**54,218**

BASEL III COMMON DISCLOSURE TEMPLATE TO BE USED DURING THE TRANSITION OF REGULATORY ADJUSTMENTS 31 DECEMBER 2023 (CONTINUED)

		RO '000
	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 REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	-
	Of which: [INSERT NAME OF ADJUSTMENT]	
	Of which: [INSERT NAME OF ADJUSTMENT]	
	Of which: [INSERT NAME OF ADJUSTMENT]	
57	**Total regulatory adjustments to Tier 2 capital**	**-**
58	**Tier 2 capital (T2)**	**54,218**
59	**Total capital (TC = T1 + T2)**	**764,056**
	Risk Weighted Assets	
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	-
	Of which: [INSERT NAME OF ADJUSTMENT]	
	Of which: [INSERT NAME OF ADJUSTMENT]	
	Of which: [INSERT NAME OF ADJUSTMENT]	
60	**Total risk weighted assets (60a+60b+60c)**	**4,271,462**
60a	Of which: Credit risk weighted assets	3,898,528
60b	Of which: Market risk weighted assets	103,013
60c	Of which: Operational risk weighted assets	269,921
	Capital Ratios	
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	14.28
62	Tier 1 (as a percentage of risk weighted assets)	16.62
63	Total capital (as a percentage of risk weighted assets)	17.89
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)	8.25%
65	of which: capital conservation buffer requirement	1.25%
66	of which: bank specific countercyclical buffer requirement	
67	of which: D-SIB/G-SIB buffer requirement	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets	5.98

REGULATORY DISCLOSURES UNDER BASEL II & BASEL III FRAMEWORK & IBRF
AS AT 31 DECEMBER 2023

BASEL III COMMON DISCLOSURE TEMPLATE TO BE USED DURING THE TRANSITION OF REGULATORY ADJUSTMENTS 31 DECEMBER 2023 (CONTINUED)

		RO '000
	National minima (if different from Basel III)	
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	8.250
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	10.250
71	National total capital minimum ratio (if different from Basel 3 minimum)	12.250
	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	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	54,183
77	Cap on inclusion of provisions in Tier 2 under standardised approach	48,732
78	Provisions 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 provisions 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)	-

RECONCILIATION TEMPLATE - AS OF DECEMBER 2023

Step 1 :		(RO '000)
	Balance sheet as in published financial statements	Under regulatory scope of consolidation
	As at Dec'23	As at Dec'23
Assets		
Cash and balances with Central Bank of Oman	205,669	205,662
Certificates of deposit	-	-
Due from banks	652,004	652,003
Loans and advances	3,921,192	3,921,191
Investments in securities	1,711,182	1,711,182
Loans and advances to banks	-	-
Property and equipment	145,085	145,085
Deferred tax assets	-	-
Other assets	53,588	53,597
Total assets	**6,688,720**	**6,688,720**
Liabilities		
Due to banks	676,120	676,120
Customer deposits	5,103,045	5,103,045
Certificates of deposit	-	-
Current and deferred tax liabilities	-	-
Other liabilities	137,554	137,554
Subordinated Debts	-	-
Compulsory Convertible bonds	-	-
Total liabilities	**5,916,719**	**5,916,719**
Shareholders' Equity		
Paid-up share capital	572,508	572,508
Share premium	18,038	18,038
Legal reserve	44,910	44,910
General reserve	988	988
Retained earnings	42,072	42,072
Cumulative changes in fair value of investments	(568)	(568)
Subordinated debt reserve	-	-
Impairment reserve	5,464	5,464
Special Reserve	(11,411)	(11,411)
Perpetual Tier 1 Capital Securities	100,000	100,000
Total shareholders' equity	**772,001**	**772,001**
Total liability and shareholders' funds	**6,688,720**	**6,688,720**

REGULATORY DISCLOSURES UNDER BASEL II & BASEL III FRAMEWORK & IBRF
AS AT 31 DECEMBER 2023

RECONCILIATION TEMPLATE - AS OF DECEMBER 2023 (CONTINUED)

Step 2 :			(RO '000)
	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	As at Dec'23	As at Dec'23	
Assets			
Cash and balances with CBO	205,669	205,662	
Balance with banks and money at call and short notice	652,004	652,003	
Investments :	1,711,182	1,711,182	
Of which Held to Maturity	395,925	395,925	
Out of investments in Held to Maturity:			
Investments in subsidiaries	NA	NA	
Investments in Associates and Joint Ventures	NA	NA	
Of which Available for Sale	1,223,340	1,223,340	
Out of investments in Available for Sale : Investments in Subsidiaries	NA	NA	
Investments in Associates and Joint Ventures	NA	NA	
Held for Trading	91,917	91,917	
Loans and advances	3,921,192	3,921,191	
Of which :			
Loans and advances to domestic banks	-	-	
Loans and advances to non-resident banks	-	-	
Loans and advances to domestic customers	3,297,568	3,297,568	
Loans and advances to non-resident Customers for domestic operations	-	-	
Loans and advances to non-resident Customers for operations abroad	11,453	11,453	
Loans and advances to SMEs	89,556	89,556	
Financing from Islamic banking window	522,615	522,615	
Fixed assets	145,085	145,085	
Other assets of which:	53,588	53,597	
Goodwill and intangible assets Out of which:			
goodwill	-	-	
Other intangibles (excluding MSRs)	-	-	
Deferred tax assets	-	-	
Goodwill on consolidation	-	-	
Debit balance in Profit & Loss account	-	-	
Total Assets	**6,688,720**	**6,688,720**	
Capital & Liabilities			

RECONCILIATION TEMPLATE - AS OF DECEMBER 2023 (CONTINUED)

Step 2 : (continued) (RO '000)

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	As at Dec'23	As at Dec'23	
Paid-up Capital	590,546	590,546	
Of which:			
Amount eligible for CET1	590,546	590,546	
Amount eligible for AT1	100,000	100,000	
Reserves & Surplus	81,455	81,455	
Out of which			
Retained earnings*	42,072	42,072	b
Other Reserves	39,951	39,951	
Cumulative changes in fair value of investments	(568)	(568)	
Out of which :			
Losses from fair value of investments		-	a
Gains from fair value of investments		-	
Haircut of 55% on Gains		-	
Total Capital	672,001	672,001	
Deposits :	5,103,045	5,103,045	
Of which:			
Deposits from banks	-	-	
Customer deposits	4,596,231	4,596,231	
Deposits of Islamic Banking window	506,814	506,814	
Other deposits(please specify)	-	-	
Borrowings	676,120	676,120	
Of which: From CBO	-	-	
From banks	676,120	676,120	
From other institutions & agencies	-	-	
Borrowings in the form of bonds, Debentures and sukuks	-	-	
Others (Subordinated debt)	-	-	
Other liabilities & provisions** Of which:	137,554	137,554	
Out of which : DTLs related to Investments		-	
Out of which : DTAs related to Investments		-	
Out of which : DTLs related to Fixed Assets		-	
DTLs related to goodwill	-	-	
DTLs related to intangible assets	-	-	
TOTAL	**6,588,720**	**6,588,720**	

REGULATORY DISCLOSURES UNDER BASEL II & BASEL III FRAMEWORK & IBRF
AS AT 31 DECEMBER 2023

RECONCILIATION TEMPLATE - AS OF DECEMBER 2023 (CONTINUED)

Step 3 : (RO '000)

Common Equity Tier 1 capital: instruments and reserves

		Component of regulatory capital reported by bank	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from step 2
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	590,546	
2	Retained earnings	42,072	b
3	Accumulated other comprehensive income (and other reserves)	34,488	
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	**Common Equity Tier 1 capital before regulatory adjustments**	**667,106**	
7	Prudential valuation adjustments	-	
8	Goodwill (net of related tax liability)	(56,622)	
9	Losses from fair value of investments	(645)	a
10	DTA related to Investments	-	
11	**Common Equity Tier 1 capital (CET1)**	**609,839**	

MAIN FEATURES TEMPLATE OF CAPITAL INSTRUMENTS - AS OF DECEMBER 2023

1	**Issuer**	**SOHAR INTERNATIONAL**	**SOHAR INTERNATIONAL**
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN OM0000003398	ISIN OM0000007605
3	Governing law(s) of the instrument *Regulatory treatment*	Banking Law of Oman / Commercial Companies Law	Banking Law of Oman / Commercial Companies Law
4	Transitional Basel III rules	NA	NA
5	Post-transitional Basel III rules	Common Equity Tier 1	Additional Tier 1
6	Eligible at solo/group/group & solo	Solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Equity Shares	Prepetual Capital Securities
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	OMR 561.572 Million	OMR 100 Million
9	Par value of instrument	OMR 561.572 Million	OMR 100 Million
10	Accounting classification	Shareholder's Equity	Shareholder's Equity
11	Original date of issuance	3-Jan-07	14-Mar-19
12	Perpetual or dated	Perpetual	Perpetual
13	Original maturity date	NA	NA
14	Issuer call subject to prior supervisory approval	NA	Yes
15	Optional call date, contingent call dates and redemption amount	NA	First call date i.e 5th anniversary from the date of issue, at bank's sole discretion or if directed to do so by the CBO at an early redemption amount
16	Subsequent call dates, if applicable	NA	Every fifth anniversary thereafter after the first call date

MAIN FEATURES TEMPLATE OF CAPITAL INSTRUMENTS - AS OF DECEMBER 2023 (CONTINUED)

	Coupons / dividends	**SOHAR INTERNATIONAL**	**SOHAR INTERNATIONAL**
17	Fixed or floating dividend/coupon	NA	Floating coupon
18	Coupon rate and any related index	NA	7.50% & every 5 year reset
19	Existence of a dividend stopper	NO	NO
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary, payable out of distributable items
21	Existence of step up or other incentive to redeem	NO	NO
22	Noncumulative or cumulative	Noncumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
30	Write-down feature	NO	NO
31	If write-down, write-down trigger(s)	NA	NA
32	If write-down, full or partial	NA	NA
33	If write-down, permanent or temporary	NA	NA
34	If temporary write-down, description of write-up mechanism	NA	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to the Compulsorily Convertible bonds issued by the Bank	Subordinated to the Compulsorily Convertible bonds issued by the Bank & subordinated loans
36	Non-compliant transitioned features	NO	NO
37	If yes, specify non-compliant features	NA	NA

BASEL III LEVERAGE RATIO FRAMEWORK AND DISCLOSURE REQUIREMENTS - REPORTS FOR QUARTER ENDED 31 DECEMBER 2023

(All amounts in OMR'000)

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	Current Quarter	Previous Quarter
1	Total consolidated assets as per published financial statements	6,688,720	6,369,225
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	(1,120)	524
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)	273,312	280,545
7	Other adjustments	(56,426)	(2,675)
8	**Leverage ratio exposure**	6,904,486	6,647,619

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	Current Quarter	Previous Quarter
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	5,468,385	5,937,087
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(57,267)	(521)
3	**Total on-balance sheet exposures** (excluding derivatives and SFTs) (sum of lines 1 and 2)	5,411,118	5,936,566
	Derivative Exposures		
4	Replacement cost associated with all derivatives transactions (i.e., net of eligible cash variation margin)	-	-
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)**	**-**	**-**
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	1,221,455	431,614
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	(1,399)	(1,106)
14	CCR exposure for SFT assets		
15	Agent transaction exposures		
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	**1,220,056**	**430,508**
	Other Off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	2,342,685	1,933,541
18	(Adjustments for conversion to credit equivalent amounts)	(2,069,373)	(1,652,996)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**273,312**	**280,545**
	Capital and total exposures		
20	**Tier 1 capital**	**709,838**	**737,750**
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**6,904,486**	**6,647,619**
	Leverage Ratio		
22	**Basel III leverage ratio (%)**	**10.3**	**11.1**

LCR COMMON DISCLOSURE TEMPLATE FOR THE PERIOD ENDING: DECEMBER 2023 (CONSOLIDATED)

(RO '000)

		Total Unweighted Value (average)	Total Weighted Value (average)
High Quality Liquid Assets			
1	Total High Quality Liquid Assets (HQLA)		1,408,450
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	1,273,441	98,801
3	Stable deposits	409,337	12,391
4	Less stable deposits	864,104	86,410
5	Unsecured wholesale funding, of which:	2,215,305	1,011,240
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	2,215,305	1,011,240
8	Unsecured debt	-	-
9	Secured wholesale funding		-
10	Additional requirements, of which	58,199	5,616
11	Outflows related to derivative exposures and other collateral requirements	298	298
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	57,901	5,318
14	Other contractual funding obligations	69,851	69,851
15	Other contingent funding obligations	1,530,936	76,547
16	**TOTAL CASH OUTFLOWS**		**1,262,055**
Cash Inflows			
17	Secured lending (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	623,872	468,462
19	Other cash inflows	140,792	(426)
20	**TOTAL CASH INFLOWS**	**764,664**	**468,035**
			Total Adjusted Value
21	**TOTAL HQLA**		**1,408,450**
22	**TOTAL NET CASH OUTFLOWS**		**794,020**
23	**LIQUIDITY COVERAGE RATIO (%)**		**177.38**

NSFR DISCLOSURES (CONSOLIDATED) QUARTER ENDED: DECEMBER 2023

(RO '000)

		Unweighted value by residual maturity				
	ASF Item	No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted value
1	Capital:	764,056	-	-	-	764,056
2	Regulatory capital	709,838	-	-	-	709,838
3	Other capital instruments	54,218	-	-	-	54,218
4	Retail deposits and deposits from small business customers	1,752,953	17,541	139,197	-	1,738,784
5	Stable deposits	394,668	2,490	17,497	-	393,251
6	Less stable deposits	1,358,285	15,051	121,700	-	1,345,532
7	Wholesale funding:	59,883	1,734,147	656,452	-	1,225,769
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	59,883	1,734,147	656,452	-	1,225,769
10	Liabilities with matching interdependent assets	-	-	-	-	-
11	Other liabilities:	-	-	106,230	836,739	867,809
12	NSFR derivative liabilities					
13	All other liabilities and equity not included in above categories	-	-	106,230	836,739	867,809
14	**Total ASF**					**4,596,418**
	RSF Item					
15	Total NSFR high-quality liquid assets (HQLA)					65,666
16	Deposits held at other financial institutions for operational purposes	139,420	-	-	-	69,710
17	Performing loans and securities:	11,854	29,237	638,064	790,329	843,965
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	-	-	46,241	-	23,120
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	11,192	18,777	581,490	-	324,794
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:	-	10,460	10,333	760,305	489,078
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	10,460	10,333	760,305	489,078
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	662	-	-	30,024	6,972
25	Assets with matching interdependent liabilities	-	-	-	-	-
26	Other Assets:	721	-	81,784	2,606,379	2,287,403
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	721	-	81,784	2,606,379	2,287,403
32	Off-balance sheet items		20,997	1,543,828	64,892	81,511
33	**TOTAL RSF**					**3,348,255**
34	**NET STABLE FUNDING RATIO (%)**					**137,28**

SOHAR ISLAMIC

CREATING VALUE FOR A

GROWING

NATION

Left to Right

Dr. Mohammad Abdul Rahim Al Olama
Member

Sheikh Al-Mu'tasim Said Al Maawali
Chairman

Sheikh Nasser Yousuf Al Azri
Vice Chairman

SOHAR ISLAMIC
SHARI'AH SUPERVISORY BOARD

بسم اللّٰه الرَّحمن الرَّحيم
الحمد للّٰه رب العالمين
والصَّلاة والسَّلام على رسوله الكريم،،، أما بعد

In The Name of Allah, Most Gracious, Most Merciful.
Peace and Blessings Be Upon His Messenger.

To the Shareholders of Sohar International,

السلام عليكم و رحمة اللّٰه و بركاته

In compliance with the letter of appointment, we are required to submit the following report for the operations of Sohar Islamic (the Window) during the year 2023 for the period from 01/01/2023 to 31/12/2023:

The Sharīʻah Supervisory Board monitored the operations of the Window through the Sharia Department between the period of January 1st, 2023 and December 31st, 2023 to ascertain the Window's adherence to the provisions and principles of Islamic Sharīʻah as expounded by the Sharīʻah Supervisory Board. The Sharīʻah Supervisory Board's monitoring function included the checking of documents and procedures to scrutinize operations carried out by the Window, either directly or through the Sharīʻah Audit Unit. We planned with the Sharīʻah Audit Unit to carry out monitoring functions by obtaining all the information and clarifications that were deemed necessary to confirm that the Window did not violate the principles and provisions of Islamic Sharīʻah as elaborated by the Sharīʻah Supervisory Board. The Sharīʻah Audit Unit audited the Window's transactions and submitted a report to the Sharīʻah Supervisory Board. The report confirmed the Window's commitment and conformity to the Sharīʻah Supervisory Board's opinions. It held four meetings throughout the year ended 31 December 2023 and replied to the inquiries, in addition to approving investment opportunities presented by the Management.

The Sharīʻah Supervisory Board believes that:

1. Contracts, operations and transactions conducted by the Window throughout the year ending 31 December 2023 were in accordance with the standard contracts pre-approved by the Sharīʻah Supervisory Board in general, and what was observed in some transactions in terms of violations or errors were directed in their regard.

2. The distribution of profit on investment accounts was in compliance with the basis and principles approved by the Sharīʻah Supervisory Board.

3. All earnings which have been realized from sources or by means not in compliance to Islamic Sharia rules have been disbursed to the charity account under the supervision and guidelines of the Sharia Supervisory Board.

4. The Sharīʻah Supervisory Board created, developed, reviewed and approved all products, financing structures and contracts of transactions that were presented to them.

5. The Sharia Board stresses the need for the executive management to continue working on developing their employees to enable them to perform their duties efficiently and to avoid them falling into Sharia violations.

Shari'ah Supervisory Board Members

Dr. Mohammad Abdul Rahim Sultan Al Olama	Sheikh Nasser Yousuf Al Azri	Sheikh Al Muatasim Said Al Maawali
Member	Deputy Chairman	Chairman

Shari'ah Supervisory Board

Sohar Islamic

بسم الله الرحمن الرحيم

الحمد لله، والصلاة والسلام على سيدنا محمد رسول الله – صلى الله عليه وآله وصحبه وسلم-، وبعد:

The Shariah Supervisory Board was presented with a product called "Initial Public Offering (IPO) Financing based on Musharakah Contract," detailed as follows:

The IPO Financing product is based on a participatory basis, where the bank enters into a partnership with the customer to purchase shares in the initial public offerings of Shariah-compliant companies.

The customer applies for financing to purchase additional shares equal to their contribution to the subscription, allowing them to acquire a higher allocation percentage in the IPO Company, provided that the financing amount does not exceed 50% of the subscription amount permitted for the individual according to the regulatory and supervisory framework for Islamic banking activities.

The customer commits to purchasing the bank's share after the allocation within a pre-agreed period.

Based on the above, the Shariah Board confirms that the IPO Financing product based on the Musharakah contract is compliant with the provisions of Islamic law and its principles and as per the regulatory and supervisory framework for Islamic banking activities issued by the Central Bank of Oman.

Shari'ah Supervisory Board Members

Dr. Mohammad Abdul Rahim Sultan Al Olama Member	Sheikh Nasser Yousuf Al Azri Deputy Chairman	Sheikh Al Muatasim Said Al Maawali Chairman

Shari'ah Supervisory Board

Sohar Islamic

بسم الله الرحمن الرحيم

الحمد لله، والصلاة والسلام على سيدنا محمد رسول الله – صلى الله عليه وآله وصحبه وسلم-، وبعد:

The Shariah Supervisory Board was presented with a request to Issue Sukuk el Ijarah for Telaal Company for the value of OMR 56 Million, which is as follows:

The structure of the sukuk is based on sale and lease, where a special purpose vehicles (the trustee) will allocate a specific share in some real estate assets to be sold to the issuer at a certain purchase price, and certain payments will be made based on the agreed-upon rent amount. Upon liquidation either on the maturity date or before, the parties agree to redeem the due amount based on a specific formula.

The issuance process of the sukuk will be as follows:

- Telaal Company, the "original owner" of the real estate to be allocated for sukuk issuance, will sell the property to a special purpose company registered in the Sultanate of Oman, the "issuer."
- The issuer will issue sukuk worth 56 million Omani rials with a term of 5 years representing the undivided ownership share in the leased property.
- The issuer will offer the sukuk for sale to investors interested in investing in the issued sukuk at the nominal value of one Omani rial.
- The issued sukuk will be listed on the Muscat Stock Exchange.

The Sharīah Supervisory Board hereby rules that the proposed financing structure complies with the principles of Sharīah.

Shari'ah Supervisory Board Members

Dr. Mohammad Abdul Rahim Sultan Al Olama Member	Sheikh Nasser Yousuf Al Azri Deputy Chairman	Sheikh Al Muatasim Said Al Maawali Chairman

FINANCIAL STATEMENTS
(SOHAR ISLAMIC)

ELEVATED

SUCCESS GUIDED BY STRONG PRINCIPLES

Deloitte.

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Independent auditor's report to the shareholders of Sohar International Bank SAOG

Opinion

We have audited the accompanying financial statements of **Sohar Islamic** (the 'Islamic Window'), **Islamic window of Sohar International Bank SAOG** (the 'Bank'), which comprise the statement of financial position as at 31 December 2023, and the statement of income, statement of changes in owners' equity, statement of cash flows for the year then ended, statement of sources and uses of charity fund, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Islamic Window as at 31 December 2023, and the results of the operations, its cash flows, changes in owners' equity for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions "AAOIFI" as modified by Central Bank of Oman (CBO) and other applicable requirements of CBO.

In our opinion, the Islamic Window has also complied with the Islamic Shari'ah Principles and Rules as determined by the Shari'ah Supervisory Board of the Islamic Window during the period under audit.

Basis for opinion

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions ("ASIFI") issued by AAOIFI. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Islamic Window in accordance with the AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions, and we have fulfilled our other ethical responsibilities in accordance with this Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Other information consists of the information included in the Annual Report Section of Islamic Window, other than the financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information. Prior to the date of this auditors' report, we obtained the Shari'ah Supervisory Board Report including List of Fatwas and Regulatory disclosure under Basel II and Basel III framework of the Islamic Window which form part of the annual report section of Islamic Window. Our opinion on the financial statements does not cover the other information and we do 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 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 auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Deloitte.

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

Responsibilities of the those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

Deloitte.

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

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

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

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

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

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

Deloitte & Touche

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
12 March 2024

Signed by
Ahmed Al Qassabi
Partner
ACCA Membership No. 0820917

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023

	Note	31 December 2023 RO'000	31 December 2022 RO'000
ASSETS			
Cash and balances with Central Bank	5	**38,232**	26,667
Due from banks	6	**18,777**	7,321
Investment securities	8	**24,552**	27,239
Murabaha receivables	7.a	**31,466**	24,935
Ijarah muntahia bittamleek	7.b	**93,587**	99,795
Istisna followed by ijarah muntahia bittamleek	7.c	**101,142**	93,303
Diminishing musharka	7.d	**251,012**	143,607
Qard hasan financing	7.e	**33**	43
Wakala bil istithmar	7.f	**20,695**	45,241
Property and equipment	9	**2,361**	1,051
Other assets	10	**22,155**	15,899
TOTAL ASSETS		**604,012**	485,101
LIABILITIES			
Current and other accounts	11	**65,647**	41,222
Due to banks and financial institutions	12	**4,233**	-
Other liabilities	13	**3,275**	2,679
TOTAL LIABILITIES		**73,155**	43,901
EQUITY OF INVESTMENT ACCOUNT HOLDERS	14	**462,100**	385,698
OWNERS' EQUITY			
Allocated capital	15.a	**51,500**	41,500
Legal reserve	15.b	**134**	134
General reserve	15.c	**988**	988
Fair value reserve	15.d	**44**	205
Impairment reserve	15.e	**1,641**	472
Retained earnings		**14,450**	12,203
TOTAL OWNERS' EQUITY		**68,757**	55,502
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY		**604,012**	485,101
CONTINGENT LIABILITIES	16.a	**53,497**	31,848
COMMITMENTS	16.b	**46,217**	33,188

These financial statements were approved and authorised for issue by the Board of Directors on 30 Jan 2024 and signed on their behalf by:

Chairman

Board member

The accompanying notes 1 to 29 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	31 December 2023 RO'000	31 December 2022 RO'000
Income from financing activities	*19*	**24,720**	19,068
Return on unrestricted investment account holders	*21*	**(19,581)**	(11,916)
Share of income (as mudarib and rabalmal)		**5,139**	7,152
Income from investment activities	*20*	**2,286**	1,924
Net income from financing and investing activities		**7,425**	9,076
Other operating income	*22*	**3,210**	2,119
TOTAL OPERATING INCOME		**10,635**	11,195
Staff costs		**(3,408)**	(2,906)
Other operating expenses	*23*	**(1,913)**	(1,835)
Depreciation	*9*	**(231)**	(248)
TOTAL OPERATING EXPENSE		**(5,552)**	(4,989)
NET OPERATING INCOME BEFORE IMPAIRMENT PROVISIONS		**5,083**	6,206
Impairment charges (net)	*24*	**(1,064)**	(77)
PROFIT BEFORE TAX		**4,019**	6,129
Income tax expense		**(603)**	(919)
PROFIT FOR THE YEAR		**3,416**	5,210

The accompanying notes 1 to 29 form an integral part of these financial statements.

STATEMENT OF CHANGES IN OWNERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023

	Allocated capital RO'000	Legal reserve RO'000	General reserve RO'000	Impairment reserve RO'000	Fair value reserve RO'000	Retained earnings RO'000	Total RO'000
Balance as at 1 January 2023	**41,500**	**134**	**988**	**472**	**205**	**12,203**	**55,502**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**3,416**	**3,416**
Transfer to Impairment reserve	**-**	**-**	**-**	**1,169**	**-**	**(1,169)**	**-**
Capital allocation	**10,000**	**-**	**-**	**-**	**-**	**-**	**10,000**
Fair value adjustment	**-**	**-**	**-**	**-**	**(161)**	**-**	**(161)**
Balance as at 31 December 2023	**51,500**	**134**	**988**	**1,641**	**44**	**14,450**	**68,757**

	Allocated capital RO'000	Legal reserve RO'000	General reserve RO'000	Impairment reserve RO'000	Fair value reserve RO'000	Retained earnings RO'000	Total RO'000
Balance as at 1 January 2022	31,500	134	988	472	(893)	6,993	39,194
Profit for the year	-	-	-	-	-	5,210	5,210
Capital allocation	10,000	-	-	-	-	-	10,000
Fair value adjustment	-	-	-	-	1,098	-	1,098
Balance as at 31 December 2022	41,500	134	988	472	205	12,203	55,502

The accompanying notes 1 to 29 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	31 December 2023 RO'000	31 December 2022 RO'000
OPERATING ACTIVITIES			
Profit before tax		**4,019**	6,129
Adjustments for:			
Depreciation	*9*	**231**	248
Impairment charges (net)	*24*	**1,064**	77
Income from investment activities	*20*	**(1,532)**	(1,722)
Cash from operating activities before changes in operating assets and liabilities		**3,782**	4,732
Murabaha receivables		**(6,520)**	(12,215)
Ijarah muntahia bittamleek		**6,248**	(2,698)
Istisna followed by ijarah muntahia bittamleek		**(7,207)**	4,523
Diminishing musharka		**(106,607)**	(73,157)
Qard hasan financing		**10**	5
Wakala bil istithmar		**24,566**	(1,314)
Current and other accounts		**24,425**	(203)
Other assets		**(5,928)**	(3,461)
Other liabilities		**(321)**	(137)
Net cash used in operating activities		**(67,552)**	(83,925)
INVESTING ACTIVITIES			
Sale/(purchase) of investments (net)		**2,964**	2,415
Acquisition of property and equipment		**(1,310)**	(184)
Income received on investments		**1,859**	1,575
Net cash from investing activities		**3,513**	3,806
FINANCING ACTIVITIES			
Changes in Un Restricted Investment Account Holders (URIA)		**60,750**	87,801
Proceed from allocation of capital		**10,000**	10,000
Net cash from financing activities		**70,750**	97,801
NET CHANGE IN CASH AND CASH EQUIVALENTS		**6,710**	17,682
CASH AND CASH EQUIVALENT AT BEGINNING OF YEAR		**28,986**	11,304
CASH AND CASH EQUIVALENTS AT END OF YEAR		**35,696**	28,986
REPRESENTING:			
Cash and balances with Central Bank	*5*	**38,232**	26,667
Due from banks with maturity up to 90 days	*6*	**18,777**	7,321
Due to banks with maturity up to 90 days	*14.2.b*	**(21,313)**	(5,002)
		35,696	28,986

The accompanying notes 1 to 29 form an integral part of these financial statements.

STATEMENT OF SOURCE AND USE OF CHARITY FUND
FOR THE YEAR ENDED 31 DECEMBER 2023

	31 December 2023 RO'000	31 December 2022 RO'000
Sources of Charity Fund		
Undistributed charity funds at beginning of the year	**-**	-
Shari'a non-compliant income	**1,560**	-
Total sources of funds during the year	**1,560**	-
Uses of Charity Fund		
Distributed to charity organizations:		
Al Rahma Association for Motherhood and child welfare	**(1,560)**	-
Total uses of funds during the year	**(1,560)**	-
Undistributed charity funds at end of the year	**-**	-

The accompanying notes 1 to 29 form an integral part of these financial statements.

1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

Sohar International Bank SAOG (the Owner / Head Office) (previously 'Bank Sohar SAOG) under an Islamic Banking License issued by the Central Bank of Oman (CBO) on 30 April 2013, carries out Islamic banking operations and other financial trading activities in accordance with Islamic Shari'a rules and regulations under the name of "Sohar Islamic" (the Window). The Window's Shari'a Supervisory Board is entrusted to ensure the Window's adherence to Shari'a rules and principles in its transactions and activities. As required under clauses 3.5.1.2 and 3.5.1.3 of Title 1,'Licensing Requirements' of Islamic Banking Regulatory Framework (IBRF) issued by CBO, the head office assigned RO 30 million (refer note 14.a) to the Window as Share capital.

The Window does not operate as a separate legal entity. The separate financial statements of the Window has been prepared to comply with the requirement of Articles 1.5.1.2 to 1.5.1.4 of Title 2 'General Obligations and Governance' of IBRF issued by CBO.

The Window offers a full range of Islamic banking services and products. The principal activities of the Window include accepting Shari'a compliant customer deposits, providing Shari'a compliant financing and undertaking investment activities and providing commercial banking services and other investment activities permitted under IBRF.

The Window employed 103 employees as of 31 December 2023 (31 December 2022: 107) the window has 9 branches within sultanate of Oman.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements for the Window are prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") as modified by CBO, the Islamic Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Window and Islamic Banking Regulatory Framework issued by CBO. In accordance with the requirement of AAOIFI, for matters not covered by FAS, the Window uses standards issued by the International Accounting Standards Board (IASB) and the interpretations released by the International Financial Reporting Interpretations Committee and will be replaced later by FAS when an applicable FAS is issued.

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

2.2 Basis of measurement

The financial statements have been prepared under the historical cost basis except for derivative financial instruments and investments which have been measured at fair value. These financial statements are presented in Rial Omani, which is the Window's functional currency. All financial information presented in Rial Omani has been rounded off to the nearest thousands.

2.3 Use of Judgments and estimates

In preparation of the Window financial statements, management requires to make certain estimates and assumptions that affect the reported amount of financial assets and liabilities and the resultant allowances for impairment and fair values. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowances required for impaired financing and receivables as well as allowances for impairment provision for unquoted investment securities. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Estimates considered by the Window to have a significant risk of material adjustment in subsequent periods are discussed in note 4.

2.4 New standards, interpretations and amendments effective from 1 January 2023

The new and amended standards and interpretations that became effective from 1 January 2023. The Window adopts these new and amended standards in these financial statements. The impact on adoption of these standards are disclosed below and significant accounting policies adopted are disclosed in note 3.

2. BASIS OF PREPARATION (CONTINUED)

2.4.1 FAS 39 "Financial Reporting for Zakah"

AAOIFI has issued FAS 39 in 2021. This standard improves upon and supersedes FAS 9 on "Zakah" and aims at setting out the accounting treatment of Zakah in the books of the institutions, including the presentation and disclosure by an Islamic financial institution. The accounting and financial reporting requirements such as recognition, presentation and disclosure requirements of this standard shall apply to institutions that are obliged to pay Zakah on behalf of certain or all stakeholders. Institutions that are not obliged to pay Zakah shall apply the disclosure requirements of this standard for certain or all stakeholders, as relevant. This standard shall be effective for the financial periods beginning on or after 1 January 2023 with early adoption permitted. The Window has evaluated the impact of this standard and does not have any material impact on the financial statements.

2.5 New standards, interpretations and amendments issued but not effective

The new and amended standards and interpretations that are issued before the issuance of financial statement but not yet effective are disclosed below. The Window intends to adopt these new and amended standards and interpretations, if applicable, when they became effective.

2.5.1 FAS 1 (Revised 2021) "General Presentation and Disclosures in the Financial Statements"

AAOIFI has issued a revised FAS 1 in 2021. The revised FAS 1 supersedes the earlier FAS 1 General Presentation and Disclosures in the Financial Statements of Islamic Banks and Financial Institutions and introduces the concepts of quasi-equity, off-balance-sheet assets under management and other comprehensive income to enhance the information provided to the users of the financial statements.

The Accounting Board (AAB) of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) decided to defer the effective date of the recently issued AAOIFI FAS 1 "General Presentation and Disclosures in the Financial Statements" from 1 January 2023 to 1 January 2024. It also concluded that early adoption of the standard shall be encouraged. The Window has evaluated the impact of this standard and does not have any material impact on the financial statements.

2.5.2 FAS 40 "Financial Reporting for Islamic Finance Windows"

AAOIFI has issued FAS 40 in 2021. The objective of this revised standard is to establish financial reporting requirements for Islamic finance windows and applicable to all conventional financial institutions providing Islamic financial services through an Islamic finance window. This standard improves upon and supersedes FAS 18 "Islamic Financial Services Offered by Conventional Financial Institutions". This standard shall be effective for the financial periods beginning on or after 1 January 2024 with early adoption permitted. The Window has evaluated the impact of this standard and does not have any material impact on the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the financial statements are set out below.

3.1 Cash and cash equivalents

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

3.2 Foreign currency transactions

Transactions in foreign currencies are translated into functional currency at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gains or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for the effective interest and payments during the period, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the period. 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 was determined. Foreign currency differences arising on retranslation are recognised in the statement of comprehensive income, except for non-monetary financial assets, such as equities classified as fair value through other comprehensive income, which 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Financing assets

Financing assets comprise shari'a compliant financing provided by the Window with fixed or determinable payments. These include financing provided through murabaha, mudaraba, musharaka, musawama, ijarah, istisna and other modes of islamic financing. Financing assets are stated at their amortised cost less expected credit loss allowance (if any).

Murabaha receivables

Murabaha receivables are sales on deferred terms. The Window arranges a murabaha transaction by buying a commodity (which represents the object of the murabaha) and selling it to the murabeh (a beneficiary) at a margin of profit over cost. The sales price (cost plus the profit margin) is repaid in instalments by the murabeh over the agreed period. murabaha receivables are stated net of deferred profits and expected credit loss allowance (if any). Any promise made by potential murabeh is considered obligatory.

Mudaraba

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

Mudaraba is a form of partnership between work and capital in which the Window contributes capital. mudaraba capital provided by the Window at inception in kind (if other than cash) is measured at the fair value of the assets. If the valuation of assets results in difference between fair value and book value, such difference is recognised as profit or loss to the Window.

In case mudaraba capital is lost or damaged prior to the inception of work without misconduct or negligence on the part of mudarib, then such losses are deducted from mudaraba capital and are treated as loss to the Window. In case of termination or liquidation, unpaid portion by mudarib is recognised as receivable due from mudarib.

Musharaka

Musharaka contracts represents a partnership between the Window and a customer whereby each party contributes to the capital in equal or varying proportions to establish a new project or share in an existing one, and whereby each of the parties becomes an owner of the capital on a permanent or declining basis and shall share profits or losses. These are stated at the fair value of consideration given less any amounts written off and provision for expected credit loss allowance, if any. In diminishing musharaka based transactions, Window enters into a musharaka based on shirkat-ul-milk for financing an agreed share of fixed asset (e.g. house, land, plant or machinery) with its customers and enters into period profit payment agreement for the utilisation of Window's musharaka share by the customer.

Ijarah muntahia bittamleek

These are initially recorded at cost including initial direct costs. Ijarah muntahia bittamleek is a lease whereby the legal title of the leased asset passes to the lessee at the end of the ijarah (lease term), provided that all ijarah installments are settled.

Depreciation is charged on ijarah muntahia bittamleek assets at rates calculated to write off the cost of each asset over its lease term.

Ijarah income receivables represent outstanding rentals at the end of the year less any expected credit loss allowance. The ijarah income receivable is classified under other asset.

Istisna followed by Ijarah muntahia bittamleek

Istisna followed by ijarah muntahia bittamleek is construction finance product in which property is developed under istisna` contract between customer and the Window. The Window develops the property and then after completion of construction the property is leased to customer under ijarah muntahia bittamleek contract. During construction customer pays the advance rentals.

Salam

In a salam contract a buyer pays in advance for a specified quantity and quality of a commodity, deliverable on a specific date, at an agreed spot price. Salam is particularly applicable to seasonal agricultural purchases and can be used as a means of financing production. The price is paid at the time of the contract but the delivery would take place at a future date which enables an entrepreneur to sell his output to the Window at a price determined in advance. However, at the time of sale all specifications, quality and quantity of the commodity must be determined to avoid any ambiguity which could become a cause of dispute. Furthermore, date and time of delivery must also be agreed upon but can be changed with mutual consent of the parties. Salam contracts are recognised on the date at which they are originated and are carried at their cost less expected credit loss allowance, if any.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Diminishing Musharakah

In diminishing musharakah financing, the Window enters into musharakah based on shirkat-ul-milk for financing an agreed share of fixed asset (e.g. house, land, plant or machinery) with its customers and enters into period profit payment agreement for the utilisation of the Window's musharakah share by the customer.

Wakala Bil Istithmar

An agreement between two parties whereby one party is a fund owner (the "Muwakkil") who provides a certain amount of money (the "Wakala capital") to an agent (the "Wakeel"), who invests the Wakala capital in a Shari'a compliant manner and according to the feasibility study/investment plan submitted to the Muwakkil by the Wakeel. In financing contracts, the Window is Muwakkil and the corresponding party is agent of the Window.

3.4 Investment securities

(i) Classification

Unless the irrevocable initial recognition choices provided below are exercised, the Window shall classify investments subject to this standard as subsequently measured at either (i) amortised cost, (ii) fair value through equity or (iii) fair value through income statement, on the basis of both the Window's business model for managing investments and the expected cash flow characteristics of the investment in line with the nature of the underlying Islamic contracts.

Investment in a monetary debt-type instrument, as it reflects a debt at the back-end, shall be initially classified and measured at cost, till the time the transaction at the back-end is executed, and at amortised cost thereafter.

Investment in a non-monetary debt-type instrument or other investment instrument, may be classified under any of the three categories ((i) amortised cost, (ii) fair value through equity or (iii) fair value through income statement) depending on the Window's business model.

Investment in equity-type instrument is carried as investment at fair value through income statement unless the Window make an irrevocable classification choice at initial recognition to classify this as investment at fair value through equity. An investment held for trading purposes shall always fall in fair value through income statement classification.

(ii) Recognition and Initial measurement

All investment shall be initially recognized at their value plus transaction costs except for investments at fair value through income statement. Transaction costs relating to investments at fair value through income statement are charged to the statement of income when incurred. A regular way purchase of investments shall be recognized upon the transfer of control to investor.

(iii) Subsequent measurement

a) Investments at amortised cost

Investments carried at amortised cost shall be re-measured as such using the effective profit rate method. All gains or losses arising from the amortization process and those arising from de-recognition or impairment of the investment, are recognized in the consolidated statement of income. Investment carried at amortised cost shall be tested for impairment at each reporting period in accordance with FAS 30 "Impairment, credit losses and onerous commitments".

b) Investments at fair value through income statement

Investment carried at fair value through income statement shall be re-measured at fair value at end of each reporting period. The resultant re-measurement gain or loss, if any being the difference between the carrying amount and the fair value shall be recognized in the consolidated statement of income.

c) Investments at fair value through equity

Investment carried at fair value through equity shall be re-measured at fair value at the end of each reporting period. The resultant re-measurement gain or loss, if any, being the difference between the carrying amount and the fair value shall be directly recognized in equity under "fair value through equity reserve". Investment carried at fair value through equity shall be tested for impairment at each reporting period in accordance with **FAS 30 "Impairment, credit losses and onerous commitments".**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Investment securities (continued)

(iv) De-recognition

Investment securities are derecognised when the rights to receive cash flows from the financial assets have expired or where the Window has transferred substantially all risk and rewards of ownership.

3.5 Other financial assets and liabilities

(i) Recognition and initial measurement

The Window initially recognises due from banks, financing assets, customers' current accounts, due to bank and certain other assets and other liabilities on the date at which they are originated. All other financial assets and liabilities are initially recognised on the settlement date at which the Window becomes a party to the contractual provisions of the instrument.

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

After initial measurement, other financial assets and liabilities are subsequently measured at amortised cost using the effective profit rate method net of any amounts written off and provision for impairment.

(ii) De-recognition of financial assets and financial liabilities

The Window derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Window neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Window is recognised as a separate asset or liability in the consolidated statement of financial position. On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred) and consideration received (including any new asset obtained less any new liability assumed) is recognised in statement of income.

The Window enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions in which the Window neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Window continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Window retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the de-recognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing. The Window derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

3.6 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Window intends to either settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards or for gains and losses arising from a group of similar transactions.

3.7 Modification of financial assets and liabilities

Financial assets

If the terms of a financial asset are modified, the Window evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value, and recalculates a new effective profit rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purpose, including for the purpose of determining whether a significant increase in credit risk has occurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Modification of financial assets and liabilities (continued)

Financial assets (continued)

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in de-recognition of the financial asset. In this case, the Window recalculates the gross carrying amount of the financial asset based on the revised cash flows of the financial assets and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the consolidated income statement. If such a modification is carried out because of financial difficulties of the financed counterparty, then the gain or loss is presented together with impairment losses. In other cases, it is presented as net income from financing activities.

The Window derecognises a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in the consolidated income statement.

3.8 Impairment of financial assets (other than equity type investments classified as fair value through equity)

Financial assets consist of cash and balances with banks and financial institution, receivables and musharaka financing, investments - debt type instruments at amortised cost, ijarah muntahia bittamleek and certain other assets. Balances relating to these contracts are stated net of allowance for expected credit losses.

Impairment of financial assets

The Window applies three-stage approach to measure ECL on financial assets carried at amortised cost. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: twelve months ECL

For exposures where there has not been a Significant Increase in Credit Risk ("SICR"), since initial recognition, a portion of the lifetime ECL's that represent the ECL that result from default events on a financial contract that is possible within 12 months after the reporting date (or a shorter period if the expected life of the financial instrument is less than 12 months).

Stage 2: Lifetime ECL - not credit impaired

For credit exposures where there has been a SICR since initial recognition but that are not credit impaired, a lifetime ECL is recognised. Lifetime ECL is the loss that results from all possible default events over the expected life of the financial contract. Lifetime ECL (Stage 2) is a probability-weighted estimate of credit losses and is determined based on the difference between sum of the present value of all cash shortfalls and the carrying value. The cash shortfall is the difference between all contractual cash flows that are due to the Window and the present value of the recoverable amount, for financial assets that are not credit-impaired at the reporting date.

Stage 3: Lifetime ECL – credit impaired

Financial contracts are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.

For Stage 3 financial contracts, the losses for credit-impairment are determined based on the difference between the net carrying amount and the recoverable amount of the financial contract. In this respect, the Window recognises the lifetime expected credit losses for these financing with the PD set at 100%.

Credit-impaired financial assets

At each reporting date, the Window assesses whether financial assets carried at amortised cost are credit- impaired. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the obligor or issuer;
- a breach of contract such as a default or past due event; or
- Probability that the borrower will enter bankruptcy or other financial reorganization.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Impairment of financial assets (other than equity type investments classified as fair value through equity) (continued)

Measurement of ECL:

Following are the key inputs into the measurement of ECL:

- Probability of Default (PD);
- Loss Given Default (LGD); and
- Exposure At Default (EAD).

These parameters are generally derived from internally developed models and other historical data. These are adjusted to reflect forward-looking information as follows.

Definition of default

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

Probability of default

Credit risk grades are a primary input into the determination of the term structure of Probability of Default (PD) for exposures. The Window collects performance and default information about its credit risk exposures analysed by credit risk grading for corporate and days-past-due for retail portfolio. The Window employs statistical models for analysing the data collected and generates estimates of PD of exposures and how these are expected to change as a result of the passage of time. This analysis Includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, across various geographies in which the Window operates.

Types of PDs used for ECL computation

- 12-month PDs – This is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months). This is used to calculate 12-month ECLs.
- Lifetime PDs – This is the estimated probability of a default occurring over the remaining life of the financial instrument. This is used to calculate lifetime ECLs for 'stage 2'.

Forward looking information

In its ECL models, the window relies on a broad range of forward-looking information as economic inputs, such as:

- Gross domestic product
- Savings and investment
- Inflation
- Trade statistics
- Demographics
- Revenue and expenditure
- Public debt
- Real estate
- Composite indicators
- Oil prices and production

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Impairment of financial assets (other than equity type investments classified as fair value through equity) (continued)

Loss Given Default

LGD is a magnitude that determines the amount of loss that will arise if the obligor was to default. This is calculated by looking at the collateral and other recourses available to the Window that can be used to recover the asset in case of default.

The Window 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. For Estimation of LGD, the Window considers use of any of the following methods:

Internal default history: When data is available LGD can be estimated using the historical default information and corresponding recovery data.

Basel LGD: local regulatory recommended Basel LGD adjusted depending on the available collateral.

Collateral-based LGD: for secured financing the Window uses collateral-based LGD, where the Window has effective collateral management framework that is able to assess and provide up to date collateral valuation and establish legal charge and enforceability.

Exposure At Default (EAD)

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

On-balance sheet EADs

EADs for on-balance sheet items are the amount that is outstanding at the time of default. Outstanding of an on-balance sheet exposure shall be directly taken subject to inclusion of its repayment structure.

Prepayments have to be estimated using previous trends and deducted from EAD while calculating ECL. Off-balance sheet EADs Off-balance sheet exposures do not have fixed pay-out date; thus, the EAD for off-balance sheet is calculated after applying the Credit Conversion Factor (CCF) to the nominal amount of the Off-balance sheet exposure. The Window uses following method to work out CCF for off- balance sheet EADs.

Regulatory CCFs - In absence of internal data, The Window uses same as Basel CCF that are used for calculating the Capital Adequacy Ratio (CAR) as per the CBB regulations. These rates are 20% for exposures with maturity equal to or less than 1 year and 50% for exposures with maturity of more

Collective ECL computation and staging

ECL on individually large exposures and credit-impaired finances are generally measured individually. For retail exposures and other exposures to small sized enterprises, where less client-specific information is available, ECL is measured on a collective basis. This incorporates obligor-specific information, such as delinquency, collective historical experience of losses and forward-looking macroeconomic information.

To assess the staging of exposures and to measure a loss allowance on a collective basis, the Window combines its exposures into segments on the basis of shared credit risk characteristics, such as geography, type of customer, industry, rating, date of initial recognition, maturity and collateral value.

Significant Increase in Credit Risk

When determining whether the risk of default on a financial contracts has increased significantly since initial recognition, the Window considers reasonable and supportable information that is relevant and available without undue cost and efforts. This includes both quantitative and qualitative information and analysis, based on the Window's historical experience and expert credit assessment including forward- looking information, including days past due and risk rating.

The assessment is carried out for specific facility rather than a counterparty. As each facility may have had different credit risk at initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Impairment of financial assets (other than equity type investments classified as fair value through equity) (continued)

Significant Increase in Credit Risk (continued)

The application of above requirements of SICR to various locations of the Window varies depending on a number of circumstances faced by each location and each location applies a robust risk assessment methodology that is commensurate with the size, complexity, structure, economic significance and risk profile of its portfolio.

Renegotiated financial assets

The contractual terms of a financing may be modified for a number of reasons including changing market conditions, and other factors not related to the current or potential credit deterioration of a customer. When the terms of a financial asset are modified and the modification does not result in a de-recognition, the determination of whether the asset's credit risk has increased significantly reflects a comparison of its remaining lifetime PD at the reporting date based on modified terms, with the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Window renegotiates financing to customers in financial difficulties to maximize collection opportunities and minimize the risk of default. This may involve extending the payment arrangements and documenting the agreement of new conditions for providing finance. Management continuously reviews renegotiated facilities to ensure that all criteria are met and that future payments are likely to occur.

The accounts which are performing prior to restructuring but restructured due to financial difficulty are categorised under stage 2. The accounts that are non-performing or meet any criteria for classifying as non-performing, then such restructured accounts are categorized under stage 3.

Backward transition

FAS 30 staging model is of symmetrical nature as movement across stages is a "Two Way" phenomenon. However, backward movement across stages are not immediate once SICR indicators are no longer triggered. Once such indicators are no longer triggered, movement back to Stage 1 or Stage 2 has to be calibrated and cannot be automatic or immediate. Certain criteria like cooling off period, SICR indicators and payment history are considered for migrating customers backwards to Stage 2 or Stage 1. Following factors including cure period are considered for any backward transition:

From Stage 2 to stage 1

- The criteria to classify the exposure into Stage 2 (criteria covered in SICR section above) is no longer present;
- Up to date payment with no arrears;
- A minimum cool-off/cure period of 6 months for any stage 2 accounts; and
- A minimum cool-off/cure period of 12 months for restructured accounts.

From stage 3 to stage 2

- The criteria to classify the exposure into Stage 3 (criteria covered in default section above) is no longer present;
- Up to date payment with no arrears; and
- A minimum cool-off/cure period of 12 months for non-performing and restructured facilities.

Credit Conversion Factor

The estimation of EAD takes into account any unexpected changes in the exposure after the assessment date, including estimation of expected drawdowns on committed facilities through the application of a credit conversion factor (CCF). The EAD is estimated using the outstanding exposure adjusted by CCF multiplied by the undrawn portion of the facilities.

The outstanding exposure is calculated as principal plus profit less expected prepayments. The undrawn portion refers to the portion of the unutilized credit limit. CCF applied to the facilities would be the higher of average behavioural utilization over the last five years or capital charge.

Write-offs

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Fair value measurement

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

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

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

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

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

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

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

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

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

3.10 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.

3.11 Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or trading liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Derivatives held for risk management purposes (continued)

The treatment of changes in their fair value depends on their classification into the following categories:

(i) Fair value hedge

When a derivative is designated as a hedge of the change in fair value of a recognised asset or liability or a firm commitment, changes in the fair value of the derivative are recognised immediately in statement of comprehensive income together with changes in the fair value of the hedged item that are attributable to the hedged risk.

If the derivative expires or is sold, terminated, or exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued. Any adjustment up to that point, to a hedged item for which the effective profit method is used, is amortised to profit or loss as part of the recalculated effective profit rate of the item over its remaining life.

(ii) Cash flow hedge

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or a liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income in hedging reserve. The amount recognised in other comprehensive income is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of comprehensive income. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then the hedge accounting is discontinued prospectively. In a discontinued hedge of a forecast transaction the cumulative amount recognised in other comprehensive income from the period when the hedge was effective is reclassified from the equity to statement of comprehensive income as a reclassification adjustment when the forecast transaction occurs and affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is reclassified immediately to profit or loss as a reclassification adjustment.

(iii) Other non-trading derivative

When a derivative is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in statement of comprehensive income.

3.12 Property and equipment

Items of property and equipment are measured at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the asset. Depreciation is provided on a straight-line basis over the estimated useful lives of property and equipment, except freehold land. The estimated useful lives for the current period are as follows:

	Years
Motor vehicles	5
Furniture and fixtures	6-7
Office equipment	6-7
Software	10

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

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

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Window and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Taxation

The tax return of the Window is filed at head office level and the Window is not required to file a separate return on the activities of the Islamic Banking operations. A flat corporate tax rate of 15% is applied to the Window's profit. Deferred tax assets and liabilities are recognised only at head office level.

3.14 Ijarah - Leases

FAS 32 "Ijarah" standard supersedes FAS 8 "Ijarah and Ijaran Muntahia Bittamleek". FAS 32 sets out the principles for the classification, recognition, measurement, presentation and disclosure of ijarah type transactions including their different forms entered into by an institution, in both the capacities of lessor and lessee.

Under this standard, an institution, in its capacity either as lessor or lessee shall classify each of its ijarah into

a) Operating Ijarah

b) Ijara Muntahia Biltamleek with expected transfer of ownership after the end of the ijarah term - either through sale or Hiba; and

c) Ijarah Muntahia Biltamleek with gradual transfer — with gradual transfer of ownership during the Ijarah term including diminishing musharaka ilijarah.

The standard includes two recognition exemptions for lessees — leases of "low-value" assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of the lease, a lessee will recognize an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset) and a net ijarah liability, duly comprising of a) gross ijarah liability and b) deferred ijarah cost (shown as contra-liability).

a) Right-of-use asset

The Window recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use asset is measured at cost, less any accumulated amortisation and impairment losses, and adjustment for any effect of Ijarah modification or reassessment.

The cost of right-of-use assets represents the fair value of total consideration paid/ payable and includes initial direct costs and any dismantling or decommissioning costs. The Window amortises the right-of-use asset from the commencement date to the end of the useful economic life of the right-of use assets which coincides with the end of the Ijarah term using a systematic basis that is reflective of the pattern of utilization of benefits from the right-of-use asset. Right-of-use asset is also subject to impairment in line with FAS 30 requirements. The carrying value of right-of-use asset is recognised under "Premises and equipment" in the statement of financial position.

b) Ijarah liability

At the commencement date of the lease (i.e., the date the underlying asset is available for use), the Window recognises Ijarah liability measured at the fair value of total rentals payable for Ijarah term. Subsequently the Ijarah liability is increased to reflect return on the Ijarah liability — by way of amortisation of deferred Ijarah cost and reduced to reflect the Ijarah rentals made. In addition, the carrying amount of Ijarah liability is re-measured if there is a modification, a change in the Ijarah term or change in the in-substance fixed lease payments. The carrying value of Ijarah liability is recognised under "Other liabilities" in the interim consolidated statement of financial position.

3.15 Employee benefits

(i) End of service benefits

End of service indemnity for Omani employees are contributed in accordance with the terms of the Social Securities Law of 1991.

Provision for end of service indemnity for non-Omani employees has been made in accordance with the terms of the Oman Labour Law 2003 and its amendments and is based on current remuneration rates and cumulative years of service at the statement of financial position date. Employees' entitlements to annual leave and leave passage are recognised when they accrue to the employees up to the reporting date. These accruals are included in current liabilities, while that relating to end of service benefits is disclosed as a non-current liability.

Contributions to a defined contribution retirement plan for Omani employees in accordance with the Omani Social Insurance Law of 1991 are recognised as an expense in the statement of comprehensive income as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Employee benefits (continued)

(ii) Short term benefits

Short term benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid if the Window has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.16 Current and other accounts

Balances in current deposits and other accounts are recognised when received by the Window. The transactions are measured as the amount received by the Window at the time of contracting. At the end of the reporting period, these accounts are measured at amortised cost.

3.17 Equity of unrestricted investment account holders

Equity of unrestricted investment account holders are funds held by the window, which it can invests at its own discretion. The unrestricted investment account holders authorises the Window to invest the account holders' fund in a manner which the window deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

The Window charges a management fee (Mudarib fee) to the unrestricted investment account holders. Of the total income from investments of funds, the income attributable to the unrestricted investment account holders is allocated to them after setting aside provisions, reserves (profit equalisation reserve and investment risk reserve), if any, and deducting the Window's share of income as a Mudarib. The allocation of income is determined by the management of the Window within the allowed profit sharing limits as per the terms and conditions of the unrestricted investment accounts.

a) Wakala as Muwakkil (Principal)

At inception of Wakala agreement, the standard requires the window as a principal to evaluate the nature of the investment as either a) a pass-through investment; or b) wakala venture.

b) Pass-through investment

A pass-through investment is an investment in which the involvement of the agent, as well as, the options for transferability of the instrument are limited and the investor principally takes a direct exposure on the underlying assets. An investor shall apply the pass-through investment approach for its investments in investment agency instruments; unless it opts to apply the Wakala venture approach.

Under this approach, the principal shall initially recognise the assets underlying the Wakala arrangement in its books of account applying the initial recognition principles as applicable in line with the respective FASs.

c) Wakala venture

These are investments, under a Wakala agency contract, in transferable instruments or the investment made in a single asset (or pool of assets) where such asset(s) are subject to frequent changes throughout the term of the contract i.e. there are routine changes or replacements over the term of arrangement (unless it constitutes a business) at the discretion of the agent; or the role of the agent is not limited whereby the agent performs a day-to-day asset management function and, where applicable, is also responsible for replacement of assets or recoveries against them. On initial recognition, these assets will be recognised at cost in Wakala venture. Subsequently, the carrying amount is adjusted to incorporate gains/losses net of agent's remuneration and impairments, if any.

d) Wakala as Wakeel (Agent)

These transactions will be recognised as an agency arrangement under an off-balance sheet approach, at inception of arrangement, since the Window does not control the related assets / business, it does not record the assets and related income and expenditure in its books of account.

The agency remuneration, including fixed and variable components thereof, will be recognised on an accrual basis i.e. when the relevant services are provided. Any expenses, including losses reimbursable will be recognised when due.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Equity of unrestricted investment account holders (continued)

e) Multi level arrangements

The Window maintains multi-level investment arrangements to invest funds received under "Wakala" as "Mudaraba" under express authority from Wakala account holders in its financing and investment assets. Profit is allocated to Wakala funds on the basis of their contribution in the commingled assets. An agent may maintain multi-level investment arrangements. Under such arrangement, the Window is reinvesting Wakala funds into a secondary contract. Such secondary contracts are accounted for in line with the requirements of respective FASs in the books of the agent.

From the principal perspective, the Window has opted to use the Wakala venture approach instead of a pass-through approach given the difficulties for the Window as principal to identify in which assets the funds are invested in, and hence, the investment is accounted for applying the equity method of accounting.

From the agent perspective, a multi-level investment arrangement is maintained, whereby the Window invests funds under the investment agency into unrestricted investment arrangements, under a separate Mudaraba contract which is accounted for accordingly based on the relevant accounting standard.

3.18 Due to and due from banks

Due to and due from banks comprise of Nostro balances and Wakala placements. Nostro balances and Wakala placements are initially recognised at cost, being the fair value of consideration exchanged. Subsequently, they are carried at amortised cost less amounts repaid.

3.19 Income recognition

(i) Murabaha

Profit on Murabaha is recognised on an accrual basis. Profit on Murabaha transactions for the period from the date of disbursement to the date of culmination of Murabaha.

(ii) Mudaraba

Income on Mudaraba financing is recognised when the right to receive payment is established or on distribution by the Mudarib. Losses on the other hand are charged to the income statement on declaration by the Mudarib.

(iii) Musharaka

Income on musharaka is recognised when the right to receive payment is established or on distribution. In case of losses in musharaka, the Window's share of loss is recognised to the extent that such losses are being deducted from its share of the musharaka capital.

(iv) Diminishing Musharakah

Profit on Diminishing Musharakah financings is recognised on an accrual basis.

(v) Profit on sukuks

Profit on Sukuks is recognized on an accrual basis. Where Sukuks are purchased at a premium or discount and are classified at amortised cost, those premiums / discounts are amortised over the remaining maturity, using the effective profit rate method.

(vi) Ijarah

Ijarah rental income is recognised over the term of the lease on accrual basis and is stated net of depreciation and impairment. Income related to non performing ijarah muntahia bittamleek accounts and ijarah installments that are above 90 days is excluded from the statement of income.

(vii) Istisna followed by Ijarah muntahia bittamleek

Income for Istisna followed by Ijarah muntahia bittamleek is booked on receipt of the rentals.

(viii) Fees and commission income

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Income recognition (continued)

(viii) Fees and commission income (continued)

Fees and commission income that are integral to the effective profit rate of a financial asset carried at amortised cost are included in the measurement of the effective profit rate of the financial asset. Other fees and commission income, including account servicing fees, sales commission, management, arrangement and syndication fees, are recognised as the related services are performed.

(ix) Window's share of income from equity of investment accountholders (as Rabalmal and Mudarib)

Income is allocated proportionately between equity of investment accountholders and shareholders on the basis of their respective investment in the pool before allocation of the Mudarib fees. The Window's share as a Mudarib for managing the equity of investment accountholders is accrued based on the terms and conditions of the related Mudaraba agreements.

(x) Salam

Income from salam is determined by using the percentage of completion method.

(xi) Wakala

Income from Wakala is recognised on a time apportioned basis so as to yield a constant periodic rate of return based on the balance outstanding.

(xii) Dividend income

Dividend income is recognised when the right to receive the dividend is established.

(xiii) Profit on amounts due from banks

Profit on amounts due from banks is recognised on a time apportioned basis over the period of the contract based on the principal amounts outstanding and the profit agreed with clients.

3.20 Expense recognition

Return on equity of investment accountholders is calculated based on the income generated from joint investment accounts after deducting the expenses related to investment pool i.e. "mudarib expenses". Mudarib expenses include all expenses incurred by the Window, but excluding staff costs and other administrative expenses. The Window's "mudarib profit" is deducted from the investors' share of income before distributing such income.

3.21 Earnings or expenditures prohibited by Sharia

The Window records these amounts in a separate account in the other payables and is not included in the Window's income; these amounts are distributed to charities according to the Sharia Supervisory Board directions.

3.22 Contingent liabilities

Contingent liabilities include guarantees, letter of credit, the Window's obligations with respect to unilateral promise to buy/sell currencies and others. Contingent liabilities are not recognized in the statement of financial position but are disclosed in the notes to the financial statements, unless they are remote.

3.23 Shari'a supervisory board

The Window's business activities are subject to the supervision of a Shari'a supervisory board consisting of members appointed by the general assembly of shareholders.

3.24 Zakah

In accordance with the article of association Zakah is payable by individual shareholders of the Window and Zakah on unrestricted investment and other accounts is the responsibility of investment accountholders.

3.25 Provisions

A provision is recognised if, as a result of a past event, the Window 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 obligation. Provisions are equivalent to the amortised value of the future liabilities which is 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.26 Profit equalisation reserve

Profit equalisation reserve, this is the amount appropriated out of Mudaraba income before allocating the Window's share as investment manager (Mudarib), in order to maintain a certain level of return on investment for unrestricted investment accountholders and increase shere equity.

3.27 Investment risk reserve

Investment risk reserve is the amount appropriated out of profit share of the unrestricted investment accountholders after allocating the Mudarib share, in order to cushion the effects of the risk of future investment losses. The terms and conditions whereby investment risk reserve can be set aside and utilised are determined and approved by the Shari'a Supervisory Board of the Window.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires 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 period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The Window's significant accounting estimates are on:

4.1 Impairment losses on Financings and advances

The measurement of impairment losses under the window's policy 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 a number of factors, changes in which can result in different levels of allowances. The Window's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Window's internal credit grading model, which assigns PDs to the individual grades;
- The Window's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a 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 PDs, EADs and LGDs; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

4.2 Fee and commission income

The recognition of fee and commission income depends on the purpose for which fees are assessed and the basis of accounting for any associated financial instrument. Management applies certain assumptions and judgements to determine the fees that are an integral part of the effective interest rate of a financial instrument, fees that are earned as services are provided, and fees that are earned on the execution of a significant act.

4.3 Determination of Lease term

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.3 Determination of Lease term (continued)

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

5. CASH AND BALANCES WITH CENTRAL BANK

	31 December 2023 RO'000	31 December 2022 RO'000
Balances with Central Bank	33,733	22,947
Cash	4,499	3,720
	38,232	26,667

The cash reserve with the Central Bank cannot be withdrawn without prior Central Bank approval.

6. DUE FROM BANKS

	31 December 2023 RO'000	31 December 2022 RO'000
Wakala placements with banks from local banks	-	3,850
Demand accounts - Nostro	18,777	3,471
	18,777	7,321

The analysis of changes in the gross carrying amount on due from banks is as follows:

Gross carrying amount	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
As at 1 January 2023	7,321	-	-	7,321
Net change in assets	11,456	-	-	11,456
At 31 December 2023	18,777	-	-	18,777

Gross carrying amount	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
As at 1 January 2022	2,193	-	-	2,193
Net change in assets	5,128	-	-	5,128
At 31 December 2022	7,321	-	-	7,321

7. FINANCING ADVANCES AND OTHER RECEIVABLES

	31 December 2023 Total RO'000	31 December 2022 Total RO'000
Book value		
Murabaha receivables	31,666	25,121
Ijarah muntahia bittamleek	93,990	100,095
Istisna followed by Ijarah muntahia bittamleek	102,603	94,105
Diminishing Musharka	253,194	144,964
Qard Hasan Financing	33	43
Wakala Bil Istithmar	20,752	45,278
	502,238	409,606
Expected credit loss allowance	(4,061)	(2,559)
Contractual profit not recognised	(242)	(123)
	497,935	406,924

Additional disclosures on non-performing financing coverage as per CBO circular BM 1149 is given below:

December 2023	As per CBO RO'000	As per Window's policy RO'000	Difference RO'000
Impairment loss charged to statement of income	1,140	1,064	(76)
Provisions	5,973	4,126	(1,847)
Gross NPL ratio (percentage)*	0.59	0.59	-

*NPL ratios are calculated on the basis of funded non-performing financing and advances.

7. FINANCING ADVANCES AND OTHER RECEIVABLES (CONTINUED)

The below table provides a comparison of provision held as per Window's policy and required as per CBO norms:

31 December 2023 CBO classification	Window's policy classification	Gross carrying amount	CBO Provision	Window's policy Provisions	Difference between CBO and Window's policy	Net carrying amount	CBO Reserve profit
1	2	3	4	5	(6)=(4)-(5)	(7)=(3)-(5)	8
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
	Stage 1	391,361	3,974	879	3,095	390,482	-
Standard	Stage 2	7,385	73	86	(13)	7,299	-
	Stage 3	-	-	-	-	-	-
Sub Total		398,746	4,047	965	3,082	397,781	-
	Stage 1	47,046	470	1,036	(566)	46,010	-
Special mention	Stage 2	53,494	532	1,595	(1,063)	51,899	-
	Stage 3	-	-	-	-	-	-
Sub Total		100,540	1,002	2,631	(1,629)	97,909	-
	Stage 1	-	-	-	-	-	-
Substandard	Stage 2	-	-	-	-	-	-
	Stage 3	657	164	103	61	554	2
Sub Total		657	164	103	61	554	2
	Stage 1	-	-	-	-	-	-
Doubtful	Stage 2	-	-	-	-	-	-
	Stage 3	739	191	137	54	602	72
Sub Total		739	191	137	54	602	72
	Stage 1	-	-	-	-	-	-
Loss	Stage 2	-	-	-	-	-	-
	Stage 3	1,556	569	467	102	1,089	168
Sub Total		1,556	569	467	102	1,089	168
	Stage 1	438,407	4,444	1,915	2,529	436,492	-
Gross Financing, Advance	Stage 2	60,879	605	1,681	(1,076)	59,198	-
	Stage 3	2,952	924	707	217	2,245	242
Total		502,238	5,973	4,303	1,670	497,935	242
Due from banks, Investment securities and financial guarantees	Stage 1	143,043	-	65	(65)	142,978	-
	Stage 2	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-
Sub Total		143,043	-	65	(65)	142,978	-
	Stage 1	581,450	4,444	1,980	2,464	579,470	-
Total	Stage 2	60,879	605	1,681	(1,076)	59,198	-
	Stage 3	2,952	924	707	217	2,245	242
Total		645,281	5,973	4,368	1,605	640,913	242

7. FINANCING ADVANCES AND OTHER RECEIVABLES (CONTINUED)

Additional disclosures on non-performing financing coverage as per CBO circular BM 1149 is given below:

December 2022	As per CBO RO'000	As per Window's policy RO'000	Difference RO'000
Impairment loss charged to statement of income	1,004	118	(886)
Provisions	4,832	3,061	(1,771)
*(Gross NPL ratio (percentage	0.56	0.56	-

*NPL ratios are calculated on the basis of funded non-performing financing and advances.

The below table provides a comparison of provision held as per Window's policy and required as per CBO norms:

31 December 2022 CBO classification	Window's policy classification	Gross carrying amount	CBO Provision	Window's policy Provisions	Difference between CBO and Window's policy	Net carrying amount	CBO Reserve profit
1	2	3	4	5	(6)=(4)-(5)	(7)=(3)-(5)	8
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
	Stage 1	329,901	3,358	370	2,987	329,531	-
Standard	Stage 2	6,533	66	82	(16)	6,451	-
	Stage 3	-	-	-	-	-	-
Sub Total		336,434	3,424	452	2,971	335,982	-
	Stage 1	46,883	469	649	(180)	46,234	-
Special mention	Stage 2	23,992	235	1,131	(896)	22,861	-
	Stage 3	-	-	-	-	-	-
Sub Total		70,875	704	1,780	(1,076)	69,095	-
	Stage 1	-	-	-	-	-	-
Substandard	Stage 2	-	-	-	-	-	-
	Stage 3	993	244	127	117	866	33
Sub Total		993	244	127	117	866	33
	Stage 1	-	-	-	-	-	-
Doubtful	Stage 2	-	-	-	-	-	-
	Stage 3	447	111	116	(5)	331	13
Sub Total		447	111	116	(5)	331	13
	Stage 1	-	-	-	-	-	-
Loss	Stage 2	-	-	-	-	-	-
	Stage 3	857	349	207	142	650	77
Sub Total		857	349	207	142	650	77
	Stage 1	376,784	3,826	1,019	2,806	375,765	-
Gross Financing, Advance	Stage 2	30,525	302	1,213	(911)	29,312	-
	Stage 3	2,297	704	450	254	1,847	123
Total		409,606	4,832	2,682	2,149	406,924	123
Due from banks, Investment securities and financial guarantees	Stage 1	91,645	-	64	(64)	91,581	-
	Stage 2	8,388	-	438	(438)	7,950	-
	Stage 3	-	-	-	-	-	-
Sub Total		100,033	-	502	(502)	99,531	-

7. FINANCING ADVANCES AND OTHER RECEIVABLES (CONTINUED)

The below table provides a comparison of provision held as per Window's policy and required as per CBO norms: (Continued)

	Stage 1	468,429	3,826	1,084	2,743	467,345	-
Total	Stage 2	38,913	302	1,651	(1,349)	37,262	-
	Stage 3	2,297	704	450	254	1,847	123
Total		509,639	4,832	3,184	1,647	506,455	123

The analysis of changes in the gross carrying amount and corresponding ECL allowance on financing advances and other receivables is as follows:

Gross carrying amount	**Stage 1 RO'000**	**Stage 2 RO'000**	**Stage 3 RO'000**	**Total RO'000**
As at 1 January 2023	**376,784**	**30,525**	**2,297**	**409,606**
New assets originated or purchased	**142,313**	**22,828**	**-**	**165,141**
Assets derecognised or repaid-net	**(71,509)**	**(745)**	**(255)**	**(72,509)**
Assets transferred to memoranda portfolio				
Transfers to Stage 1	**623**	**(575)**	**(48)**	**-**
Transfers to Stage 2	**(9,504)**	**9,504**		
Transfers to Stage 3	**(300)**	**(658)**	**958**	**-**
At 31 December 2023	**438,407**	**60,879**	**2,952**	**502,238**
As at 1 January 2022	295,120	28,143	1,260	324,523
New assets originated or purchased	105,636	106	-	105,742
Assets derecognised or repaid-net	(18,875)	(1,622)	(162)	(20,659)
Assets transferred to memoranda portfolio	-	-	-	-
Transfers to Stage 1	2,319	(2,186)	(133)	-
Transfers to Stage 2	(6,600)	6,600	-	-
Transfers to Stage 3	(816)	(516)	1,332	-
At 31 December 2022	376,784	30,525	2,297	409,606

ECL	**Stage 1 RO'000**	**Stage 2 RO'000**	**Stage 3 RO'000**	**Total RO'000**
ECL allowance as at 1 January 2023	**1,020**	**1,212**	**327**	**2,559**
Expected credit losses recognised	**1,053**	**474**	**15**	**1,542**
Recoveries from expected credit losses	**(17)**	**(2)**	**(21)**	**(40)**
Assets transferred to memoranda portfolio	**-**	**-**	**-**	**-**
Transfers to Stage 1	**-**	**-**	**-**	**-**
Transfers to Stage 2	**(79)**	**79**	**-**	**-**
Transfers to Stage 3	**(62)**	**(82)**	**144**	**-**
At 31 December 2023	**1,915**	**1,681**	**465**	**4,061**
ECL allowance as at 1 January 2022	697	1,319	425	2,441
Expected credit losses recognised	619	14	17	650
Recoveries from expected credit losses	(146)	(96)	(290)	(532)
Assets transferred to memoranda portfolio	-	-	-	-
Transfers to Stage 1	1	(1)	-	-
Transfers to Stage 2	(60)	60	-	-
Transfers to Stage 3	(91)	(84)	175	-
At 31 December 2022	1,020	1,212	327	2,559

Financing with renegotiated terms are defined as financing advances and financings that have been restructured due to deterioration in the borrower's financial position, for which the Bank has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Window had provided initially and that it would not otherwise consider. A financing continues to be presented as part of financing advances with renegotiated terms until maturity, early repayment or write-off.

7. FINANCING ADVANCES AND OTHER RECEIVABLES (CONTINUED)

31 December 2023 **CBO classification**	**Window's policy classification**	**Gross carrying amount**	**CBO Provision**	**Window's policy Provisions**	**Difference between CBO and Window's policy**	**Net carrying amount**
		(1)	**(2)**	**(3)**	**(4)=(2)-(3)**	**(5)=(1)-(3)**
Classified as performing	Stage 1	**44,538**	**445**	**1,033**	**(588)**	**43,505**
	Stage 2	**17,549**	**176**	**1,287**	**(1,111)**	**16,262**
	Stage 3	**-**	**-**	**-**	**-**	**-**
Sub Total		**62,087**	**621**	**2,320**	**(1,699)**	**59,767**
Classified as non-performing	Stage 1	-	-	-	-	-
	Stage 2	-	-	-	-	-
	Stage 3	-	-	-	-	-
Sub Total		-	-	-	-	-
Total	Stage 1	**44,538**	**445**	**1,033**	**(588)**	**43,505**
	Stage 2	**17,549**	**176**	**1,287**	**(1,111)**	**16,262**
	Stage 3	**-**	**-**	**-**	**-**	**-**
Total		**62,087**	**621**	**2,320**	**(1,699)**	**59,767**

31 December 2022 CBO classification	Window's policy classification	Gross carrying amount	CBO Provision	Window's policy Provisions	Difference between CBO and Window's policy	Net carrying amount
		(1)	(2)	(3)	(4)=(2)-(3)	(5)=(1)-(3)
Classified as performing	Stage 1	44,538	445	647	(202)	43,891
	Stage 2	17,551	176	1,089	(913)	16,462
	Stage 3	-	-	-	-	-
Sub Total		62,089	621	1,736	(1,115)	60,353
Classified as non-performing	Stage 1	-	-	-	-	-
	Stage 2	-	-	-	-	-
	Stage 3	-	-	-	-	-
Sub Total		-	-	-	-	-
Total	Stage 1	44,538	445	647	(202)	43,891
	Stage 2	17,551	176	1,089	(913)	16,462
	Stage 3	-	-	-	-	-
Total		62,089	621	1,736	(1,115)	60,353

7.a. Murabaha receivables

	31 December 2023 **Total** **RO'000**	**31 December 2022** Total RO'000
Book value	**34,270**	27,991
Deferred profit	**(2,604)**	(2,871)
Net book value	**31,666**	25,120
Expected credit loss allowance	**(169)**	(159)
Contractual profit not recognised	**(31)**	(26)
	31,466	24,935

7. FINANCING ADVANCES AND OTHER RECEIVABLES (CONTINUED)

7.a. Murabaha receivables (continued)

Unamortized deferred profit

	31 December 2023 RO'000	31 December 2022 RO'000
Deferred profit at the beginning of the year	2,871	1,879
Profit deferred during the year on sales	2,640	3,251
Murabaha sales revenue during the year	(2,907)	(2,259)
Deferred profit at the end of the year	2,604	2,871

7.b. Ijarah muntahia bittamleek

	31 December 2023 Total RO'000	31 December 2022 Total RO'000
Cost	116,012	119,876
Accumulated depreciation / amortisation	(22,022)	(19,781)
Net book value	93,990	100,095
Expected credit loss allowance	(275)	(234)
Contractual profit not recognised	(128)	(66)
	93,587	99,795

7.c. Istisna followed by Ijarah muntahia bittamleek

	31 December 2023 Total RO'000	31 December 2022 Total RO'000
Book value	102,603	94,105
Expected credit loss allowance	(1,408)	(776)
Contractual profit not recognised	(53)	(26)
	101,142	93,303

7.d. Diminishing Musharka

	31 December 2023 Total RO'000	31 December 2022 Total RO'000
Book value	253,194	144,964
Expected credit loss allowance	(2,151)	(1,352)
Contractual profit not recognised	(31)	(5)
	251,012	143,607

7.e. Qard hasan financing

	31 December 2023 Total RO'000	31 December 2022 Total RO'000
Book value	33	43
Expected credit loss allowance	-	-
Contractual profit not recognised	-	-
	33	43

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

7. FINANCING ADVANCES AND OTHER RECEIVABLES (CONTINUED)

7.f. Wakala bil istithmar

	31 December 2023 Total RO'000	31 December 2022 Total RO'000
Book value	20,752	45,278
Expected credit loss allowance	(57)	(37)
Contractual profit not recognised	-	-
	20,695	45,241

8. INVESTMENT SECURITIES

	31 December 2023 RO'000	31 December 2022 RO'000
Sukuk investment (amortized cost)		
Carrying amount at amortized cost	23,889	18,846
Expected credit loss allowance	-	-
Held at amortized cost	23,889	18,846
Sukuk investment (FVTE)		
Carrying amount at FVTE	-	8,199
Fair value gain / (loss)	-	190
Expected credit loss allowance	-	(438)
Held at FVTE	-	7,951
Equity investment (FVTE)		
Carrying amount at FVTE	619	427
Fair value gain	44	15
Held at FVTE	663	442
Total Investment securities	24,552	27,239

The Sukuk certificates are for a period of 7 years and carry profit rate of 4.4% - 5.75% per annum.

Movement in expected credit loss allowance is as given below:

	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Balance at beginning of the year	-	438	-	438
Expected credit losses recognised	-	(438)	-	(438)
Recoveries from expected credit losses	-	-	-	-
At 31 December 2023	-	-	-	-

	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Balance at beginning of the year	46	436	-	482
Expected credit losses recognised	-	1	-	1
Recoveries from expected credit losses	(46)	-	-	(46)
At 31 December 2022	-	437	-	437

9. PROPERTY AND EQUIPMENT

	Right to use	Software	Furniture and fixtures	Office equipment	Motor vehicle	Capital work in-progress	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cost:							
At 1 January 2023	1,487	1,313	980	721	140	12	4,653
Additions / (Disposals)	1,358	37	405	49	(12)	-	1,837
Transfers	-	6	5	-	-	(11)	-
As at 31 December 2023	2,845	1,356	1,390	770	128	1	6,490
Accumulated depreciation:							
At 1 January 2023	(1,070)	(1,065)	(736)	(597)	(134)	-	(3,602)
Depreciation	-	(100)	(86)	(38)	(7)	-	(231)
Amortization	(320)	-	-	-	-	-	(320)
Disposals	-	-	-	-	24	-	24
As at 31 December 2023	(1,390)	(1,165)	(822)	(635)	(117)	-	(4,129)
Net book value as at 31 December 2023	1,455	191	568	135	11	1	2,361

	Right to use	Software	Furniture and fixtures	Office equipment	Motor vehicle	Capital work in-progress	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cost:							
At 1 January 2022	1,293	1,280	872	677	140	-	4,262
Additions / (Disposals)	194	33	108	44	-	12	391
As at 31 December 2022	1,487	1,313	980	721	140	12	4,653
Accumulated depreciation:							
At 1 January 2022	(804)	(942)	(657)	(557)	(128)	-	(3,088)
Depreciation	-	(123)	(79)	(40)	(6)	-	(248)
Amortization	(266)	-	-	-	-	-	(266)
As at 31 December 2022	(1,070)	(1,065)	(736)	(597)	(134)	-	(3,602)
Net book value as at 31 December 2022	417	248	244	124	6	12	1,051

10. OTHER ASSETS

	31 December 2023 RO'000	31 December 2022 RO'000
Profit receivable	18,831	13,600
Rental receivable	1,547	1,519
Others	1,777	780
	22,155	15,899

11. CURRENT AND OTHER ACCOUNTS

	31 December 2023 RO'000	31 December 2022 RO'000
Current	63,389	39,853
Margin	2,258	1,369
	65,647	41,222

12. DUE TO BANKS AND FINANCIAL INSTITUTIONS

	31 December 2023 RO'000	31 December 2022 RO'000
Local Currency:		
Demand Balances - Vostro	287	-
Foreign Currency:		
Demand Balances - Vostro	3,946	-
	4,233	-

13. OTHER LIABILITIES

	31 December 2023 RO'000	31 December 2022 RO'000
Profit/fee payable	152	52
Staff entitlements	392	285
Payable to takaful company	40	229
Expected credit loss allowance on financing advance commitments and financial guarantees	65	64
Other accruals and provisions	1,935	1,929
Instrument payables	691	120
	3,275	2,679

The analysis of changes in the gross carrying amount and corresponding ECL allowance on financing advance commitments and financial guarantees is as follows:

Gross carrying amount	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Balance as at 1 January 2023	65,036	-	-	65,036
New assets originated or purchased	15,939	-	-	15,939
Assets derecognised or repaid	18,739	-	-	18,739
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 31 December 2023	99,714	-	-	99,714

Gross carrying amount	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Balance as at 1 January 2022	38,085	-	-	38,085
New assets originated or purchased	31,035	-	-	31,035
Assets derecognised or repaid	(4,084)	-	-	(4,084)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 31 December 2022	65,036	-	-	65,036

13. OTHER LIABILITIES (CONTINUED)

ECL amount	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Balance as at 1 January 2023	64	-	-	64
Expected credit losses recognised	1	-	-	1
Recoveries from expected credit losses	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 31 December 2023	**65**	**-**	**-**	**65**

ECL amount	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Balance as at 1 January 2022	61	-	-	61
Expected credit losses recognised	3	-	-	3
Recoveries from expected credit losses	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 31 December 2022	64	-	-	64

14. EQUITY OF INVESTMENT ACCOUNT HOLDERS

	31 December 2023 RO'000	31 December 2022 RO'000
Mudaraba accounts	32,247	44,176
Wakala funds	429,853	341,522
	462,100	385,698

14.1. Mudaraba Accounts

	31 December 2023 RO'000	31 December 2022 RO'000
Saving accounts	32,247	44,170
Fixed term accounts	-	6
	32,247	44,176

Term deposits are deposits which can be withdrawn with no loss of capital subject to certain conditions.

The share, as Mudarib, in the profits of equity of investment accountholders is up to a maximum of 70% (2022: 70%) as per the terms of investment account holder agreements.

14. EQUITY OF INVESTMENT ACCOUNT HOLDERS (CONTINUED)

14.1. Mudaraba Accounts (continued)

During the year, the Window has not charged any administrative expense to the pool.

Product	Participation factor	Average rate earned
Mudaraba Saving-OMR	15	0.502%
Mudaraba Saving-AED	15	0.501%
Mudaraba Saving-USD	15	0.502%
Mudaraba Saving-GBP	15	0.502%
Mudaraba Saving-EUR	15	0.502%
Term 3 Months	50	0.000%
Term 6 Months	50	0.000%
Term 12 Months	50	0.000%
Wakala Interbank Borrowing	75	6.27%
Wakala Term Deposits	75	6.27%
Wakala Call Deposits	65	5.44%
Wakala Saving Deposits	75	6.27%

Unrestricted investment account holder accounts are monies invested by customers under Mudaraba to form a pool of funds. Investment accountholder's funds are commingled with the Banks's funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits.

14.2. Wakala Funds

	31 December 2023 RO'000	31 December 2022 RO'000
At 1 January	**341,522**	241,959
Addition during the year	**103,984**	126,589
Less: Redemption during the year	**(15,653)**	(27,026)
At 31 December	**429,853**	341,522

14.2.a. Concentration of Wakala Funds

By currency type	31 December 2023 RO'000	31 December 2022 RO'000
Local currency:		
- Banks	**17,080**	5,002
- Corporates & retail	**387,047**	300,083
Foreign currency:		
- Banks	**3,853**	19,506
- Corporates & retail	**21,873**	16,931
	429,853	341,522

By Counterparty type	31 December 2023 RO'000	31 December 2022 RO'000
Personal	**120,552**	96,161
Corporates	**157,602**	131,963
Government	**151,699**	113,398
	429,853	341,522

14. EQUITY OF INVESTMENT ACCOUNT HOLDERS (CONTINUED)

14.2. Wakala Funds (continued)

14.2.a. Concentration of Wakala Funds (continued)

By Geographical Region	**31 December 2023 RO'000**	31 December 2022 RO'000
Oman	**426,000**	322,016
GCC	**-**	19,506
Africa	**3,853**	-
	429,853	341,522

By Counterparty Type	**31 December 2023 RO'000**	31 December 2022 RO'000
Banks	**20,933**	24,508
Non-Banks	**408,920**	317,014
	429,853	341,522

14.2.b. Maturity of Wakala Funds

Wakala Funds includes various facilities with a fixed profit rate ranging from 0.5% – 6.3%. The maturity of the Wakala payables ranges from 1 week to 61 months.

31 December 2023	**Upto 1 month**	**1 to 6 months**	**6 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Wakala Interbank Borrowing	**21,313**	**-**	**-**	**3,853**	**-**	**25,166**
Wakala Term Deposits	**16,043**	**41,216**	**76,752**	**137,336**	**6,214**	**277,561**
Wakala Call Deposits	**11,975**	**20,957**	**11,975**	**-**	**14,969**	**59,876**
Wakala Saving Deposits	**3,574**	**7,149**	**7,149**	**35,741**	**17,870**	**71,483**

31 December 2022	Upto 1 month	1 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
Wakala Interbank Borrowing	24,508	-	-	-	-	24,508
Wakala Term Deposits	14,834	34,802	24,931	78,707	21,983	175,257
Wakala Call Deposits	28,341	49,597	28,342	-	35,427	141,707
Wakala Saving Deposits	4	4	4	24	14	50

15. OWNERS' EQUITY

15.a. Allocated capital

During the year allocated capital was increased by RO 10 million to RO 51.5 million (2022: RO 41.5 million).

15. b. Legal reserve

Legal reserve of RO 134 thousands (31 December 2022: RO 134 thousands) represents the net excess amount of the issue proceeds collected by the Bank during Window's inception in the year 2013.

15.c. General reserve

General Reserve of RO 988 thousands (31 December 2022: RO 988 thousands) represents the losses incurred for the year 2013 and 2014.

15.d. Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of the investment securities held as FVTE until the investment is derecognised, sold or impaired. As at 31 December 2023 the fair value gain on FVTE investments is RO 44 thousand, (31 December 2022: gain of RO 205 thousand).

15. OWNERS' EQUITY (CONTINUED)

15.e. Impairment reserve

As per the CBO circular BM 1149, in the year of adoption, if the Window's policy based provision for impairment is lower than the provision for the impairment as per regulatory guidelines, the excess, shall be transferred as appropriation from profit for the year to a regulatory reserve "Impairment reserve" under shareholder's equity. In subsequent years, if the Window's policy based provision for impairment is lower than provision for impairment as regulatory guidelines, the excess shall be transferred as appropriation from profit for the year to the Impairment reserve.

The regulatory impairment reserve cannot be used by the Window for capital adequacy calculation. Utilization of the impairment reserve created above would require prior approval of the Central Bank of Oman.

Accordingly, for the year ended December 2023, the Window made additional RO 1,169 million transfer to impairment reserve. The balance as on 31 December 2023: RO 1,641 million (31 December 2022: RO 472 thousand).

16. CONTINGENT LIABILITIES AND COMMITMENTS

16.a. Contingent liabilities

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

	31 December 2023 RO'000	31 December 2022 RO'000
Guarantees	**35,806**	20,291
Letter of credit	**17,691**	11,557
	53,497	31,848

16.b. Commitments

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

Commitments to make financing and advances. Commitments generally have fixed expiry dates or other termination clauses and require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash obligations.

	31 December 2023 RO'000	31 December 2022 RO'000
Credit related commitments	**46,217**	**33,188**

17. RELATED PARTIES

In the ordinary course of business, the Window conducts transactions with certain of its Directors, shareholders, senior management, head office, Sharia Supervisory Board (SSB), Sharia reviewer and companies in which they have a significant profit. These transactions are conducted on an arm's length basis and are approved by the Window's management and Board of Directors.

17. RELATED PARTIES (CONTINUED)

The aggregate amount of balances and the income and expenses generated with such related parties are as follows:

Directors & Senior management	31 December 2023 RO'000	31 December 2022 RO'000
Deposits (balance at end of year)	**2**	2
Deposits received during the year	**96**	1,162
Deposits paid during the year	**(98)**	(651)
Profit expense (during the year)	**-**	(13)
Directors' sitting fees and remuneration		
Shari'a Supervisory Board members	**39**	55
Other related parties		
Financing and advances (balance at end of year)	**-**	40
Financing and advances disbursed during the year	**-**	81
Financing and advances repaid during the year	**-**	(41)
Deposits (balance at end of year)	**-**	35
Deposits received during the year	**-**	1,062
Deposits paid during the year	**-**	(1,077)
Profit on financing and advances (during the year)	**-**	1
Transaction with head office		
Profit paid on wakala borrowings	**(1,326)**	(127)
Fee paid on committed line	**(200)**	(200)

The Window considers 7 (2022:6) senior management to be key management personnel for the purposes of IAS 24 Related Party Disclosures.

In the ordinary course of business, the Window conducts transactions with certain of its key management personnel and companies in which they have a significant interest. The balances in respect of these key management personnel included in the Window's statement of financial position as at the reporting date are as follows:

	31 December 2023 RO'000	31 December 2022 RO'000
Financing and advances (balance at end of year)	**81**	58
Deposits (balance at end of year)	**115**	1

Key management compensation

The income and expenses, accrued or paid, in respect of these key management personnel as included in the Window's statement of income for the year are as follows:

	31 December 2023 RO'000	31 December 2022 RO'000
Profit on financing and advances (during the year)	**2**	2
Profit expense (during the year)	**(4)**	(1)
Salaries and other short term benefits	**1,028**	616
Post-employment benefits	**30**	23

*Certain components of key management compensation are paid on a deferral basis in accordance with regulatory guidelines.

18. DERIVATIVES

In the ordinary course of business, the Window enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. These derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Unrealised gains or losses are included in the statement of comprehensive income. The derivative financial instruments used by the Window are described below:

Currency forward (Wa'ad), is a unilateral agreement between parties to buy one currency against selling another currency at an agreed price for settlement at forward/future value date. The exchange rate used for the transaction is called the forward exchange rate.

It is done to hedge from exchange rate volatility risk and to manage liquidity efficiently by allowing window to place/invest excess liquidity with offshore banks or to take funds from offshore banks in case of liquidity shortage.

As part of its asset and liability management the Window uses derivatives for hedging purposes in order to reduce its exposure to currency and profit rate risks. This is achieved by hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall statement of financial position exposures.

As at 31 December 2023	Notional amount	*Notional amounts by term to maturity*		
		Within 3 months	*3 - 12 months*	*1 - 5 years*
	RO'000	*RO'000*	*RO'000*	*RO'000*
Forward foreign exchange purchase contracts	**88,544**	**55,773**	**13,481**	**19,290**
Forward foreign exchange sales contracts	**88,494**	**55,769**	**13,475**	**19,250**

As at 31 December 2022	Notional amount	*Notional amounts by term to maturity*		
		Within 3 months	*3 - 12 months*	*1 - 5 years*
	RO'000	*RO'000*	*RO'000*	*RO'000*
Forward foreign exchange purchase contracts	123,208	55,154	68,054	-
Forward foreign exchange sales contracts	123,164	55,171	67,992	-

Main counter party to forward contracts is the head office.

19. INCOME FROM FINANCING ACTIVITIES

	31 December 2023 RO'000	31 December 2022 RO'000
Murabaha receivables	**2,907**	2,259
Ijarah muntahia bittamleek	**5,684**	5,623
Istisna followed by Ijarah muntahia bittamleek	**6,312**	5,857
Diminishing Musharka	**8,302**	3,788
Wakala Bil Istithmar	**1,515**	1,541
	24,720	19,068

20. INCOME FROM INVESTING ACTIVITIES

	31 December 2023 RO'000	31 December 2022 RO'000
Income from inter-bank placements with Islamic banks	**754**	202
Income from investment in debt-type instruments	**1,532**	1,722
	2,286	1,924

21. RETURN ON UNRESTRICTED INVESTMENT ACCOUNT HOLDERS

	31 December 2023 RO'000	31 December 2022 RO'000
On Mudaraba deposit	463	712
On Wakala deposit-		
- Customers	17,480	9,903
- Banks	1,638	1,301
	19,118	11,204
Total	19,581	11,916

22. OTHER OPERATING INCOME

	31 December 2023 RO'000	31 December 2022 RO'000
Foreign exchange gains - net	430	377
Fees and commissions - net	2,780	1,742
	3,210	2,119

23. OTHER OPERATING EXPENSES

	31 December 2023 RO'000	31 December 2022 RO'000
Operating and administration costs	980	1,115
Amortisation of right-to-use assets	320	266
Rent and utility expenses	564	399
SSB remuneration and sitting fees	49	55
	1,913	1,835

24. IMPAIRMENT CHARGES (NET)

	31 December 2023 RO'000	31 December 2022 RO'000
Impairment charges provided/(released) on:		
Investments & balances with banks	438	(45)
Off balance sheet	(1)	4
Financing assets	(1,501)	118
	(1,064)	77

25. FINANCIAL RISK MANAGEMENT

25.1. Credit risk

25.1.a. Credit risk in financing products

Credit risk originates from the financing of receivables and leases (including but not limited to, Murabaha, Diminishing Musharaka, Istisna and Ijarah) and financing of working capital (including but not limited to Salam). Window acts as financier, supplier, Rabb-ul-Mal and contributor of capital in Musharaka agreement. Window is exposed to the risk of counterparty's failure to meet their obligations in terms of receiving deferred payment and making or taking delivery of an asset.

Sohar Islamic credit risk management follows a robust framework with clearly defined lending policies that articulate the requirements for credit approvals. Risk appetite is monitored at a bank wide level. System of delegation of authorities ensures strong governance on approvals while an independent risk management department reviews and provides an independent opinion the credit/lending requests. Risk Ratings for wholesale borrowers are generated through the Moody's Credit Lens tool which assigns risk ratings to match the client's risk profile. Risk ratings are subject to annual review by the Business units and approval from Credit Risk Team.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.1. Credit risk (continued)

25.1.a. Credit risk in financing products (continued)

Exposure limits are based on the aggregate exposure to counterparty and any connected entities. Corporate contracts/facilities are reviewed on an annual basis by the approving authorities as per the Delegation of Authorities approved by the Board of Directors.

The bank uses both tangible and intangible collaterals to cover unforeseen risk which is detailed in the bank's lending policy. The policy also defines the need to conduct periodic evaluations on tangible collaterals in line with the regulatory stipulations.

The principal types of collaterals for financings and advances are:

- charges of assets under Murabaha agreements
- ownership/title of assets under Ijarah and Istisna financing
- ownership/title under Istisna arrangement
- title of assets under Diminishing Musharka

25.1.b. Management of credit risk

All financings and advances of the Window are regularly monitored to ensure compliance with the stipulated terms and conditions. Those financings and advances are classified into one of the 5 risk classification categories: Standard, Special Mention, Substandard, Doubtful and Loss – as stipulated by Central Bank of Oman regulations and guidelines. The responsibility for identifying problem accounts and classifying them rests with the business line with an oversight from the independent risk management function.

The credit exposure of the Window as on the reporting date is as follows:

31 December 2023 In(RO'000)	Murabaha receivables	Ijarah muntahia bittamleek	Istisna followed by Ijarah muntahia bittamleek	Diminishing Musharka	Qard Hasan Financing	Wakala Bil Istithmar	Due from banks	Debt type securities	Total
Stage 1	28,168	84,082	86,374	225,796	33	13,955	18,777	23,889	481,074
Stage 2	3,203	8,640	15,448	26,790	-	6,797	-	-	60,878
Stage 3	295	1,268	781	608	-	-	-	-	2,952
Total	31,666	93,990	102,603	253,194	33	20,752	18,777	23,889	544,904

31 December 2022 In (RO'000)	Murabaha receivables	Ijarah muntahia bittamleek	Istisna followed by Ijarah muntahia bittamleek	Diminishing Musharka	Qard Hasan Financing	Wakala Bil Istithmar	Due from banks	Debt type securities	Total
Stage 1	24,709	91,236	89,347	126,174	40	45,278	7,321	18,846	402,951
Stage 2	141	7,822	4,262	18,298	2	-	-	8,389	38,914
Stage 3	271	1,037	497	492	-	-	-	-	2,297
Total	25,121	100,095	94,106	144,964	42	45,278	7,321	27,235	444,162

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.1. Credit risk Credit risk (continued)

25.1.b. Management of credit risk (continued)

Maximum exposure to credit risk before collateral held or other credit enhancements for all on-balance sheet assets are based on net carrying amounts as reported in the statement of financial position.

The table below presents an analysis of debt securities, treasury bills, placements and other eligible bills by rating agency designation at 31 December 2023, based on Moody's ratings or equivalent.

	31 December 2023 RO'000	31 December 2022 RO'000
Aaa to Aa3	**1,040**	11
A1 to A3	**15,571**	2,864
Baa1 to Baa3	**2,165**	596
Ba1 to Ba3	**-**	-
B1 to B3	**-**	-
Caa1 to Caa3	**-**	8,394
Unrated	**663**	442
Sovereign	**23,889**	22,696
	43,328	35,003

The Window performs an independent assessment based on quantitative and qualitative factors in cases where a counter party is unrated.

25.1.c Credit rating analysis

The Window's internal rating and PD estimation process

The Window's independent Credit Risk Department operates its internal rating models. The Window runs separate models for its key portfolios in which its customers are rated from 1 to 10 using 22 internal grades. Granular scales were implemented in 2022 as a part of the overall enhancement to the Obligor Risk Rating framework.

The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilize supplemental external information that could affect the borrower's behavior. Where practical, they also build on information from Good Rating Agency. These information sources are first used to determine the PDs within the Window's Basel III framework. The internal credit grades are assigned based on these Based III grades.

The Window's internal credit rating grades along with the respective PDs are as below:

Internal Rating Grade	Internal Rating Grade Description	PD Range (%)
1	Investment Grade	
2+	Investment Grade	
2	Investment Grade	
2-	Investment Grade	
3+	Investment Grade	0.53% to 3.23%
3	Investment Grade	
3-	Investment Grade	
4+	Investment Grade	
4	Investment Grade	
4-	Investment Grade	

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.1. Credit risk Credit risk (continued)

25.1.c. Credit rating analysis (continued)

Internal Rating Grade	Internal Rating Grade Description	PD Range (%)
5+	Investment Grade	
5	Investment Grade	
5-	Investment Grade	0.53% to 3.23%
6+	Investment Grade	
6	Investment Grade	
6-	Investment Grade	
7+	Sub Investment Grade	
7	Sub Investment Grade	3.59% to 5.65%
7-	Sub Investment Grade	
8 to 10	Non-Performing	100%

The table below shows the credit quality by class of financial asset, based on internal credit ratings:

31 December 2023	Murabaha receivables	Ijarah muntahia bittamleek	Istisna followed by Ijarah muntahia bittamleek	Diminishing Musharka	Qard Hasan Financing	Wakala Bil Istithmar	Due from banks	Debt type securities	Total
Gross Amount (RO'000)									
Stage 1 (12 month ECL)									
Investment grade	28,169	83,344	45,373	220,488	33	13,955	18,777	23,889	434,028
Sub-investment grade	-	738	41,000	5,308	-	-	-	-	47,046
Carrying amount	28,169	84,082	86,373	225,796	33	13,955	18,777	23,889	481,074
Stage 2 (Lifetime ECL but not credit-impaired)									
Investment grade	150	1,921	1,251	3,989	-	75	-	-	7,386
Sub-investment grade	3,052	6,719	14,198	22,801	-	6,722	-	-	53,492
Carrying amount	3,202	8,640	15,449	26,790	-	6,797	-	-	60,878
Stage 3 (Lifetime ECL and credit-impaired)									
Non-performing	295	1,268	781	608	-	-	-	-	2,952
Total	31,666	93,990	102,603	253,194	33	20,752	18,777	23,889	544,904

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.1. Credit risk Credit risk (continued)

25.1.c. Credit rating analysis (continued)

31 December 2022	Murabaha receivables	Ijarah muntahia bittamleek	Istisna followed by Ijarah muntahia bittamleek	Diminishing Musharka	Qard Hasan Financing	Wakala Bil Istithmar	Due from banks	Debt type securities	Total
Gross Amount (RO'000)									
Stage 1 (12 month ECL)									
Investment grade	24,709	90,661	48,347	120,866	40	45,278	7,321	18,846	356,068
Sub-investment grade	-	575	41,000	5,308	-	-	-	-	46,883
Carrying amount	24,709	91,236	89,347	126,174	40	45,278	7,321	18,846	402,951
Stage 2 (Lifetime ECL but not credit-impaired)									
Investment grade	126	6,151	144	110	2	-	-	8,389	14,922
Sub-investment grade	15	1,671	4,118	18,188	-	-	-	-	23,992
Carrying amount	141	7,822	4,262	18,298	2	-	-	8,389	38,914
Stage 3 (Lifetime ECL and credit-impaired)									
Non-performing	271	1,037	497	492	-	-	-	-	2,297
Total	25,121	100,095	94,106	144,964	42	45,278	7,321	27,235	444,162

25.1.d. Write-off policy

The Window writes off a financing and advances/security balance (and any related allowances for impairment losses) when the Window determines that the financing and advances/security is uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer repay the obligation, or that proceeds from the collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized financings, charge off decisions generally are based on a product specific past due status. The write off mechanism, approving authorities and the governance on the same is duly elaborated in the bank's wholesale lending policy.

An estimate of the fair value of collateral and other security enhancements held against financings and advances is shown below:

	31 December 2023	31 December 2022
	RO'000	RO'000
Property	**654,418**	586,416
Vehicles	**15,286**	16,460
Fixed deposits	**2,964**	2,083
	672,668	604,959

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.1. Credit risk Credit risk (continued)

25.1.d. Write-off policy (continued)

Settlement risk is the risk that the settlement or clearance of transactions will fail. It arises whenever the exchange of cash, securities and/or other assets is not simultaneous.

In foreign exchange trades, though there is fulfilment of both the legs of the transaction on the settlement date as is common practice between trading partners (free settlement), there will be risk on account of different time zones. In these cases, daily settlement limits shall control the aggregate size of FX notional amounts permitted to settle with a counterparty on any given settlement date.

25.1.e. Concentrations

Concentrations of credit risk arise when a number of counter parties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Window's performance to developments affecting a particular industry or geographic location.

In order to avoid excessive concentrations of risk, the Window's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed through regulatory caps and internal risk appetite thresholds where ever applicable.

	Dec 2023							
	Murabaha receivables	**Ijarah muntahia bittamleek**	**Istisna followed by Ijarah muntahia bittamleek**	**Diminishing Musharka**	**Qard Hasan Financing**	**Wakala Bil Istithmar**	**Due from banks**	**Debt type securities**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Concentration by sector								
Corporate	**19,971**	**14,857**	**69,207**	**225,405**	**-**	**20,752**	**-**	**23,889**
Personal	**11,695**	**79,133**	**33,396**	**27,789**	**33**	**-**	**-**	**-**
Sovereign	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Banks	**-**	**-**	**-**	**-**	**-**	**-**	**18,777**	**-**
Total	**31,666**	**93,990**	**102,603**	**253,194**	**33**	**20,752**	**18,777**	**23,889**
Concentration by location								
Middle east	**31,666**	**93,990**	**102,603**	**253,194**	**33**	**20,752**	**1,508**	**23,889**
Europe	**-**	**-**	**-**	**-**	**-**	**-**	**17,269**	**-**
Asia	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**31,666**	**93,990**	**102,603**	**253,194**	**33**	**20,752**	**18,777**	**23,889**

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.1. Credit risk Credit risk (continued)

25.1.e. Concentrations (continued)

	Dec 2022							
	Murabaha receivables	Ijarah muntahia bittamleek	Istisna followed by Ijarah muntahia bittamleek	Diminishing Musharka	Qard Hasan Financing	Wakala Bil Istithmar	Due from banks	Debt type securities
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Concentration by sector								
Corporate	13,164	16,483	61,449	115,922	-	45,278	-	8,389
Personal	11,957	83,612	32,657	29,042	43	-	-	-
Sovereign	-	-	-	-	-	-	-	18,846
Banks	-	-	-	-	-	-	7,321	-
Total	25,121	100,095	94,106	144,964	43	45,278	7,321	27,235
Concentration by location								
Middle east	25,121	100,095	94,106	144,964	43	45,278	4,278	27,235
Europe	-	-	-	-	-	-	1,664	-
Asia	-	-	-	-	-	-	1,379	-
Total	25,121	100,095	94,106	144,964	43	45,278	7,321	27,235

25.1.f. Sensitivity of impairment estimates

Sensitivity of impairment estimates	*At 31 December 2023* ECL RO 000's	Impact on ECL RO 000's	*At 31 December 2022* ECL RO 000's	Impact on ECL RO 000's
ECL on non-impaired financing under Window's policy	**3,595**	**-**	2,233	-
Simulations				
Upside case - 100% weighted	**2,867**	**728**	1,742	491
Base case - 100% weighted	**3,378**	**217**	2,087	146
Downside scenario - 100% weighted	**4,593**	**(998)**	2,903	(670)

25.2 Liquidity risk

Liquidity risk is the risk that the Window will encounter difficulty in meeting its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The objective of the Window's liquidity risk management framework is to ensure that the Window's will always have sufficient liquidity to meet all its payment obligations as and when it is due, under both normal and stressed conditions without incurring unacceptable losses or risking damage to the Window's reputation.

Window's central treasury receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Central treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, financing and advances and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the window as a whole. The liquidity requirements of business units are met through short-term financing and advances from central treasury to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements. The Window has also laid down a comprehensive liquidity contingency plan for effective management of liquidity. In this process due care is taken to ensure that the Window complies with all the CBO regulations.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.2 Liquidity risk (continued)

All liquidity policies and procedures are subject to review and approved by Asset Liabilities Committee (ALCO). Computation of liquidity gap on maturity of assets and liabilities is provided. The computation has been prepared in accordance with guidelines provided by the regulator.

The lending ratio, which is the ratio of the total financings and advances to customer deposits and capital, is monitored in line with the regulatory guidelines. Internally the lending ratio is set at a more conservative basis than required by regulation. The Window also manages its liquidity risk on regular basis and by monitoring the liquid ratio which is a ratio of net liquid assets to total assets on a monthly basis. For this purpose, net liquid assets are considered as including cash and cash equivalents and investment grade debt investments for which there is an active and liquid market.

Details of the reported lending and liquid ratio as at 31 December 2023 were as follows:

	31 December 2023	
	Lending ratio	**Liquid ratio**
Average for the year	**86.14%**	**15.90%**
Maximum for the year	**88.70%**	**21.29%**
Minimum for the year	**83.65%**	**12.78%**

	31 December 2022	
	Lending ratio	Liquid ratio
Average for the year	86.84%	15.95%
Maximum for the year	88.34%	23.12%
Minimum for the year	83.23%	12.16%

The Window also monitors the liquidity through Liquidity Coverage ratio (LCR) and Net Stable Funding Ratio (NSFR). Current levels of these ratios are given below

31 December 2023		31 December 2022	
LCR	**NSFR**	LCR	NSFR
254.37%	**111.65%**	296.19%	118.88%

The table below summarizes the maturity profile of the Window's liabilities as on the reporting date based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Window's deposit retention history and the availability of liquid funds.

Dec 2023	**Carrying amount RO'000**	**Within three months RO'000**	**Four months to 12 months RO'000**	**One to three years RO'000**	**More than three years RO'000**	**Total RO'000**
Customer deposit and other accounts	**65,647**	**26,617**	**22,680**	**380**	**15,970**	**65,647**
Due to banks and financial institutions	**4,233**	**4,233**	**-**	**-**	**-**	**4,233**
Other liabilities	**3,275**	**-**	**-**	**-**	**3,275**	**3,275**
Total Liabilities	**73,155**	**30,850**	**22,680**	**380**	**19,245**	**73,155**
Equity of Investment account holders	**462,100**	**71,708**	**151,065**	**141,502**	**97,825**	**462,100**
	535,255	**102,558**	**173,745**	**141,882**	**117,070**	**535,255**

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.2 Liquidity risk (continued)

Dec 2022	Carrying amount RO'000	Within three months RO'000	Four months to 12 months RO'000	One to three years RO'000	More than three years RO'000	Total RO'000
Customer deposit and other accounts	41,222	16,085	14,145	990	10,002	41,222
Other liabilities	2,679	2,679	-	-	-	2,679
Total Liabilities	43,901	18,764	14,145	990	10,002	43,901
Equity of Investment account holders	385,698	70,685	148,358	72,796	93,859	385,698
	429,599	89,449	162,503	73,786	103,861	429,599

The Window prepares a liquidity gap report to monitor the Window's short term liquidity position on the Omani Rial denominated assets and liabilities in a time horizon spanning one month. The gap is adjusted for availability of instruments for repo or refinance and also for unutilized committed lines of credit, if any. This statement of short term liquidity is to be reported to the ALCO every month.

In addition to the above measures of liquidity, the window also monitors the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio as per the regulator in line with Basel-III standards.

25.3. Market risk

Market risk is defined as potential losses on account of changes in market variables. The sources of market risks are the changes in the profit rates, foreign currency exchange rates, equity prices, and commodity prices. One of the primary objectives of the Market Risk Management is to ensure that the business units do not expose the bank to unacceptable exposures outside of the bank's Board approved risk appetite.

25.3.a. Market risk in financing products

Financing contracts mainly comprise 'Murabaha receivables' and 'Ijara Muntahia Bittamleek'. Following are the financing related market risk:

(i) Murabaha receivables

In the case of an asset in possession for a Murabaha transaction and an asset acquired specifically for resale to a customer in a non-binding Murabaha to the purchase ordered (MPO) transaction, the asset would be treated as inventory of the Window and is subject to price risk.

(ii) Ijara Muntahia Bittamleek (IMB)

In the case of Non-binding Promise to lease an asset acquired and held for the purpose of either operating Ijarah or IMB. The asset would be treated as asset owned by the Window and is subject to price risk from its acquisition date until its disposal.

(iii) Musharaka Investments

Musharaka is a form of partnership between the Window and its clients whereby each party contributes to the capital of partnership in equal or varying degrees to establish a new project, whereby each of the parties become an owner of the capital on a permanent or declining basis. Profits are shared in agreed ratio, but losses are shared in proportion to the amount of capital contributed.

25.3.b. Management of market risks

The Window is mainly engaged in Currency forward (Wa'ad). Such positions are mainly undertaken for customer transactions. The Window measures and controls the risk by using a limit framework. As and when the Window enters into more complex derivatives, it will have more sophisticated models and techniques to measure market risk, supported by a suitable mechanism.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.3. Market risk (continued)

25.3.c. Measurement of market risk (continued)

The Window separates its exposure to market risk between trading and non -trading portfolios. Trading portfolios include all positions arising from market making and proprietary position, together with financial assets and liabilities that are managed on a fair value basis.

The Market Risk Function covers the assessment of the market risk for treasury portfolio and non-treasury positions, evaluate/validate methods for monitoring market risk, prescribe the control processes and define the framework for risk appetite in form of limits/trigger levels. They also conduct review of the valuation models, and the conventions for various market risk factors in the valuation and risk system that are proposed by Treasury department.

The window has an independent Market risk (Middle Office) function within the bank's Risk Management Department (RMD) which is responsible for the day-to-day monitoring of treasury limit. Investment banking and FIG. The Middle- office reports adherence to set risk thresholds and escalates breaches, if any, for timely remedial action. The process ensures that the risks assumed by various front office desks are within the Board approved risk appetite and related policies of the Bank.

The market risk management is monitor the following limits and thresholds:

- Exposure limits, variation margin limits with counterparties and credit risk equivalent (CRE) for derivatives
- Permitted derivative structure
- Stop loss thresholds for investments
- Open currency position thresholds
- Regulatory limits for investments under various categories
- Dealer Limits
- Nostro Balances

Overall authority for market risk is vested in ALCO. The risk management function is responsible for development of detailed risk management policies (subject to approval by ALCO and Risk Management Committee of the Board). The Policy is periodically reviewed to keep it up to date with the market developments.

25.3.d. Exposure to profit rate risk

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of funding due to the sources of finance. Senior management identifies the sources of profit rate risk exposures based upon the current as well as forecasted balance sheet structure of Window. The profit rate risk in the Window may arise due to the following transactions:

- Murabaha transactions;
- Wakala transactions;
- Isitisna followed by Ijara Muntahia Bittamleek;
- Ijara Muntahia Bittamleek;
- Diminishing Musharka;
- Sukuk.

The Window manages short term profit rate impact through earnings based measures and long term profit rate impact through economic value based measures. The Window measures the change in Economic Value of Equity ("EVE") as the maximum decrease of the banking book economic value under the 6 standard scenarios prescribed by Basel guidelines. The Window maintains economic capital for PRRBB under Pillar II based on the outcome.

Window is not exposed to material profit rate risk as a result of mismatches in the profit rate re-pricing of assets, liabilities and equity of investment account. The profit distribution to equity of investment accountholders is based on profit sharing agreements. Therefore, Window is not subject to any significant profit rate risk.

(i) Sources of Profit Rate Risk

The different profit rate risks faced by the Window can be classified broadly into the following categories.

- Re-pricing risk which arises from timing differences in the maturity (for fixed rate) and re-pricing (for floating rate) of assets, liabilities and off balance sheet positions. As profit rates vary, these re-pricing mismatches expose Window's income and underlying economic value to unanticipated fluctuations;

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.3. Market risk (continued)

25.3.d. Exposure to profit rate risk (continued)

- Yield curve risk which arises when unanticipated shifts of the yield curve have adverse effects on Window's income and/or underlying economic value;
- Basis risk which arises from imperfect correlation in the adjustment in the rate earned on products priced and the rate paid on different instruments with otherwise similar re-pricing characteristics. When profit rates change, these differences can give rise to unexpected changes in the cash flows and earnings spread between assets, liabilities, and off balance sheet instruments of similar maturities or re-pricing frequencies; and
- Displaced Commercial Risk refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared with competitor's rates.

(ii) Profit rate risk measurement tools

Window uses Re-pricing gap analysis for profit rate risk measurement in its book which measures the arithmetic difference between the profit-sensitive assets and liabilities of banking book in absolute terms.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.3. Market risk (continued)

25.3.e. Exposure to profit rate risk – non trading portfolios

The Window's profit sensitivity position based on contractual re-pricing arrangements at 31 December 2023 was as follows:

	Effective annual Profit Rate	Within three months	Four months to 12 months	Over one year	Non sensitive to profit rate	Total
	%	RO'000	RO'000	RO'000	RO'000	RO'000
At 31 December 2023						
Assets						
Cash and balances with central banks		-	-	-	38,232	38,232
Due from banks		-	-	-	18,777	18,777
Investment securities	5.60	-	11,121	12,768	663	24,552
Murabaha receivables	5.01	-	-	-	31,466	31,466
Ijarah muntahia bittamleek	5.42	81,860	9,717	2,010	-	93,587
Istisna followed by Ijarah muntahia bittamleek	6.56	46,976	51,734	2,432	-	101,142
Diminishing Musharka	6.00	106,249	143,956	807	-	251,012
Qard Hasan Financing		7	-	26	-	33
Wakala Bil Istithmar	4.47	15,509	5,186	-	-	20,695
Property and equipment		-	-	-	2,361	2,361
Other assets		-	-	-	22,155	22,155
Total assets		250,601	221,714	18,043	113,654	604,012
Liabilities and equity						
Customer current accounts		-	-	-	65,647	65,647
Due to banks and financial institutions		4,233	-	-	-	4,233
Other liabilities		-	-	-	3,275	3,275
Total liabilities		4,233	-	-	68,922	73,155
Equity of Investment account holders	4.58	200,730	137,283	124,086	-	462,100
Total liabilities and equity of Unrestricted Investment Account (URIA)		204,963	137,283	124,086	68,922	535,255
Total profit rate sensitivity gap		45,638	84,431	(106,043)	44,732	-
Cumulative profit rate sensitivity gap		45,638	130,069	24,026	68,758	-

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.3. Market risk (continued)

25.3.e. Exposure to profit rate risk – non trading portfolios (continued)

At 31 December 2022	Effective annual Profit Rate %	Within three months RO'000	Four months to 12 months RO'000	Over one year RO'000	Non sensitive to profit rate RO'000	Total RO'000
Assets						
Cash and balances with central banks		-	-	-	26,667	26,667
Due from banks	0.3	-	-	-	7,321	7,321
Investment securities	6.3	-	-	26,797	442	27,239
Murabaha receivables	5.7	-	-	-	24,935	24,935
Ijarah muntahia bittamleek	5.4	86,223	9,766	3,806	-	99,795
Istisna followed by Ijarah muntahia bittamleek	5.5	85,691	6,378	1,234	-	93,303
Diminishing Musharka	5.6	95,973	34,028	13,606	-	143,607
Qard Hasan Financing	-	10	-	33	-	43
Wakala Bil Istithmar	5.8	7,707	37,534	-	-	45,241
Property and equipment		-	-	-	1,051	1,051
Other assets		-	-	-	15,899	15,899
Total Assets		275,604	87,706	45,476	76,315	485,101
Liabilities and equity						
Customer current accounts		-	-	-	41,222	41,222
Other liabilities		-	-	-	2,679	2,679
Total liabilities		-	-	-	43,901	43,901
Equity of Investment account holders	3.4	230,754	66,563	83,123	5,258	385,698
Total liabilities and equity of Unrestricted Investment Account (URIA)		230,754	66,563	83,123	49,159	429,599
Total profit rate sensitivity gap		44,849	21,144	(37,647)	27,157	-
Cumulative profit rate sensitivity gap		44,849	65,993	28,346	55,503	-

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.3. Market risk (continued)

25.3.f. Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on the overall open position and for open position for each currency. The open position limits include overnight open position and intraday open position. Open positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits. The Window had the following net exposures denominated in foreign currencies:

	31 December 2023			31 December 2022		
	Assets	**Liabilities & URIA**	**Net assets**	Assets	Liabilities & URIA	Net assets
Rial Omani	**409,590**	**438,114**	**(28,524)**	334,088	319,271	14,817
United States Dollar	**176,043**	**88,840**	**87,203**	144,614	104,164	40,450
Euro	**6,640**	**4,203**	**2,437**	3,954	3,849	104
UAE Dirhams	**11,717**	**4,099**	**7,618**	2,438	2,315	123
Pound Sterling	**22**	**-**	**22**	7	-	7
Japanese Yen	**-**	**-**	**-**	-	-	-

The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

Changes in the non-parity foreign currency prices as at 31 December 2023 and 2022 on net assets are considered negligible.

25.4. Operational risk

25.4.a. Displaced commercial risk

Displaced commercial risk ("DCR") refers to the magnitude of risks that are transferred to shareholders in order to cushion the Investment Account Holder ("IAH") from bearing some or all of the risks to which they are contractually exposed in Mudaraba contracts.

Under a Mudaraba (profit sharing and loss-bearing) contract, unrestricted IAH are exposed to aggregate impact of risks arising from the assets in which their funds are invested, but this is managed by Sohar Islamic Window through DCR.

This risk-sharing is achieved by constituting and using various reserves such as PER, and by adjusting the Sohar Islamic Window's profit share in order to smooth the returns payable to the IAH from exposure to the volatility of aggregate returns arising from banking risks, and thereby to enable payment of returns that are competitive in the marketplace.

Sohar Islamic Window manages its displaced commercial risk as outlined in its Profit Distribution Policy. The Window foregoes its fee in case displaced commercial risk arises. The Window manages profit rates with other Islamic Windows and full-fledged Islamic/ Conventional Banks operating in Oman.

25.5. Business Continuity Management

The Window has established a Business Continuity Management (BCM) Program designed to minimize service disruption and the potential impact on the Bank, our customers and our staff. This includes a BCM Policy that is approved by our Board together with written Business Continuity and Disaster Recovery plans (DRPs) and procedures that are subject to periodic independent review. Although the specific details of our BCM arrangements are confidential for security reasons, the bank maintains Business Continuity Plans (BCPs) that address risk scenarios and events of varying scope including, but not exclusively, loss of services or infrastructure, denial of access, cyber-attack, pandemics and regional crises.

Sohar Islamic BCPs are focused on maintaining critical processes, including treasury, capital & liquidity and payment services, providing customers with uninterrupted access to their funds and maintaining effective communications with our customers, staff and other stakeholders.

26. CAPITAL MANAGEMENT

26.1. Regulatory capital

The Window's lead regulator, Central Bank of Oman, sets and monitors capital requirements for the Window as a whole. In implementing current capital requirements Central Bank of Oman requires the Window to maintain a prescribed ratio of total capital to total risk-weighted assets.

The Window calculates capital requirements for market risk and operational risk based upon the model prescribed by Central Bank of Oman as follows:

- Sovereign entities – Nil for Oman
  Window's – Risk weighting based upon ratings by external credit assessment institutions as approved by CBO
- Retail and Corporate financings – As per credit conversion factors and risk weightage prescribed by CBO.
- Off balance sheet items – As per credit conversion factors and risk weightage prescribed by CBO.

The Window's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes allocated capital and reserves, retained earnings and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying collective impairment allowances

Various limits are applied to elements of the capital base. The amount of innovative tier 1 investments cannot exceed 15 percent of total tier 1 capital; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated financing and advances capital may not exceed 50 percent of tier 1 capital. There are also restrictions on the amount of collective impairment allowances, PER and IRR that may be included as part of tier 2 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of Windows and certain other regulatory items.

Window's operations are categorized as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. There is no availability of data for previous three years as required under basic indicator approach for computation of capital charge for operational risk. The Window's policy is to maintain a strong capital base.

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

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

	31 December 2023 RO'000	31 December 2022 RO'000
Tier 1 capital		
Allocated capital	**51,500**	41,500
Legal reserve	**134**	134
General reserve	**988**	988
Retained earnings	**14,450**	12,203
Fair value losses	**-**	(248)
Total tier 1 capital	**67,072**	54,577

26. CAPITAL MANAGEMENT (CONTINUED)

26.1. Regulatory capital (continued)

Tier 2 capital		
Fair value gains	**20**	7
Impairment allowance on portfolio basis	**2,609**	2,009
Total tier 2 capital	**2,629**	2,016
Total regulatory capital	**69,701**	56,593
Risk-weighted assets		
Window credit and market risk	**511,503**	386,141
Operational risk	**19,433**	17,019
Total risk-weighted assets	**530,936**	403,160
Capital adequacy ratio		
Total regulatory capital expressed as a percentage of total risk-weighted assets	**13.13%**	14.04%
Total tier 1 capital expressed as a percentage of total risk-weighted assets	**12.63%**	13.54%

The capital adequacy ratio given above is calculated in accordance with the Basel II norms as adopted by Central Bank of Oman and IBRF.

27. Segmental information

The activities of the Window are performed as one unit. Reporting to management is made by business unit. The Window operates solely in the Sultanate of Oman and as such no geographical segment information is presented.

28. Other disclosures

Following are the disclosures required under Islamic Banking Regulatory Framework:

- There has been no comingling of the funds.
- As of 31 December 2023, and amount of RO 734 thousands is payable to head office.
- During the year head office has allocated RO 800 thousand (2022: RO 750 thousand) for services provided.
- Proposed remuneration and sitting fee of SSB board is as follows:

Name	Remuneration RO	Sitting Fee RO	Total RO
Sheikh Al Muatasim Said Al Maawali	15,400	1,540	16,940
Sheikh Nasser Al Azri	13,475	1,540	15,015
Dr. Mohammed Al Olama	11,550	1,540	13,090
	40,425	4,620	45,045

29. Comparative figures

Certain comparative figures for 2022 have been reclassified in order to conform to the presentation for the current period. Such reclassifications do not affect previously reported net profit or owners' equity.

REGULATORY DISCLOSURES (SOHAR ISLAMIC)

CONTINUED
GROWTH
THROUGH TRANSPARENCY AND ACCOUNTABILITY

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Report of factual findings to the Board of Directors of Sohar Islamic (the 'Islamic Window') in respect of Basel II - Pillar III Disclosures and Basel III related disclosures

Purpose of the Agreed Upon Procedures Report and Restriction on Use and Distribution

Our report is solely for the purpose of assisting the **Sohar Islamic** ('the Islamic Window') in reporting factual findings to the Board of Directors of the Sohar International Bank SAOG ("the Bank") in respect of Basel II - Pillar III Disclosures and Basel III related disclosures and may not be suitable for another purpose.

The report is intended solely for the **Sohar Islamic** (the "Engaging Party" or the 'Islamic Window') and should not be used by, or distributed to, any other parties. Our report is not to be used for any other purpose, recited or referred to in any document, copied or made available (in whole or in part) to any other person without our prior written express consent. We accept no duty, responsibility or liability to any other party in connection with the report or this agreed upon procedures engagement. This report relates only to the matters specified below and does not extend to any financial statements of **Islamic Window** taken as a whole.

Responsibility of the Engaging Party

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

The Bank is responsible for the subject matter on which the agreed upon procedures are performed.

Practitioner's Responsibilities

We have conducted the agreed upon procedures engagement in accordance with the International Standard on Related Services 4400 (Revised), Agreed Upon Procedures Engagements. An agreed upon procedures engagement involves our performing the procedures that have been agreed with the Engaging Party, 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.

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 ethical requirements of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* ("IESBA Code") and the independence requirements in accordance with local laws.

Our firm applies International Standard on Quality Management ("ISQM") 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or 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 agreed with you in our terms of engagement letter date **28 March 2023** and as prescribed in the Central Bank of Oman ("CBO") Islamic Banking Regulatory Framework (IBRF), with respect to the Basel II - Pillar III disclosures and Circular No. BM 1114 dated 17 November 2013, with respect to Basel III related disclosures (the disclosures) of the **Sohar Islamic** ('the Islamic Window') set out on the attached pages as at and for the year ended **31 December 2023.**

We report no findings based on the work performed.

You have acknowledged that the agreed upon procedures are appropriate for the purpose of the engagement.

This report is based on the information provided to us by the management of the Engaging Party. We did not subject the information contained in our report or given to us by management to checking or verification procedures except to the extent expressly stated above. This is normal practice when carrying out such limited scope procedures, but contrasts significantly with, for example, an audit. The procedures we performed were not designed to and are not likely to reveal fraud.

All monetary amounts noted are in **OMR** unless otherwise stated.

Deloitte & Touche

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
12 March 2024

C.R. No. 1736256
Deloitte.
0901-01
Deloitte & Touche (M.E.) & Co. LLC

1. INTRODUCTION

Sohar International Bank SAOG (the head office) under an Islamic Banking License issued by the Central Bank of Oman (CBO) on 30 April 2013, carries out Islamic banking operations and other financial trading activities in accordance with Islamic Shari'a rules and regulations under the name of "Sohar Islamic" (the Window). A separate set of financial statements is included in the consolidated financial statements of the Bank.

The following disclosures are being made in accordance with the Islamic Banking Regulatory Framework (IBRF) issued by Central Bank of Oman (CBO). These disclosures aim to provide market participants material qualitative and quantitative information about Sohar Islamic Window risk exposures, risk management strategies and processes of capital adequacy. The Window has not operated as a separate legal entity.

There is no restriction on transfer of funds between the Window and the Bank. However, as per the guidelines contained in Islamic Banking Regulatory Framework (IBRF), Window is not permitted to place funds with the Bank.

2. CAPITAL STRUCTURE & UN RESTRICTED INVESTMENT ACCOUNT HOLDER

As required under clauses 3.5.1.2 and 3.5.1.3 of Title 1,'*Licensing Requirements*' of Islamic Banking Regulatory Framework (IBRF) issued by CBO, the head office assigned RO 51.5 million (2022: RO 41.5 million) to the Window as assigned capital.

As per IBRF windows has to keep minimum RO 10 million as assigned capital.

	2023 RO'000
Tier 1 capital	
Assigned capital	51,500
Legal reserve	134
General reserve	988
Retained earnings	14,450
Fair value loss	-
Total	**67,072**
Tier 2 capital	
Fair value gain	**20**
Impairment allowance on portfolio basis	**2,609**
Total	**2,629**
Total regulatory capital	**69,701**
Equity of Investment account holder	**462,100**

Window has not maintained any Profit Equalization and Investment risk reserve.

3. CAPITAL ADEQUACY

The window's capital adequacy ratio, calculated according to guidelines set by the CBO guidelines. It stipulate that a minimum capital adequacy ratio of 11% should be maintained.

The Window's lead regulator, Central Bank of Oman, sets and monitors capital requirements for the Window as a whole.

As required under clauses 3.5.1.2 and 3.5.1.3 of Title 1,'Licensing Requirements' of Islamic Banking Regulatory Framework (IBRF) issued by CBO, the head office has allocated RO 51.5 million to the Window as assigned capital.

The Bank has an Internal Capital Adequacy Assessment Process (ICAAP) through which senior management assesses the Bank's capital against its risk profile. Asset Liability Committee (ALCO) is the forum in which the capital adequacy is assessed, based on the business forecast and the risk profile envisaged.

3. CAPITAL ADEQUACY (CONTINUED)

Total and Tier 1 Capital Ratio, Risk Weighted Assets RO '000

S. No.	Details	Gross Balances (Book Value)	Net Balances (Book Value)*	Risk Weighted Assets
1	On-balance sheet items	607,608	604,012	443,813
2	Off - balance sheet items	65,086	65,086	52,240
3	**Total for Credit Risk**		**669,098**	**496,053**
4	**Risk Weighted Asset for Market Risk**			15,450
5	**Risk Weighted Asset for Operational Risk**			19,433
6	**Total Risk Weighted Assets**		**669,098**	**530,936**
7	Tier 1 Capital		67,072	
8	Tier 2 Capital		2,629	
9	**Total Regulatory Capital**		**69,701**	
9.1	Capital requirement for credit risk			54,566
9.2	Capital requirement for market risk			1,700
9.3	Capital requirement for operational risk			2,138
10	**Total required capital**			**58,404**
11	**Tier 1 Ratio**			12.63%
12	**Total Capital Ratio**			13.13%
*	***Net of provisions***			

Disclosure of Capital Requirements according to different risk categories for each Shari'a compliant financing contract.

RO' 000

	Risk weighted Assets	Capital Requirements
Murabaha receivables	31,522	3,467
Ijarah muntahia bittamleek	46,738	5,141
Istisna followed by Ijarah muntahia bittamleek	81,617	8,978
Diminishing Musharaka	234,298	25,773
Qard Hasan Financing	33	4
Wakala Bil Istithmar	20,672	2,274
Placements with banks	3,755	413
Investments	663	73
Others	24,516	2,697
Off Balance sheet	52,240	5,746
	496,053	**54,566**
Of above Risk weighted assets assets funded by the URIA	**419,100**	**46,101**

Assets funded by the URIA are treated at par for all other assets for calculation of capital adequacy.

3. CAPITAL ADEQUACY (CONTINUED)

The net exposure after risk mitigation subject to Standardized approach is as follows:

	Exposure	RO'000 RWAs - Standardized Approach
Sovereign - carrying 0%	57,622	-
Banks		
carrying 20%	18,777	3,755
Corporate		
Carrying 75%	12,030	9,022
Carrying 100%	246,090	244,639
Retail - carrying 100%	11,616	11,616
Claims secured by residential property - carrying 35%	126,451	44,258
Claims secured by residential property - carrying 100%	12,701	12,701
Claims secured by commercial property - carrying 100%	90,398	90,398
Non-Performing loans carrying 100%	2,245	2,245
Other Assets - carrying 0%	4,499	-
Other Assets - carrying 100%	25,179	25,179
Total On Balance Sheet	**607,608**	**443,813**
Off-balance Sheet Items		
carrying 50%	25,442	12,653
carrying 100%	39,644	39,587
Total Off-balance Sheet Items	**65,086**	**52,240**
Total Banking Book	**672,694**	**496,053**

4. DISCLOSURE FOR INVESTMENT ACCOUNT HOLDERS (IAH)

Investment account holder (depositors) engage in funding of window activities on a profit and loss-bearing basis as Rabb al-Mal (investor) under a Mudaraba contract. The underlying Mudaraba contract that governs the relationship between the account holders and the Licensee.

Window has only Unrestricted Investment account holders.

4.1 Unrestricted Investment Account holder

Equity of Investment account holder under Mudaraba, Mudaraba is a form of partnership in which two or more persons establish a business (Shirkat ul Aqd) for sharing in the profits, in an agreed proportion and one or more of the partner(s) contribute with their efforts while the other partner(s) provide the financial resources. The former is/are called "Mudarib" and the latter "Rabbul Maal".

The window maintains multi-level investment arrangements to invest funds received under "Wakala" as "Mudaraba" under express authority from Wakala account holders in its financing and investment assets. Profit is allocated to Wakala funds on the basis of their contribution in the commingled assets.

4.2 Rules and Structure of Mudaraba and sharia essentials

1. Mudaraba means an arrangement in which a person participates with his money (called Rabbul Maal) and another with his efforts (called Mudarib) for sharing in profit from investment of these funds in an agreed manner.
2. A Mudarib may be a natural person, a group of persons, or a legal entity and a corporate body.
3. Rabbul Maal shall provide his investment in money or species, other than receivables, at a mutually agreed valuation. Such investment shall be placed under the absolute disposal of the Mudarib.
4. The conduct of business of Mudaraba shall be carried out exclusively by the Mudarib within the framework of mandate given in the Mudaraba agreement.

4. DISCLOSURE FOR INVESTMENT ACCOUNT HOLDERS (IAH) (CONTINUED)

4.2 Rules and Structure of Mudaraba and sharia essentials (continued)

5. The profit shall be divided in strict proportion agreed at the time of contract and no party shall be entitled to a predetermined amount of return or remuneration.
6. Financial losses of the Mudaraba shall be borne solely by the Rabbul Maal, unless it is proved that the Mudaraba has been guilty of fraud, negligence or willful misconduct or has acted in contravention of the mandate.

4.3 Profit Distribution Mechanism between Shareholders & Depositors of Sohar Islamic under the Common Pool

This profit distribution mechanism sets out the Sharia-compliant mechanism for distribution of the Net Profit Shareholders Funds and Depositors Funds, combined together in the Common Pool will be called Joint Mudaraba capital ("Joint Mudaraba Capital")

Net profit will be calculated in accordance with the following formula:

N=G-(E+D+P)

Where:

'N' means Net Profit

'G' means Gross Profit

'E' means direct expenses in relation to the Activities ("Direct Expenses")

'D' means depreciation of the investment assets ("Investment Assets") in the Common Pool.

'P' means Provisions for bad and doubtful accounts

During the year no expense and provision has been allocated to the pool.

Unrestricted investment account holder accounts are monies invested by customers under Mudaraba to form a pool of funds. Investment accountholder's funds are commingled with the Windows's funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits.

Net Profit will be allocated to the pool participants based on the weighted average balances.

Participation factor, Weights or profit sharing ratios are pre decided by the management of the window and are intimated to the investors before start of the month. Weighted average balance is calculated at the end of the period by multiplying the participation factor with average balance for the period.

4.3.1 Mudaraba fee

Mudaraba fee will be deducted from allocated profit as per the pre-agreed ratio as approved by SSB which will be advised to customers through website or by posting in branches. Currently it is being fixed as:

Window - 60%   Depositors - 40 %

During the year there was no change in ratios from SSB of the window. The window can create reserves as allowed by Sharia and CBO for smoothing of returns to investors and risk management purposes. Two types of reserves allowed are Profit Equalization reserve (PER) and Investment Risk reserve (IRR). Window is not maintaining any reserves.

4.3.2 Assignment of a portion of shareholders' profit to depositors

If required, the Window may decide to allocate some portion from their own profit to a specific deposit category(s). This could be either due to increase in the rate of profit announced by other Islamic Financial Institutions / competitors or to encourage a specific category of depositors.

No Profit Equalisation reserve and investment risk reserve has been created during the year and no allocation has been made from shareholders.

Window has not charged any administrative expense to the pool.

4. DISCLOSURE FOR INVESTMENT ACCOUNT HOLDERS (IAH) (CONTINUED)

4.4 Quantitative Disclosures

During the year profit calculated is distributed among the participation factor declared before each profit calculation period. During the year participation factor range applied and range of rate earned are as below:

Product	Participation factor	Average rate earned
Mudaraba Saving-OMR	15	0.502%
Mudaraba Saving-AED	15	0.501%
Mudaraba Saving-USD	15	0.502%
Mudaraba Saving-GBP	15	0.502%
Mudaraba Saving-EUR	15	0.502%
Term 3 Months	50	0.000%
Term 6 Months	50	0.000%
Term 12 Months	50	0.000%
Wakala Interbank Borrowing	75	6.27%
Wakala Term Deposits	75	6..27%
Wakala Call Deposits	65	5.44%
Wakala Saving Deposits	75	6.27%

Close of the year the amount of unrestricted investment account holder with respective category was:

Product	Amount RO '000	% of total URIA
Mudaraba Saving-OMR	31,376	6.79%
Mudaraba Saving-AED	376	0.08%
Mudaraba Saving-USD	453	0.10%
Mudaraba Saving-GBP	42	0.01%
Mudaraba Term 12 Months	-	0.00%
Wakala Interbank Borrowing	20,933	4.53%
Wakala Term Deposits	277,561	60.07%
Wakala Call Deposits	59,876	12.96%
Wakala Saving Deposits	71,483	15.47%
TOTAL	**462,100**	**100%**

Term deposits are deposits can be withdrawn with no loss of capital subject to certain conditions.

Return on Assets & URIA:

					RO '000
	2023	**2022**	**2021**	**2020**	**2019**
Income on Mudaraba & Wakala Assets	24,720	19,068	16,132	3,951	3,125
Income distributed to URIA	19,581	11,916	9,815	842	771
Return on Average Modaraba & Wakala Assets	4.92%	4.66%	4.97%	4.31%	4.02%
Return on Average URIA	4.24%	3.09%	3.35%	1.96%	2.64%

4. DISCLOSURE FOR INVESTMENT ACCOUNT HOLDERS (IAH) (CONTINUED)

4.4 Quantitative Disclosures (Continued)

Assets allocated to common pool are:

			RO '000
	Gross exposure	**ECL**	**Net Exposure**
Murabaha receivables	31,666	(200)	31,466
Ijarah muntahia bittamleek	93,990	(403)	93,587
Istisna followed by Ijarah muntahia bittamleek	102,603	(1,461)	101,142
Diminishing Musharka	253,194	(2,182)	251,012
Qard Hasan Financing	33	-	33
Wakala Bil Istithmar	20,752	(57)	20,695
Total	**502,238**	**(4,303)**	**497,935**

Ratio of Equity of unrestricted Investment account holder to financing assets.

As of reporting date assets allocated to the pool has been financed 92.01% by Equity of unrestricted Investment accounts holder.

Window has earned gross return of 2.08% on average equity in pool assets during the year.

The window does not have restriction on Investment in URIA pool except if any imposed by the CBO and limits set in window's policy.

The window does not have any Restricted Investment Accounts.

5. RISK EXPOSURE AND ASSESSMENT

5.1 Management of risk in Sohar Islamic – approach and policy

The risk management philosophy of window is to identify, capture, monitor and manage the various dimensions of risk with the objective of protecting asset values and income streams such that the profit of head office (and others to whom Sohar Islamic owes a liability) are safeguarded, while maximizing the returns intended to optimize head office return and maintaining its risk exposure within self-imposed parameters.

Sohar Islamic offers products like Term Financing, Working Capital Financing, Short-term Financing, Corporate Deposits, Trade Finance, Cash Management Services and Treasury products to Corporate and SME clients duly adhering to the principles of Islamic Sharia. Based on assessment of respective credit risk, security of short-term assets, Plant & Machinery, real estate, etc, is taken to strengthen the quality of its exposure. Sohar Islamic is guided by CBO regulatory requirements to single maximum exposure and has further controls over exposure to senior management staff members or related parties. Consumer Finance products comprises of limited Vehicle, Personal and House Financing that are regulated by CBO and Sharia. Financing and advances are approved through Approval Matrix defining specific limits for designated officials and the Executive Credit Committee.

Sohar Islamic approves credit based on the approved Wholesale Lending Policy and delegation of authorities by the Board of Directors to various approving authorities . In Consumer Finance, policy is guided by the objectives of granting finance on sound and collectible basis, investing funds for the benefit of shareholders and protection of depositors and to serve the legitimate needs of communities in line with Sharia' guidelines as approved by the Sharia' Supervisory Board.

Risk Management process is guided by risk diversification and avoidance of concentration of risk. Further, Business Risk Review is the mainstay of internal control of financing portfolio. Periodic Asset Quality Reviews, Sharia' Reviews, Process Reviews, Administrative and Documentation Reviews and Compliance Reviews are performed for both business and senior management.

The Board of Directors of the Bank has the power to approve all policies relating to credit and risk. Credit Approval Committee (CAC) of the Board is the highest credit approving authority in the Bank that can approve facilities up to the maximum regulatory Single Borrower Limits.

5. RISK EXPOSURE AND ASSESSMENT (CONTINUED)

5.2 Strategies, Processes and Internal Controls

Sohar Islamic is exposed to various types of risk, such as market, credit, profit rate, liquidity and operational, all of which require comprehensive controls and ongoing oversight. The risk management framework of the bank that are embedded in various risk policies comprises of management oversight and control, risk culture and ownership, risk recognition and assessment, control activities and segregation of duties, adequate information and communication channels, monitoring risk management activities and correcting deficiencies.

5.3 Credit risk

Credit risk is the risk that counterparty will fail to meet their contractual obligations to the Bank as they become due. Credit risk arises primarily from financings and other credit products available to the customers and investment assets held by Window's treasury division. Credit risk is managed at three stages - at the origination stage, approval stage and at the transaction/portfolio monitoring stage.

31 December 2023	Murabaha receivables RO'000	Ijarah muntahia bittamleek RO'000	Istisna followed by Ijarah muntahia bittamleek RO'000	Diminishing Musharka RO'000	Qard Hasan Financing RO'000	Wakala Bil Istithmar RO'000	Due from banks RO'000	Debt type securities RO'000	Total RO'000
Neither past due not impaired	29,572	40,559	89,654	208,589	33	20,752	18,777	23,889	431,825
past due but not impaired	1,438	51,059	11,563	43,633	-	-	-	-	107,693
past due and impaired	656	2,372	1,386	972	-	-	-	-	5,386
Total	**31,666**	**93,990**	**102,603**	**253,194**	**33**	**20,752**	**18,777**	**23,889**	**544,904**

Definitions of past due and impaired

The classification of credit exposures is considered by the Window for identifying impaired credit facilities, as per CBO circular number BM 977 dated 25 September 2004.

5.4 Total gross credit risk exposures, plus average gross exposure over the period broken down by major types of credit exposure

RO '000

S. No.	Type of credit exposure	Average gross exposure 2023 RO'000	Total gross exposure 2023 RO'000	2023 %
1	Murabaha receivables	30,030	31,666	6.02%
2	Ijarah muntahia bittamleek	95,517	93,990	17.86%
3	Istisna followed by Ijarah muntahia bittamleek	100,479	102,603	19.50%
4	Diminishing Musharka	226,137	253,194	48.12%
5	Qard Hasan Financing	36	33	0.01%
6	Wakala Bil Istithmar	26,884	20,752	3.94%
7	Debt-type investments	25,166	23,889	4.54%
	Total	**504,249**	**526,127**	**100%**

Percentage of gross financing for each category of counterparty to gross financing

	RO'000	2023 %
Corporate	350,192	69.73%
Retail	152,045	30.27%
Total	**502,238**	**100.00%**

5. RISK EXPOSURE AND ASSESSMENT (CONTINUED)

5.4 Total gross credit risk exposures, plus average gross exposure over the period broken down by major types of credit exposure (continued)

5.4.1 Geographic distribution of gross exposures, broken down in significant areas by major type of credit exposure

RO '000

S. No.	Type of credit exposure	Oman	Other GCC countries	Total
1	Murabaha receivables	31,666	-	31,666
2	Ijarah muntahia bittamleek	93,990	-	93,990
3	Istisna followed by Ijarah muntahia bittamleek	102,603	-	102,603
4	Diminishing Musharka	242,895	10,299	253,194
5	Qard Hasan Financing	33	-	33
6	Wakala Bil Istithmar	20,752	-	20,752
7	Debt-type investments	23,889	-	23,889
	Total	**515,828**	**10,299**	**526,127**

5.4.2 Industry or counter party type distribution of gross exposures, broken down by major types of Credit exposure

RO '000

S. No.	Economic sector	Murabaha receivables	Ijarah muntahia bittamleek	Istisna followed by Ijarah muntahia bittamleek	Diminishing Musharka	Qard Hasan Financing	Wakala Bil Istithmar	Debt-type investments	Total	Off-balance sheet exposure
1	Import trade	1,842	-	-	-	-	-	-	1,842	-
2	Construction	3,736	7,622	48,972	32,606	-	-	-	92,936	5,940
3	Manufacturing	1,185	-	10,552	12,814	-	6,722	-	31,273	1,687
4	Financial institutions	-	-	-	55,912	-	-	-	55,912	71
5	Service	13,208	7,235	9,684	113,776	-	14,030	-	157,933	45,799
6	Personal financing	11,695	79,133	33,395	27,787	33	-	-	152,043	-
7	Government	-	-	-	-	-	-	23,889	23,889	-
8	Others	-	-	-	10,299	-	-	-	10,299	-
	Total	**31,666**	**93,990**	**102,603**	**253,194**	**33**	**20,752**	**23,889**	**526,127**	**53,497**

5.4.3 Residual contractual maturity breakdown of the whole portfolio, broken down by major types of gross credit exposures

RO '000

S. No.	Time band	Murabaha receivables	Ijarah muntahia bittamleek	Istisna followed by Ijarah muntahia bittamleek	Diminishing Musharka	Qard Hasan Financing	Wakala Bil Istithmar	Debt-type investments	Total	Off – balance Sheet Exposure
1	upto 1 month	458	630	1,901	56,570	-	3,200	-	**62,759**	7,362
2	1 - 3 months	4,069	813	417	2,750	1	3,427	-	**11,478**	20,304
3	3 - 6 months	3,540	1,149	678	2,433	1	2,582	-	**10,384**	1,197
4	6 - 9 months	1,604	1,201	650	3,127	1	475	-	**7,058**	5,793
5	9 - 12 months	897	1,107	563	3,530	1	635	-	**6,734**	2,000
6	1 - 3 years	15,826	9,806	5,675	28,139	10	2,857	-	**62,313**	268
7	3 - 5 years	2,849	11,790	7,029	44,166	7	2,957	5,728	**74,527**	14,506
8	Over 5 years	2,423	67,495	85,689	112,478	11	4,619	18,161	**290,875**	2,066
9	**Total**	**31,666**	**93,990**	**102,603**	**253,194**	**33**	**20,752**	**23,889**	**526,127**	**53,497**

5. RISK EXPOSURE AND ASSESSMENT (CONTINUED)

5.4 Total gross credit risk exposures, plus average gross exposure over the period broken down by major types of credit exposure (continued)

5.4.4 Amount of impaired financing and advances and, if available, past due financing and advances provided separately broken down by significant geographic areas including, if practical, the amounts of specific and general allowances related to each geographical area

RO '000

		Gross exposures		Provisions held			
S. No.	Countries	Gross financing	Out of which: Stage 3	Stage 1&2	Stage 3	Reserve Profit	Provision made during the year
1	Oman	491,939	2,952	3,596	465	242	1,501
2	Other GCC	10,299	-	-	-	-	-
	Total	502,238	2,952	3,596	465	242	1,501

5.4.5 Movements of gross financing and advances

RO' 000

Details	Stage 1	Stage 2	Stage 3	Total
Opening Balance	376,784	30,525	2,297	409,606
Migration / changes (+ / -)	(7,037)	7,078	(41)	-
New Financing	80,972	4,475	-	85,447
Recovery of Financing	(12,312)	18,801	696	7,185
Closing Balance	**438,407**	**60,879**	**2,952**	**502,238**
Total ECL	1,915	1,681	465	4,061
Reserve profit	-	-	242	242

5.4.6 Credit risk: Disclosures for portfolios subject to the standardised approach

5.4.6.1 Qualitative disclosures: For portfolios under standardised approach

The window is following standardised approach in assessing regulatory capital for credit risk. For sovereign risk, zero risk weight is applied, as permitted under this approach, whereas for exposures on banks, the risk weight applied depends on the rating of the banks by Eligible Credit Assessment Institution (ECAI) approved by CBO like, Moody's Standard & Poor, Fitch and Capital Intelligence, subject to the respective country rating. In the absence of external ratings for most of the corporate, the Bank treats them as unrated and applies 100% risk weight on their funded exposures. On the off-balance sheet exposures, the relevant credit conversion factors are applied and aggregated to banks or the corporate, as the case may be, and then the risk weight is applied as stated above. Un-availed or yet to be disbursed exposures are taken under commitments and risk weights assigned as permitted by the IBRF.

5.4.6.2 Quantitative disclosures

Credit rating analysis

The table below presents an analysis of debt securities, treasury bills, gross placements and other eligible bills by rating agency designation at 31 December 2023, based on Moody's ratings or equivalent.

	2023 RO'000
Aaa to Aa3	1,040
A1 to A3	15,571
Baa1 to Baa3	2,165
Ba1 to Ba3	-
B1 to B3	-
Caa1 to Caa3	-
Unrated	663
Sovereign	23,889
	43,328

The Window performs an independent assessment based on quantitative and qualitative factors in cases where a counter party is unrated.

5. RISK EXPOSURE AND ASSESSMENT (CONTINUED)

5.4 Total gross credit risk exposures, plus average gross exposure over the period broken down by major types of credit exposure (continued)

5.4.6 Credit risk: Disclosures for portfolios subject to the standardised approach (continued)

5.4.6.2 Quantitative disclosures (continued)

The window is following a uniform approach of considering all corporates as unrated and applying 100% risk weights.

5.4.6.3 Credit risk mitigation: Disclosure for standardized approach

The window does not make use of netting whether on or off-balance sheet.

5.5 Profit rate risk in banking book

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of funding due to the sources of finance. Senior management identifies the sources of profit rate risk exposures based upon the current as well as forecasted balance sheet structure of Window. The profit rate risk in the Window may arise due to the following transactions:

- Murabaha transactions;
- Wakala transactions;
- Ijara Muntahia Bittamleek;
- Diminishing Musharka
- Sukuk; and
- Investments.

The Window manages short term profit rate impact through earnings based measures and long term profit rate impact through economic value based measures. The Window measures the change in Economic Value of Equity ("EVE") as the maximum decrease of the banking book economic value under the 6 standard scenarios prescribed by Basel guidelines. The Window maintains economic capital for PRRBB under Pillar II based on the outcome.

Window is not exposed to material profit rate risk as a result of mismatches of profit rate re-pricing of assets, liabilities and equity of investment account the profit distribution to equity of investment account holders is based on profit sharing agreements. Therefore, Window is not subject to any significant profit rate risk.

5.5.1 Sources of Profit Rate Risk

The different profit rate risks faced by the Window can be classified broadly into the following categories.

- Re-pricing risk which arises from timing differences in the maturity (for fixed rate) and re-pricing (for floating rate) of assets, liabilities and off balance sheet positions. As profit rates vary, these re-pricing mismatches expose Window's income and underlying economic value to unanticipated fluctuations;
- Yield curve risk which arises when unanticipated shifts of the yield curve have adverse effects on Window's income and/or underlying economic value;
- Basis risk which arises from imperfect correlation in the adjustment in the rate earned on products priced and the rate paid on different instruments with otherwise similar re-pricing characteristics. When profit rates change, these differences can give rise to unexpected changes in the cash flows and earnings spread between assets, liabilities, and off balance sheet instruments of similar maturities or re-pricing frequencies; and
- Displaced Commercial Risk refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared with competitor's rates.

5.5.2 Profit rate risk measurement tools

Window uses Re-pricing gap analysis for profit rate risk measurement in its book which measures the arithmetic difference between the profit-sensitive assets and liabilities of banking book in absolute terms.

5. RISK EXPOSURE AND ASSESSMENT (CONTINUED)

5.5 Profit rate risk in banking book (continued)

5.5.3 Exposure to profit rate risk – non trading portfolios

The Window's profit sensitivity position based on contractual re-pricing arrangements at 31 December 2023 was as follows:

	Effective annual Profit Rate %	Within three months RO'000	Four months to 12 months RO'000	Over one year RO'000	Non sensitive to profit rate RO'000	Total RO'000
At 31 December 2023						
Assets						
Cash and balances with central banks		-	-	-	38,232	38,232
Due from banks		-	-	-	18,777	18,777
Investment securities	5.60	-	11,121	12,768	663	24,552
Murabaha receivables	5.01	-	-	-	31,466	31,466
Ijarah muntahia bittamleek	5.42	81,860	9,717	2,010	-	93,587
Istisna followed by Ijarah muntahia bittamleek	6.56	46,976	51,734	2,432	-	101,142
Diminishing Musharka	6.00	106,249	143,956	807	-	251,012
Qard Hasan Financing		7	-	26	-	33
Wakala Bil Istithmar	4.47	15,509	5,186	-	-	20,695
Property and equipment		-	-	-	2,361	2,361
Other assets		-	-	-	22,155	22,155
Total assets		**250,601**	**221,714**	**18,043**	**113,654**	**604,012**
Liabilities and equity						
Customer current accounts		-	-	-	65,647	65,647
Due to banks and financial institutions		4,233	-	-	-	4,233
Other liabilities		-	-	-	3,275	3,275
Total liabilities		**4,233**	**-**	**-**	**68,922**	**73,155**
Equity of Investment account holders	4.58	200,730	137,283	124,086	-	462,100
Total liabilities and equity of Unrestricted Investment Account (URIA)		**204,963**	**137,283**	**124,086**	**68,922**	**535,255**
Total profit rate sensitivity gap		45,638	84,431	(106,043)	44,732	-
Cumulative profit rate sensitivity gap		45,638	130,069	24,026	68,758	-

5. RISK EXPOSURE AND ASSESSMENT (CONTINUED)

5.6 Liquidity risk

The Window's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet all its payment obligations as and when it is due, under both normal and stressed conditions without incurring unacceptable losses or risking damage to the Bank's reputation.

Central treasury receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Central treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, financing and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the window as a whole. The liquidity requirements of business units are met through short-term financing and advances from central treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements. The window has also laid down a comprehensive liquidity contingency plan for effective management of liquidity. In this process due care is taken to ensure that the Window complies with all the CBO regulations.

All liquidity policies and procedures are subject to review and approved by Asset Liabilities Committee (ALCO). Computation of liquidity gap on maturity of assets and liabilities is provided. The computation has been prepared in accordance with guidelines provided in Circular BM 955 dated 7 May 2003.

5.6.1 Exposure to liquidity risk

The lending ratio, which is the ratio of the total financings and advances to customer deposits and capital, is monitored in line with the regulatory guidelines. Internally the lending ratio is set at a more conservative basis than required by regulation. The Window also manages its liquidity risk on regular basis and by monitoring the liquid ratio which is a ratio of net liquid assets to total assets on a monthly basis. For this purpose, net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market.

Details of the reported lending and liquid ratio as at 31 December 2023 were as follows:

	2023	
	Lending ratio	Liquid ratio
Average for the year	**86.14%**	**15.90%**
Maximum for the year	**88.70%**	**21.29%**
Minimum for the year	**83.65%**	**12.78%**

The table below summarizes the maturity profile of the Window's liabilities as on the reporting date based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Window's deposit retention history and the availability of liquid funds.

Dec 2023	Carrying amount RO'000	Within three months RO'000	Four months to 12 months RO'000	One to three years RO'000	More than three years RO'000	Total RO'000
Customer deposit and other accounts	65,647	26,617	22,680	380	15,970	65,647
Due to banks and financial institutions	4,233	4,233	-	-	-	4,233
Other liabilities	3,275	-	-	-	3,275	3,275
Total liabilities	**73,155**	**30,850**	**22,680**	**380**	**19,245**	**73,155**
Equity of Investment account holders	462,100	71,708	151,065	141,502	97,825	462,100
	535,255	**102,558**	**173,745**	**141,882**	**117,070**	**535,255**

5. RISK EXPOSURE AND ASSESSMENT (CONTINUED)

6.6 Liquidity risk (continued)

The Window prepares a liquidity gap report to monitor the Window's short term liquidity position on the Rial denominated assets and liabilities in a time horizon spanning one month. The gap is adjusted for availability of instruments for repo or refinance and also for unavailed committed lines of credit, if any. This statement of short term liquidity is to be reported to the ALCO every month.

Windows exposure to profit rate risk has been further elaborated in Annexure 1 and 2.

6.6.2 Liquidity Coverage Ratio and Net Stable Funding Ratio

The Window also monitors the liquidity through Liquidity Coverage ratio (LCR) and Net Stable Funding Ratio (NSFR). Current levels of these ratios are given below

Liquidity Coverage ratio:

(RO '000)

		Total Unweighted Value (average)	Total Weighted Value(average)
High Quality Liquid Assets			
1	Total High Quality Liquid Assets (HQLA)		62,004
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	134,479	13,213
3	Stable deposits	4,690	235
4	Less stable deposits	129,789	12,979
5	Unsecured wholesale funding, of which:	87,373	45,197
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	87,373	45,197
8	Unsecured debt		-
9	Secured wholesale funding		-
10	Additional requirements, of which	16,635	1,621
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	16,635	1,621
14	Other contractual funding obligations	4,937	4,937
15	Other contingent funding obligations	53,498	2,675
16	**TOTAL CASH OUTFLOWS**		67,644
Cash Inflows			
17	Secured lending (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	84,759	43,269
19	Other cash inflows	68,777	-
20	**TOTAL CASH INFLOWS**	153,536	43,269
			Total Adjusted Value
21	**TOTAL HQLA**		62,004
22	**TOTAL NET CASH OUTFLOWS**		24,375
23	**LIQUIDITY COVERAGE RATIO (%)**		254.37

5. RISK EXPOSURE AND ASSESSMENT (CONTINUED)

5.6.2 Liquidity Coverage Ratio and Net Stable Funding Ratio (continued)

Net Stable Funding ratio:

(RO '000)

		Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted value
1	Capital:	69,700				69,700
2	*Regulatory capital*	67,071				67,071
3	*Other capital instruments*	2,629				2,629
4	Retail deposits and deposits from small business customers	131,222		22,593		138,433
5	*Stable deposits*					
6	*Less stable deposits*	131,222		22,593		138,433
7	Wholesale funding:	59,883		140,433		100,158
8	*Operational deposits*					
9	*Other wholesale funding*	59,883		140,433		100,158
10	Liabilities with matching interdependent assets					
11	Other liabilities:				169,947	147,903
12	*NSFR derivative liabilities*					
13	*All other liabilities and equity not included in above categories*				169,947	147,903
14	**Total ASF (Available stable funding)**					456,194
	RSF Item					
15	Total NSFR high-quality liquid assets (HQLA)					
16	Deposits held at other financial institutions for operational purposes					
17	Performing loans and securities:	663	18,777	127,099	299,522	328,048
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					-
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		18,777	127,099		92,003
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:				275,633	234,287
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk				275,633	234,288
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	663			23,889	1,758
25	Assets with matching interdependent liabilities					-
26	Other Assets:			81,784	36,143	77,035
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			81,784	36,143	77,035
32	Off-balance sheet items			16,635	53,497	3,507
33	**TOTAL RSF**					408,589
34	**NET STABLE FUNDING RATIO (%)**					111.65

5. RISK EXPOSURE AND ASSESSMENT (CONTINUED)

5.7 Market risk

Market risk is defined as potential losses because of changes in market variables. The sources of market risks are the changes in the profit rates, foreign currency exchange rates and commodity prices. One of the primary objectives of the Market Risk Management, is to ensure that the business units do not expose the bank to unacceptable exposures outside of the bank's Board approved risk appetite.

Market risk is relevant to banking book and trading book but its measurement and management might differ in each book.

Sohar Islamic proactively measures and monitors the market risk in its portfolio using appropriate measurement techniques such as limits on intraday and overnight net open foreign exchange positions.

5.7.1 Market risk in trading book

Market risk incorporates a range of risks, but the principal elements are Profit rate risk and foreign exchange risk.

Treasury business is conducted within approved market risk limits.

Limits are set among others for the below:

- foreign exchange risk
- rate of return risk
- approved dealing products
- approved dealing currencies
- maximum tenor

The Assets and Liability Committee (ALCO) conducts periodical meetings to discuss the mismatches in assets and liabilities and assesses the profit rate risk, foreign exchange risk and liquidity risk that Sohar Islamic is exposed to, so as to take steps to manage such risks. With the guidance of ALCO, the Window's treasury manages profit rate and foreign exchange risks, adhering to the policy guidelines, which stipulate appropriate limits.

The capital charge for the applicable market risk is furnished below:

	RO' 000
Profit rate position risk	-
Equity position risk	-
Foreign exchange risk	1,236
Commodity risk	-

5.7.2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on the overall open position and for open position for each currency. The open position limits include overnight open position and intraday open position. Open positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

5.8 Operational risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, systems or from external events. It includes Legal risk, but not limited to fines, penalties or punitive damages, however, excludes Strategic and Reputational Risk. Operational risk arises due to variety of causes associated with the Window's processes, personnel, technology and infrastructure and from external events.

Window has adopted same policies and procedures to mitigate the consolidated operational risk as those of the head office. Advantages of head office processes and infrastructure are obtained in compliance with IBRF. Sohar Islamic follows / ensures adherence to the Operational Risk policies, which are in place for Head Office as follows:

- Operational Risk Policy & Framework
- Internal Control Framework

5. RISK EXPOSURE AND ASSESSMENT (CONTINUED)

5.8 Operational risk (continued)

In view of the above, Board approved Operational Risk Management Policy & Framework at Head Office which the Window follows ensures compliance with all applicable local Regulatory guidelines as well as global standards, stipulated under Basel Committee on Banking Supervision (BCBS). It is pertinent to note that the Window has implemented all key control measures necessary to mitigate Operational Risk, which includes but not limited to, adequate segregation of duties, access control, sound business continuity planning, and physical security controls, alongside disaster recovery measures and staff training & awareness.

5.8.1 Quantitative disclosure – Operational Risk

	RO' 000	RO' 000	RO' 000	RO' 000
Details	**2021**	**2022**	**2023**	**Average**
Net income from financing and investing activities	8,007	9,076	7,425	8,169
Other Operating Income	1,675	2,119	3,210	2,335
Contractual profit not recognised - addition / (release)	(33)	(9)	119	26
(-) Income derived from Takaful	(113)	(208)	(190)	(170)
(+) Realised Loss on sale of HTM / AFS Investments	-	-	12	4
Total	**9,536**	**10,978**	**10,576**	**10,364**
Capital charge at 15%				**1,555**
Operational Risk RWA at 12.5				**19,433**

5.9 Business Continuity

The Window has established a Business Continuity Management (BCM) Program designed to minimize service disruption and the potential impact on the Bank, our customers and our staff. This includes a BCM Policy that is approved by our Board together with written Business Continuity and Disaster Recovery plans (DRPs) and procedures that are subject to periodic independent review. Although the specific details of our BCM arrangements are confidential for security reasons, the bank maintains Business Continuity Plans (BCPs) that address risk scenarios and events of varying scope including, but not exclusively, loss of services or infrastructure, denial of access, cyber-attack, pandemics and regional crises.

Sohar Islamic BCPs are focused on maintaining critical processes, including treasury, capital & liquidity and payment services, providing customers with uninterrupted access to their funds and maintaining effective communications with our customers, staff and other stakeholders.

5.10 Displaced Commercial Risk

Displaced commercial risk ("DCR") refers to the magnitude of risks that are transferred to shareholders in order to cushion the Investment Account Holder ("IAH") from bearing some or all of the risks to which they are contractually exposed in Mudaraba contracts.

Under a Mudaraba (profit sharing and loss-bearing) contract, unrestricted IAH are exposed to aggregate impact of risks arising from the assets in which their funds are invested, but this is managed by Sohar Islamic Window through DCR.

This risk-sharing is achieved by constituting and using various reserves such as PER, and by adjusting the Sohar Islamic Window's profit share in order to smooth the returns payable to the IAH from exposure to the volatility of aggregate returns arising from banking risks, and thereby to enable payment of returns that are competitive in the marketplace.

Sohar Islamic Window manages its displaced commercial risk as outlined in its Profit Distribution Policy. The Window foregoes its fee in case displaced commercial risk arises. The Window manages profit rates with other Islamic Windows and full-fledged Islamic/ Conventional Banks operating in Oman.

5.11 Contract Specific Risk

In each type of Islamic Financing asset is exposed to a varying mix of credit and market risk and accordingly capital is required to be allocated for such risk exposures.

As of reporting date financing assets only carries credit risk and accordingly capital is allocated as per the required regulations by CBO. The current product mix does not change the nature of risk according to the stage of contract.

5. RISK EXPOSURE AND ASSESSMENT (CONTINUED)

5.11 Contract Specific Risk (continued)

Disclosure of Capital Requirements according to different risk categories for each Sharia compliant financing contract.

RO' 000

	Risk weighted Assets	Capital Requirements
Murabaha receivables	31,522	3,467
Ijarah muntahia bittamleek	46,738	5,141
Istisna followed by Ijarah muntahia bittamleek	81,617	8,978
Diminishing Musharaka	234,298	25,773
Qard Hasan Financing	33	4
Wakala Bil Istithmar	20,672	2,274
Placements with banks	3,755	413
Investments	663	73
Others	24,516	2,697
Off Balance sheet	52,240	5,746

6. Sharia Governance

A Sharia governance framework has been implemented in the Window whose main objective of is to ensure sharia compliance at all the times. The key elements of sharia governance framework of the Window are as follows:

i. Sharia Supervisory Board (SSB)
ii. Internal Reviewer who has the overall responsibility to undertake and monitor Sharia Compliance, Sharia Audit and training functions in accordance with IBRF.

Compliance with Sharia (as manifested by the guidelines and Fatawa issued by the SSB) and as stipulated in IBRF is mandatory and is being done through review and approval of the contracts, agreements, policies, procedures, products, reports (profit distribution calculations), etc.

The Window ensures that the operations of the Islamic Banking Window are conducted in Sharia compliance and controlled manner by following policies and procedures:

a) An appropriate Sharia governance framework in compliance with IBRF, AAOIFI governance standards and guidelines and directives issued by SSB is maintained;
b) Key duties and functions are segregated. An independent executive is designated with the responsibility for Sharia compliance and audit;
c) Policies and procedures manuals and documentation in relation to our products, operations, compliance, trainings, and internal controls are maintained and available to relevant staff;
d) Sharia audit reports are submitted to the SSB in line with the agreed annual plan.
e) Islamic Banking Window assets are kept separate and distinct from conventional assets;
f) Window cannot place funds with the conventional banks including Sohar International.
g) The Window management ensures that staff for certain key functions reporting to their respective department heads with dotted line reporting to the Head of The Window.
h) The Window has dedicated staff for business functions, such as retails, corporate, treasury, etc. and the staff reports to the Chief Islamic Banking Officer
i) The core banking system adopted by The Window is capable of recognizing the unique nature of Islamic Banking contracts, transactions and processes.

Sharia audits are conducted on quarterly basis in accordance with IBRF and submitted to SSB for its review and guidance. SSB has issued its annual report for 2023 on Sharia compliance of the window and did not report any violations and did not direct any amount to Charity Account.

Internal Sharia Reviewer oversees the Sharia training plans and schedule for the Licensee. During the year 2023 training programs were conducted for the staff & Public such as collages & companies.

Related parties' transactions with SSB is disclosed in notes of financial statements

5. RISK EXPOSURE AND ASSESSMENT (CONTINUED)

6.1 Profile of the Sharia Supervisory Board

Sheikh Al-Mu'tasim Said Al Maawali (Chairman)

Al-Mu'tasim Said Al-Maawali is a religious supervisor working for The Omani Studies Centre at Sultan Qaboos University. He holds an MA degree in Islamic Studies from the University of Birmingham, 2016. Al-Mu'tasim authored a seven-volume series in Islamic Jurisprudence called al-Mu'tamad, including the sixth volume in Islamic Financial Transactions, and the seventh in Islamic Banking. In 2016, he published his English book Articles on Ibāḍī Studies. In February 2017, he published his translation of the first volume 'The Reliable Jurisprudence of Prayer' from Arabic into English. In 2019, he also translated 'Christians in Oman' from English into Arabic. Al-Mu'tasim presented some academic papers at some international conferences in Islamic Studies, including TIMES 2017 at Birmingham University and BRISMES 2018 at King's College London, and BRISMES 2019 at the University of Leeds.

Sheikh Nasser Yousuf Al Azri (Deputy Chairman)

Sheikh Nasser is working as the secretary to the Grand Mufti of the Sultanate of Oman in the Fatwa Section at the Grand Mufti's Office. He is also an active member of several committees at the Ministry responsible for Mosques, Zakat, Hajj, Publications and Book Revision. Prior to his current capacity, Sheikh Al Azri held a number of prestigious positions including Judge Assistant at the Ministry of Justice and a Researcher for Islamic affairs in fatwa's at the Ministry of endowments and Religious Affairs.

Sheikh Al Azri has extensive knowledge and expertise in Islamic and judiciary laws. He has also authored several papers and research studies, and attended prominent Islamic conferences such as those held by the International Islamic Fiqh Academy. He received a High Diploma degree in Jurisprudence from the Institute of Shari'a Sciences in Oman.

Dr. Muhammad Abdul Rahim Sultan Al Olama (Member)

Dr. Muhammad Abdul Rahim Sultan Al Olama was a Professor of Jurisprudence and its Fundamentals at the College of Law at United Arab Emirates University in Al Ain, in addition he is a certified expert in Shariah- compliant financial affairs. He chairs the Sharia committee of Zakat Fund in the United Arab Emirates. He has published books and articles on various jurisprudential topics, especially Islamic banking transactions in their contemporary form. He has also presented a series of research papers in various international forums and conferences related to this field.

His Eminence is a member of Sharia Supervisory Boards of Islamic financial institutions and Takaful companies including Dubai Islamic Bank, Abu Dhabi Islamic Bank, Emirates Islamic Bank, Noor Takaful & Mawarid Fiance Company.

He holds a PhD in Comparative Islamic Jurisprudence from Umm Al-Qura University in Makkah the Kingdom of Saudi Arabia.

6.2 Remuneration to SSB

	2023 OMR		
	Remuneration	Sitting Fee	Total
Sheikh Al Muatasim Said Al Maawali	15,400	1,540	16,940
Sheikh Nasser Al Azri	13,475	1,540	15,015
Dr. Mohammed Al Olama	11,550	1,540	13,090
	40,425	**4,620**	**45,045**

6.3 Sharia Supervisory Board's meetings and attendance

Members Name	24-May-23	10-July-23	08-Nov-23	30-Jan-24	Attended
Sheikh Al Muatasim Said Al Maawali	✓	✓	✓	✓	4
Sheikh Nasser Al Azri	✓	✓	✓	✓	4
Dr. Mohammed Al Olama	✓	✓	✓	✓	4

5. RISK EXPOSURE AND ASSESSMENT (CONTINUED)

7. Corporate Social Responsibility

Sohar Islamic conducts customer awareness program on Islamic banking, and also supports social activities in many various field such as sports, conferences etc.

8. Other disclosures

Following are the disclosures required under Islamic Banking Regulatory Framework:

- There has been no comingling of the funds.
- As of 31 December 2023, and amount of OMR 734 is payable to head office.
- The charity fund account has been utilized to collect any over dues penalties from several products. As per the directive of the SSB members the funds was handed over to Al Rahama Association for distribution.

STATEMENT ON SENSITIVITY OF ASSETS AND LIABILITIES (SAL)

RO '000

Annexure 3

No.	Inflows (Assets and OBS)	Upto 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 Years	5 - 7 years	7 - 10 years	10-15 years	15-20 years	Over 20years	Non Sensitive	Total
1	Cash on Hand														4,499	4,499
2	Deposits with CBO														33,733	33,733
3	Balances due from HO/Affiliates/Branches															-
4	Balances due from Other Banks	0	-	-	-	-	-	-	-	-	-	-	-	-	18,777	18,777
5	Investments	-	-	11,120	-	-	3,012	4,742	-	5,015	-	-	-	-	663	24,552
6	Bills of Exchange and Promissory Notes															-
7	Overdrafts	-														-
8	Loans and Advances	235,867	24,794	94,965	109,099	3	2	69	1	1,452	89	385	766	422	31,371	499,285
9	Non Performing Loans									2,245						2,245
10	Fixed Assets														2,361	2,361
11	Net Inter-branch Transactions															-
12	Accured Interest														-	-
13	Other Assets														22,155	22,155
14	Spot and Forward Purchases															-
15	Reverse Repos															-
16	FRAs															-
17	Swaps															-
18	Futures															-
19	Options															-
20	Others(Specify)															-
																-
																-
																-
	Total	**235,867**	**24,794**	**106,085**	**109,099**	**3**	**3,014**	**4,811**	**1**	**8,712**	**89**	**385**	**766**	**422**	**113,559**	607,607
	Outflows (Liabilities and OBS)															
1	Current Deposits	59,876													65,082	124,958
2	Saving Deposits	102,037														102,037
3	Time Deposits	16,132	3,913	38,038	95,391	68,014	30,163	17,115	8,795	-	-	-	-	-	-	277,561
4	Other Deposits														2,258	2,258
5	Balances due to HO/Affiliates/ Branches	734	-	-	-	-	-	-	-	-	-	-	-	-	-	734
6	Balances due to other Banks	21,313	-	-	3,853	-	-	-	-	-	-	-	-	-	-	25,166
7	Certificate of Deposits															-
8	Other Borrowings	-	-	-	-											-
9	Net Inter-branch Transactions															-
10	Bills Payable															-
11	Interest Payable	-													-	-
12	Provisons (others)															-
13	Spot and Forward Sales															-
14	Capital														51,500	51,500
15	Reserves														6,402	6,402
16	Retained Earnings														14,450	14,450
17	Sub-ordinated Debts															-
18	Others (Current Year's Profit/Loss)															-
19	Repos															-
20	FRAs															-
21	Futures															-
22	Swaps															-
23	Options															-
24	Convertible Bonds															-
25	Other Liabilities														2,541	2,541
																-
	Total	**200,092**	**3,913**	**38,038**	**99,244**	**68,014**	**30,163**	**17,115**	**8,795**	**-**	**-**	**-**	**-**	**-**	**142,233**	607,607
	Gap	35,775	20,881	68,047	9,855	(68,011)	(27,149)	(12,304)	(8,794)	8,712	89	385	766	422	(28,674)	(0)
	Cumulative Gap	35,775	56,656	124,703	134,558	66,547	39,398	27,094	18,300	27,012	27,101	27,486	28,252	28,674	(0)	

REGULATORY DISCLOSURES UNDER BASEL II & BASEL III FRAMEWORK & IBRF
AS AT 31 DECEMBER 2023

Exposure to profit rate risk – Annexure 2

	2023
	RO'000
Net Profit Income	7,425
Capital	69,701
Based on 50 bps Profit rate shock	
Impact of 50 bps profit rate shock	506.19
Impact as % to Net profit	6.82%
Impact as % to CAPITAL	0.73%
Based on 100 bps Profit rate shock	
Impact of 100 bps profit rate shock	1,012
Impact as % to Net profit	13.63%
Impact as % to CAPITAL	1.45%
Based on 200 bps Profit rate shock	
Impact of 200 bps profit rate shock	2,025
Impact as % to Net loss	27.27%
Impact as % to CAPITAL	2.90%

REGULATORY DISCLOSURES UNDER BASEL II & BASEL III FRAMEWORK & IBRF
AS AT 31 DECEMBER 2023

STATEMENT ON SENSITIVITY OF ASSETS AND LIABILITIES (SAL)

RO '000

Annexure 3

No.	Inflows (Assets and OBS)	Upto 1 month	1 - 3 months	3 - 6 months	6 - 9 months	9 - 12 months	1 - 3 years	3 - 5 Years	Over 5 Years	Total
1	Cash on Hand	4,499								4,499
2	Deposits with CBO	20,971	936	1,692	1,001	2,092	3,907	1,399	1,735	33,733
3	Balances due from HO/Affiliates/Branches									-
4	Balances due from Other Banks	18,777								18,777
5	Investments	221	221	11,342	-	-	7,753	-	5,015	24,552
6	Bills of Exchange and Promissory Notes									-
7	Overdrafts	-							-	-
8	Loans and Advances	62,604	11,455	10,349	7,025	6,450	62,015	68,484	270,904	499,286
9	Non Performing Loans					561			1,684	2,245
10	Fixed Assets								2,361	2,361
11	Net Inter-branch Transactions									-
12	Accrued Interest	0								0
13	Other Assets	22,155								22,155
14	Spot and Forward Purchases	54,925	849	3,856	9,625	-	19,290	-	-	88,544
15	Swaps									-
16	Options									-
17	Reverse Repos									-
18	Committed Lines of Credit	50,000								50,000
19	Letters of Credit/Gurantees/Acceptances	2	678	2,261	2,641	633	106	-	79	6,400
20	Unutilized portion of Overdraft and Loans & Advances	16,635	25,887	2,609	428	237	421	-	-	46,217
21	Undrawn Exposure (Syn Loans)									-
										-
	Total	**250,789**	**40,026**	**32,109**	**20,720**	**9,973**	**93,492**	**69,883**	**281,777**	**798,769**
	Outflows (Liabilities and OBS)									
1	Current Deposits	24,991	24,991	18,743	12,496	12,496	1	1	31,239	124,958
2	Saving Deposits	5,105	5,102	5,102	5,102	5,102	25,508	25,508	25,508	102,037
3	Time Deposits	16,043	3,757	37,459	18,675	58,077	112,136	25,200	6,214	277,561
4	Other Deposits	1,142	119	137	65	292	379	85	39	2,258
5	Balances due to HO/Affiliates/Branches	734	-	-	-	-	-	-	-	734
6	Balances due to Other Banks	21,313	-	-	-	-	3,853	-	-	25,166
7	Certificate of Deposits									-
8	Other Borrowings	-	-	-		-				-
9	Net Inter-branch Transactions									-
10	Bills Payable									-
11	Interest Payable	-								-
12	Prov. other than for Loan Losses and Dep.in Invts.									-
13	Other Liabilities	2,541								2,541
14	Spot and Forward Sales	54,925	845	3,850	9,625	-	19,250	-	-	88,494
15	Swaps									-
16	Options									-
17	Repos									-
18	Letters of Credit/Guarantees/Acceptances	797	3,190	2,075	276	35	27	-	-	6,400
19	Committed Lines of Credit	-	-	-	-	-	50,000	-	-	50,000
20	Unutilized portion of Overdraft and Loans and Advances	16,909	26,024	2,741	263	157	123	-	-	46,217
21	Others (Specify)									-
22	Capital								51,500	51,500
23	Reserves								6,402	6,402
24	Retained Earnings								14,450	14,450
25	Sub-ordinated Debts									-
26	Others (Current Year's Profit/Loss)									-
27	Undrawn Exposure (Syn Loans)									-
28	Convertible Bonds									-
										-
	Total	**144,500**	**64,028**	**70,107**	**46,502**	**76,159**	**211,277**	**50,794**	**135,352**	**798,717**
	Cumulative Liabilities	144,500	208,527	278,634	325,136	401,295	612,571	663,365	798,717	
	Gap	106,289	(24,002)	(37,999)	(25,782)	(66,186)	(117,785)	19,089	146,425	
	Cumulative Gap	106,289	82,287	44,289	18,507	(47,679)	(165,463)	(146,374)	51	
	Cumulative Gap as a percentage of Cumulative liabilities	73.56	39.46	15.89	5.69	(11.88)	(27.01)	(22.07)	0.01	

RECONCILIATION TEMPLATE - AS OF DECEMBER 2023

Step 1 : (RO '000)

	Balance sheet as in published financial statements As at December 2023	Under regulatory scope of consolidation As at December 2023
Assets		
Cash and balances with Central Bank of Oman	38,232	38,232
Certificates of deposit	-	-
Due from banks	18,777	18,777
Financing and advances	497,935	497,935
Investments in securities	24,552	24,552
Loans and advances to banks	-	-
Property and equipment	2,361	2,361
Deferred tax assets	-	-
Other assets	22,155	22,155
Total assets	**604,012**	**604,012**
Liabilities		
Due to banks	25,166	25,166
Customer deposits	506,814	506,814
Current and deferred tax liabilities	-	-
Other liabilities	3,275	3,275
Subordinated Debts		-
Compulsory Convertible bonds		-
Total liabilities	**535,255**	**535,255**
Shareholders' Equity		-
Paid-up share capital	51,500	51,500
Share premium		-
Legal reserve	134	134
General reserve	988	988
Impairment reserve	1,641	1,641
Retained earnings	14,450	14,450
Cumulative changes in fair value of investments	44	44
Subordinated debt reserve	-	-
Total shareholders' equity	**68,757**	**68,757**
Total liability and shareholders' funds	**604,012**	**604,012**

RECONCILIATION TEMPLATE - AS OF DECEMBER 2023 (CONTINUED)

Step 2 : (RO '000)

	Balance sheet as in published financial statements As at December 2023	Under regulatory scope of consolidation As at December 2023	Reference
Assets			
Cash and balances with CBO	38,232	38,232	
Balance with banks and money at call and short notice	18,777	18,777	
Investments:	24,552	24,552	
Of which Held to Maturity	23,889	23,889	
Out of investments in Held to Maturity:			
Investments in subsidiaries	NA	NA	
Investments in Associates and Joint Ventures	NA	NA	
Of which Available for Sale	NA	NA	
Out of investments in Available for Sale: Investments in Subsidiaries	NA	NA	
Investments in Associates and Joint Ventures	NA	NA	
Held for Trading	663	663	
Loans and advances	497,935	497,935	
Of which:			
Loans and advances to domestic banks	-	-	
Loans and advances to non-resident banks		-	
Loans and advances to domestic customers	474,984	474,984	
Loans and advances to non-resident Customers for domestic operations		-	
Loans and advances to non-resident Customers for operations abroad	10,647	10,647	
Loans and advances to SMEs	12,304	12,304	
Financing from Islamic banking window	-	-	
Fixed assets	2,361	2,361	
Other assets of which:	22,155	22,155	
Goodwill and intangible assets Out of which:			
goodwill	-	-	
Other intangibles (excluding MSRs)	-	-	
Deferred tax assets	-	-	
Goodwill on consolidation	-	-	
Debit balance in Profit & Loss account	-	-	
Total Assets	**604,012**	**604,012**	
Capital & Liabilities			

RECONCILIATION TEMPLATE - AS OF DECEMBER 2023 (CONTINUED)

Step 2 : (Continued) (RO '000)

	Balance sheet as in published financial statements As at December 2023	Under regulatory scope of consolidation As at December 2023	Reference
Paid-up Capital	51,500	51,500	
Of which:			
Amount eligible for CET1	51,500	51,500	
Amount eligible for AT1	-	-	
Reserves & Surplus	1,122	1,122	
Out of which			
Retained earnings	14,450	14,450	
Other Reserves	1,641	1,641	
Cumulative changes in fair value of investments	-	-	
Out of which :			
Losses from fair value of investments	-	-	
Gains from fair value of investments	44	44	a
Haircut of 55% on Gains	NA	NA	
Total Capital	**68,757**	**68,757**	
Deposits :	**506,814**	**506,814**	
Of which:			
Deposits from banks	-	-	
Customer deposits	502,581	502,581	
Deposits of Islamic Banking window			
Other deposits(please specify)	-	-	
Borrowings	**25,166**	**25,166**	
Of which: From CBO	-	-	
From banks	25,166	25,166	
From other institutions & agencies	-	-	
Borrowings in the form of bonds, Debentures and sukuks	-	-	
Others (Subordinated debt)	-	-	
Other liabilities & provisions Of which:	3,275	3,275	
Out of which : DTAs related to Investments			
Out of which : DTLs related to Investments			b
Out of which : DTLs related to Fixed Assets		-	
DTLs related to goodwill	-	-	
DTLs related to intangible assets	-	-	
TOTAL	**604,012**	**604,012**	

RECONCILIATION TEMPLATE - AS OF DECEMBER 2023 (CONTINUED)

Step 3 : (RO '000)

Common Equity Tier 1 capital: instruments and reserves

		Component of regulatory capital reported by bank	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from step 2
1	Directly issued qualifying common share (and equivalent for non- joint stock companies) capital plus related stock surplus	51,500	
2	Retained earnings	14,450	
3	Accumulated other comprehensive income (and other reserves)	1,122	
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	**Common Equity Tier 1 capital before regulatory adjustments**	**67,072**	
7	Prudential valuation adjustments	-	
8	Goodwill (net of related tax liability)	-	
9	Losses from fair value of investments	-	a
10	DTL related to Investments	-	b
11	**Common Equity Tier 1 capital (CET1)**	**67,072**	

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STRENGTHENING

OUR REACH TO ENSURE SERVICE EXCELLENCE

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SOHAR INTERNATIONAL BRANCH NETWORK

MUSCAT

Al Khuwair 1 Branch
+968 96333215
+968 24480269

Al Khoudh 1 Branch
+968 97500300
+968 24597005

Mina Al Fahal Branch
+968 97878705
+968 21011206

Al Khuwair 2 Branch
+968 92319859
+968 21013252

Al Khoudh 2 Branch
+968 99001662
+968 21011283

Ruwi Branch
+968 92557711
+968 21011504

Azaiba 1 Branch
+968 95473567
+968 21013323

Avenues Mall Branch
+968 99338159
+968 24597005

Al Amrat 1 Branch
+968 99505154
+968 24878565

Al Azaiba 2 Branch
+968 99040939
+968 24499815

Al Mawaleh Branch
+968 96077288
+968 21011127

Al Amrat 2 Branch
+968 99336604
+968 21011212

Qurum 1 Branch
+968 92140405
+968 24565727

Bousher Branch
+968 92881919
+968 24091579

Quriyat 1 Branch
+968 99383332
+968 24845090/091

Qurum 2 Branch
+968 99888283
+968 21011101

Al Maabilah Branch
+968 99010965
+968 24267213

Quriyat 2 Branch
+968 99245120
+968 21011313

Alseeb 1 Branch
+968 95339905
+968 24422771

MBD Branch
+968 96651875
+968 24730077

Alseeb 2 Branch
+968 97313398
+968 21013267

Waterfront Branch
+968 99363536
+968 24091550/ 553/552

AL BATINAH NORTH

Sohar Branch
+968 99278078
+968 26842709

Suwaiq 1 Branch
+968 99461614
+968 26860019

Sohar Humber Branch
+968 95400862
+968 21013828

Suwaiq 2 Branch
+968 96668111
+968 21011464

Sohar IES Branch
+968 92224054
+968 21013747

Saham 1 Branch
+968 95446695
+968 26854972

Saham 2 Branch
+968 95132880
+968 21011241

Wadi Hibi Branch
+968 95400862
+968 21013828

Shinas Branch
+968 92266003
+968 26748282

Al Khabourah Branch
+968 92319859
+968 21013252

AL BATINAH SOUTH

Al Musanah 1 Branch
+968 96500443
+968 26971196

Al Musanah 2 Branch
+968 99436033
+968 21013503

Barka 1 Branch
+968 99151919
+968 26883583

Barka 2 Branch
+968 92372666
+968 21011093

Rustaq 1 Branch
+968 99019908
+968 26875012

Rustaq 2 Branch
+968 95547900
+968 21011043

DHOFAR

Salalah 1 Branch
+968 99094404
+968 23297197

Salalah 2 Branch
+968 93698986
+968 21011154

Salalah CSU Branch
+968 93698986
+968 21011154

Sadah Branch
+968 93393080
+968 21011257

Dhalkut Branch
+968 98221122
+968 21013641

Mazeyounah Branch
+968 99190580
+968 21013632

Marmul Branch
+968 99499974
+968 21013401

SHARQIYAH NORTH

Ibra 1 Branch
+968 92426650
+968 25571414

Ibra 2 Branch
+968 99443292
+968 21013672

Sinaw 1 Branch
+968 99245855
+968 25524233

Sinaw 2 Branch
+968 99217707
+968 21013692

Jalan Bani Bu Ali 1 Branch
+968 99007499
+968 25554488

Jalan Bani Bu Ali 2 Branch
+968 99202083
+968 21013716

SHARQIYAH SOUTH

Sur 1 Branch
+968 99880786
+968 25545199

Sur 2 Branch
+968 98982626
+968 21011265

Tiwi Branch
+968 99062992
+968 21011236

Wadi Ban Khalid Branch
+968 93251515
+968 21013801

AD DAKHILIYAH

Bahla 1 Branch
+968 92775868
+968 25419460

Bahla 2 Branch
+968 99348708
+968 21013341

Nizwa Branch
+968 98220822
+968 25412675

Firq (Nizwa) Branch
+968 98067935
+968 21011424

Samail Branch
+968 97240064
+968 21013395

Jabal Akhdhar Branch
+968 96657777
+968 21011235

MUSANDAM

Madha Branch
+968 96644445
+968 21011490

Dibba Branch
+968 96644445
+968 21011490

Khasab 1 Branch
+968 91155588
+968 26732568

Khasab 2 Branch
+968 99345606
+968 21013522

AD DHAHIRAH

Yanqul Branch
+968 99322065
+968 21011224

Dhank Branch
+968 99760028
+968 21013361

Sleef Branch
+968 91231552
+968 21013375

Ibri Branch
+968 99005603
+968 25688642

AL BURAIMI

Mahdah Branch
+968 99381691
+968 21013766

Sinainah Branch
+968 95746609
+968 21011859

Al Buraimi 1 Branch
+968 92319859
+968 25650502

Al Buraimi 2 Branch
+968 99381691
+968 21011475

AL WUSTA

Haima Branch
+968 95851122
+968 21013661

Al Kahel Branch
+968 99557788
+968 21013622

SOHAR ISLAMIC BRANCH NETWORK

Al Khoudh Branch
+968 24189940

Ghala Branch
+968 24617063

Firq Branch
+968 25447789

Khasab Branch
+968 26730292

Ghubrah Branch
+968 24614417

Saada Branch
+968 23227399

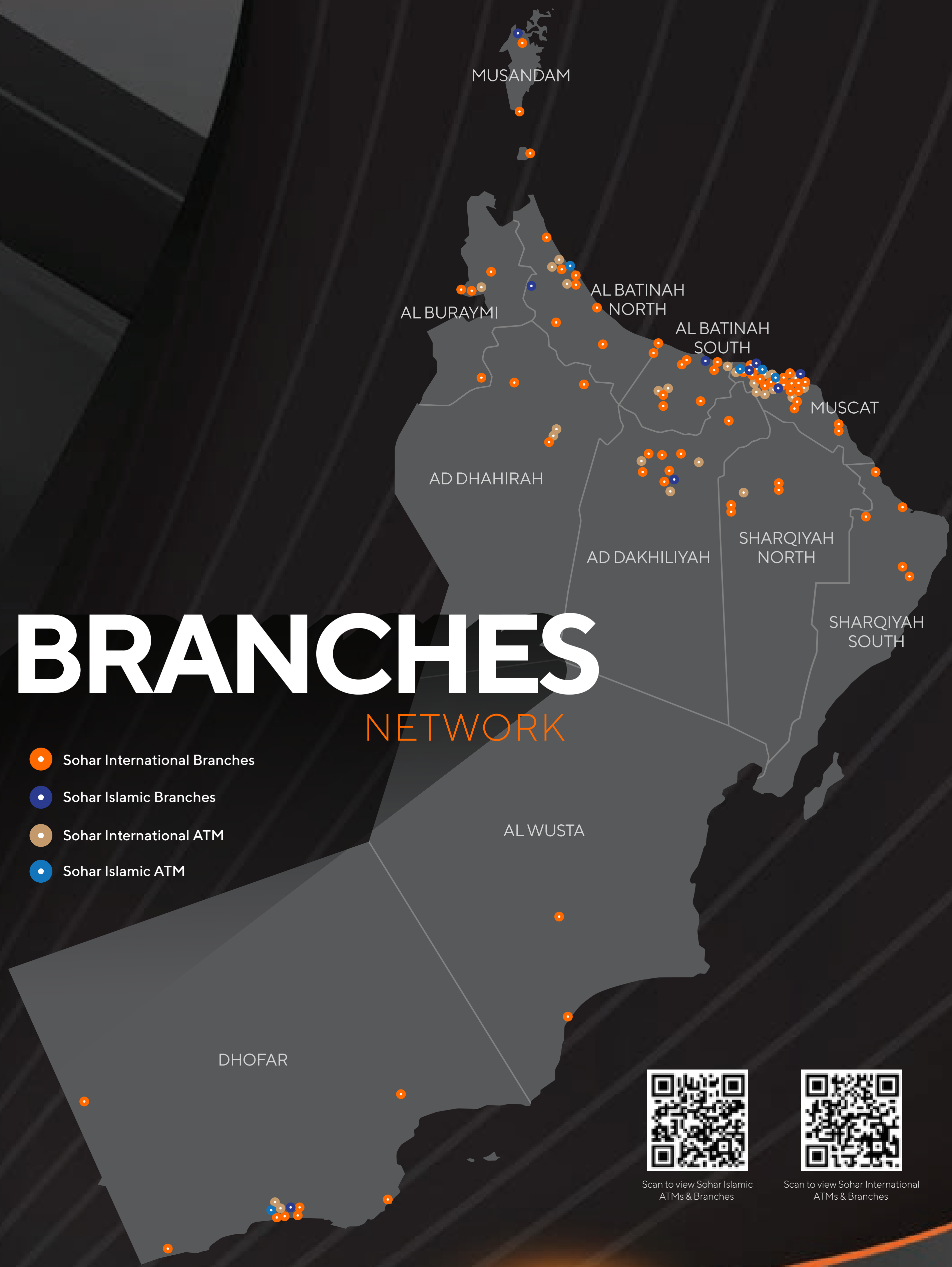
Mabellah Branch
+968 24463771

Sohar Branch
+968 26642203

Barka Branch
+968 26883188

BRANCHES

NETWORK



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