ANNUAL REPORT 2023

Growth Through
Sustainability

بنك نزوى
Bank Nizwa

HIS MAJESTY
SULTAN QABOOS BIN SAID

May his soul rest in peace

HIS MAJESTY
SULTAN HAITHAM BIN TARIK

GROWTH THROUGH **SUSTAINABILITY**

Drawing on the essence of our legacy and the robust financial performance of the previous year, Bank Nizwa steps forward into 2023 with a commitment to 'Growth with Sustainability'. In an economic climate where sustainability has transitioned from a choice to a necessity, Bank Nizwa stands resolute in its approach to combining expansion with responsibility, profit with ethics, and development with care for our community and environment.

In 2023, Bank Nizwa has not only sustained its growth trajectory but has also set new benchmarks in the Islamic banking sector. As Oman's first and premier Islamic bank, we have forged ahead with an 8% growth in total assets, which now stand at 1.61 billion Omani Rials, compared to 1.49 billion Omani Rials in the previous year. Our financing to customers witnessed a remarkable 12% increase, signifying our commitment to fostering entrepreneurial spirit and supporting personal financial growth within the tenets of Islamic finance.

Our customer deposits grew by 6%, reaching 1.26 billion Omani Rials, reflecting the enduring trust and loyalty of our customers. This trust is the cornerstone of our operations, propelling us to continuously innovate and tailor our services to meet and exceed customer expectations. In alignment with our strategic goals, the bank's total shareholders' equity saw a modest growth of 3%, ensuring that our foundation remains solid as we aim for higher horizons.

Despite a challenging global economic landscape, our operating income increased by 5%, a testament to our resilient business model and the unwavering dedication of our team. However, we remain vigilant and focused on cost efficiency, as reflected in our increased operating expenses, which we view as strategic investments into the bank's future capabilities and digital transformation initiatives.

Our net profit after tax achieved a significant rise of 13%, echoing our ability to generate value while adhering to the principles of Sharia-compliant banking. At Bank Nizwa, we understand that true growth is measured not just in financial terms but also in the social and environmental capital we build. Therefore, we pledge to continue our journey of 'Growth with Sustainability', ensuring that as we prosper, so does the community we are deeply rooted in.

As we look ahead, we are inspired by our past achievements and driven by the potential of what we can accomplish together. Bank Nizwa remains dedicated to its role as a beacon of Islamic banking, illuminating the path of financial integrity, innovation, and sustainability for all.

CONTENTS

4 Board of Directors

5 Executive Management Team

6 Financial Highlights

11 Auditors Report on Corporate Governance

39 Assurance Report on the Control Procedures relating to Sharia Compliance Governance Structure

43 Management's Sharia Compliance and Governance Report

56 Sharia Supervisory Board Report

57 Auditors' Report on Financial Statements

63 Statement of Financial Position

64 Statement of Income

65 Statement of Cash Flows

66 Statement of Changes on Owners' Equity

67 Statement of Sources and Uses of Charity Fund

68 Notes to the Financial Statements

121 Auditors' Report on Statutory Disclosures under Basel

123 Basel II Pillar III Annual Disclosures 2023

166 Appendix - Sharia Supervisory Board Resolutions (Fatwas)

13 Corporate Governance Report

8 Chairman's Report

25 Management Discussion and Analysis Report

BOARD OF DIRECTORS

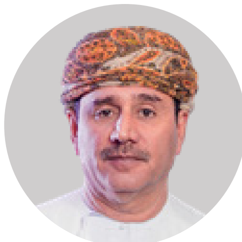
Sheikh Khalid Abdullah Ali Al Khalili
Chairman

Mr. Musabah Saif Musabah Al Mutairy
Vice Chairman

Sayyid Amjad Mohammed Ahmed Al Busaidi
Member

Sheikh Saif Hilal Nasser Al Mawali
Member

Sheikh Majid Ali Majid Al Mamri
Member



Mr. Hussain Yousef Dawood Al Shalwani
Member

Mr. Ishaq Zayed Khalifa Al Mawali
Member

Mr. Saleem Peerbaksh Al Raisi
Member

Mr. Atif Said Rashid Al Siyabi
Member

EXECUTIVE MANAGEMENT TEAM

Mr. Khalid Jamal Al Kayed
Chief Executive Officer

Mr. R. Narasimhan
General Manager
Retail Banking

Mr. Nasser Said Al Lamki
General Manager
Internal Audit

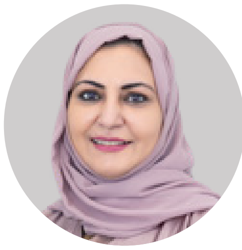
Mr. Mohamed Fida Hussain
General Manager Risk Management
and Chief Risk Officer

Mr. Mujahid Said Daud Al Zadjaly
General Manager IT

Mr. Khalid Al Barwani
Deputy General Manager
Wholesale Banking

Mr. Mohamed Al Ghasni
Deputy General Manager
Retail Banking

Mr. Salim Rashid Ali Al Maharbi
Chief Financial Officer



Ms. Haifa Abdul Ali Al Lawati
Assistant General Manager HR
- Chief Human Resources Officer

Mr. Mohammed Al Hashmi
Assistant General Manager
Compliance - Chief Compliance Officer

Mr. Saif Abdullah Al Rawahi
Assistant General Manager
Investment, Treasury, Government
Relations and Project Finance

Mr. Azzan Al Saleh
Assistant General Manager of
the bank's Small and Medium
Enterprises division

H.H. Sayyida Wisam Jaifer Al Said
Head of Corporate Communications,
Marketing and Sustainability

Mr. Tariq Mohammed Osman
Head of Legal Department
and Board Secretary

Dr. Mansoor Ali Al Qudah
Head of Sharia

Mr. Ahmed Abdullah Salim Al Wayili
Head of Corporate Communications,
Marketing and Sustainability

FINANCIAL HIGHLIGHTS

GROWING SHAREHOLDERS' WEALTH

2022 3%

2023 3%

Growth in Equity

GROWING REACH OF ISLAMIC FINANCE

2022 10%

2023 12%

Growth in Financing

TRUSTED BANK OF THE COMMUNITY

2022 7%

2023 6%

Growth in Deposits

GROWING MARKET SHARE

2022 6%

2023 8%

Growth in Assets

FINANCIAL HIGHLIGHTS

EFFICIENT OPERATIONS

2022
1%

2023
1.1%

Return on Assets

GROWING RETURN ON INVESTMENTS

2022
6.3%

2023
6.9%

Return on Equity

MORE VALUE TO SHAREHOLDERS

2022
20%

2023
13%

Growth in Net Profit

STRONGER BANK

2022
16.04%

2023
15.72%

CET 1 Ratio

CHAIRMAN'S **REPORT**

Sheikh Khalid bin Abdullah bin Ali Al Khalili
Chairman

Dear Shareholders,

Assalamu'alaikum Wa Rahmat Allah Wa Barakatuh,

I am honored to present the Financial Statements and Auditor's Report for the year ended 31st December 2023 on behalf of the Board of Directors of Bank Nizwa SAOG.

In 2023, the global economic landscape experienced notable fluctuations due to rising costs and heightened energy prices. These factors had a considerable impact on households and small businesses, leading to historic inflation levels in major economies. Emerging economies, in particular, faced significant challenges during this period of rising inflation and costs, mirroring the struggles experienced by advanced economies. In response, central banks worldwide raised interest rates to address these challenges. While the monthly inflation rate is showing signs of slowing down, it is anticipated that inflation has already reached its peak.

Confronting these challenges, the government of Oman initiated reform programs to ensure economic recovery and stability. Significantly, the government successfully reduced its debt by 11%, amounting to OMR 1.9 billion, resulting in a decreased Debt-to-GDP ratio below 38%, the lowest since 2016. Further reductions are expected, with forecasts indicating a favorable ratio of 35%. Despite challenges like increased borrowing costs, the government strengthened its position in global markets.

These positive developments, combined with ongoing reforms, improved revenue streams, and effective expense control, garnered recognition from global rating agencies. Oman's economic growth is projected to be an impressive 2.7% in 2024, as per the IMF. This progress has bolstered the government's financial position, contributing to overall economic growth, leading to an upgrade in Oman's rating by Moody's Investors Service to Ba1 with a stable outlook.

At Bank Nizwa, our unwavering commitment to the greater purpose of Islamic banking remains steadfast. We have played a pivotal role in supporting government programs to aid households and businesses during economic volatility. This dedication persists as we navigate the path to growth, aligned with our mission to positively contribute to the well-being of our customers and the communities we serve.

In 2023, Bank Nizwa showcased the strength of its business and the resilience of its people. Our relentless focus on customers led to enhanced product offerings, assisting businesses in achieving financial goals and contributing to the overall economy. Colleagues, driven by our purpose, worked tirelessly to operate the bank and deliver value to stakeholders.

Over the past years, our strategic focus on providing customers with an exceptional Sharia-compliant banking experience has been pivotal. We ensured customers had the right tools and advice, creating value for shareholders. Our commitment gained strength from the decisive actions of Oman's leadership, enabling us to ensure the financial well-being of individuals and businesses in alignment with measures by the Central Bank of Oman.

Bank Nizwa's leadership team continued to deliver on strategic priorities, aiming to become a bank offering simpler and more efficient solutions. Investments in people, processes, technology, and products strengthened the bank's foundation, making substantial progress toward achieving targets. This, combined with our ambition as the first Sharia-compliant bank in the Sultanate, is reflected in the strong financial results achieved.

An encouraging development in the year was the launch of our Environment, Social, Governance (ESG) strategy. Committed to positive change, Bank Nizwa aims to contribute to an inclusive and sustainable future through our ESG strategy, aligned with our proven business model, guided by our purpose, and inspired by Oman's vision 2040.

The Islamic finance sector in Oman has experienced significant growth, and we take pride in maintaining our position as the leading and most trusted Islamic bank in the country.

Bank Nizwa remains committed to its mission, values, and Islamic banking principles. We are optimistic about the future, confident in our ability to make a lasting impact, and dedicated to being a beacon of stability that supports the well-being of our customers, communities, and shareholders.

FINANCIAL PERFORMANCE

Bank Nizwa has made significant strides in achieving its strategic priorities in 2023 and successfully delivered on them to all stakeholders. Our financial performance for the year showcases the robustness of our business model. Our core banking businesses experienced growth, thanks to our unwavering focus on operational excellence. Our prudence in managing our balance sheet has led to a strong funding and liquidity position, while our credit discipline resulted in a record highest net profit ever of Omani Rials 17.02 million, a growth of 13% compared to the previous year's net profit of Omani Rials 15.05 million.

A review of our 2023 financial results demonstrates outstanding growth rates across all financial indicators. Total assets grew by 8% to reach Omani Rials 1.6 billion, the total portfolio of financing increased by 12% to reach Omani Rials 1.38 billion, total customer deposits grew by 6% to reach Omani Rials 1.26 billion, and the total shareholders' equity grew by 3% to reach Omani Rials 253.5 million.

These results are a direct outcome of our commitment to executing our 2025 strategy, leveraging our financial expertise and strengths to create value, and our capacity to adapt to economic conditions, including the competitive landscape in which we operate. Our sound governance practices provide a solid foundation for our achievements, while our dedication to delivering unparalleled customer experience and staying true to our core values, which are fundamental to our institution, has been our top priority.

FUTURE OUTLOOK

The International Monetary Fund (IMF) predicts Oman's real GDP growth to be 2.7% in 2024, a modest rise from the estimated 2% in 2023. Non-oil sector remain the main driver as the country is shifting towards sustainable sectors. The sector, is expected to grow by 2.5%, will again be the main driver of expansion. Tourism is a key contributor, seeing significant growth despite not fully reaching pre-pandemic levels. The planned GCC unified tourist visa and increasing attractiveness to new markets like Europe are expected to further boost tourism.

Constrained by OPEC+ agreements, oil production growth is expected to remain flat at around 0.6%. However, higher natural gas revenues and a diversified tax base will help offset lower oil income.

We expect FED will start cutting US Treasury rates later half of 2024, and in tandem rates will reduce in the Oman as well, which should encourage consumption and investments. Inflation is expected to remain subdued at 2%, while fiscal surplus is expected, continuing the trend of improving financial health.

In this dynamic economic landscape, the country's banking sector, including Islamic banking, is expected to remain resilient. Bank Nizwa is well-prepared to seize future opportunities and deliver optimal value to its shareholders. Recent upgrades in outlook and ratings by esteemed international agencies like Fitch, Moody's, and S&P underscore confidence in the government's reforms and the strength of the banking system, with Oman just one notch below investment grade, rated Ba1 by Moodys with a stable outlook.

Fiscal reforms are expected to turn the economy favorably, and recent upgrades in outlook and rating by Moody's and S&P have affirmed international agencies' confidence on the reforms and the soundness of the banking system. The government's initiatives to promote small and medium-sized enterprises, public-private partnerships, and investment climate improvements will help to mitigate vulnerabilities and alleviate pressure on public finances.

The outlook 2024 is optimistic supported by an improvement in government revenues. While numerous sectors expect growth, such as manufacturing, healthcare, technology, communication, mining, sustainable energy, fisheries, food, trade and other services. The Oman's banking sector in general and Islamic Banking industry specifically will continue to capitalize on its key competitive advantages to show further resilience in a volatile global economic backdrop.

Bank Nizwa has demonstrated its resilience since inception with a strong balance sheet, an ability to adapt, and a commitment to serving its clients, employees, communities, and shareholders. The Bank aims to lead the growth of Islamic finance and solidify its position as a sector leader by achieving new market share heights. The strong capital base will help shape its future and generate organic earnings, and its prudent risk management, diversified business mix, and proven ability to navigate through challenging situations instill confidence in the Board's growth strategy. The Bank is poised to capture future opportunities, support sustainable growth, and deliver maximum value to its shareholders.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, Executive Management, and staff, I would like to express our sincere gratitude to His Majesty Sultan Haitham bin Tariq Al Said, for his foresight and visionary leadership that continues to advance the nation and the Islamic banking sector.

As we reflect on the past decade, we would like to express our gratitude to everyone who has contributed to our success. To our employees, thank you for your commitment, professionalism, and passion for excellence. To our customers, thank you for your trust and loyalty. To our regulators and shareholders, thank you for your guidance, collaboration, and support.

We are excited to continue our journey and look forward to the opportunities and challenges that the future holds. With your continued support, we are confident that we will continue to thrive and achieve even greater success in the coming years and beyond.

Thank you all for being part of this incredible journey, and we hope to celebrate many more milestones together in the years to come.

Khalid bin Abdullah bin Ali Al Khalili
Chairman

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Sultanate of Oman
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Private and confidential
Our ref.: aud/km/zu/14810/24

Agreed-Upon Procedures Report on Code of Corporate Governance of Bank Nizwa SAOG

To the Board of Directors of Bank Nizwa SAOG

Purpose of this Agreed-Upon Procedures Report

Our report is solely for the purpose of assisting Bank Nizwa SAOG ("Bank") for submission of agreed upon procedures report on the compliance with the Code of Corporate Governance (the "Code") to Capital Market Authority ("CMA") to assist in compliance of requirements 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 Bank

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

The Bank (also the Responsible Party) are responsible for the subject matter on which the agreed-upon procedures are performed.

Practitioners' Responsibilities

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

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

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

Practitioners' Responsibilities (continued)

Professional Ethics and Quality Control

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

Our firm applies International Standard on Quality Management 1, *which requires the firm to design, implement and operate a system of quality management including policies and procedures* regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Procedures and Findings

We have performed the procedures described below, which were agreed upon with the Bank in the terms of engagement dated 1 February 2021, on the compliance with the Code:

S. No	Procedures	Findings
1	We checked that the corporate governance report (the Report) issued by the Board of Directors includes as a minimum, all items suggested by CMA to be covered by the Report as detailed in the Annexure 3 of the Code by comparing the Report with such suggested content in the Annexure 3.	No exceptions noted.
2	We obtained the details regarding areas of non-compliance with the Code identified by the Bank's Board of Directors for the year ended 31 December 2023. With respect to procedure above, we inquired from and obtained written representation from management and those charged with governance for non-compliance with the Code for the year ended 31 December 2023.	No exceptions noted.

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

KPMG

KPMG LLC
11 March 2024

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

Enclosures:
Bank Nizwa SAOG Corporate Governance Report

CR No. 1358131
Tax Card No. 8063052

Corporate Governance Report

The Board of Directors of Bank Nizwa SAOG ("Bank Nizwa" or the "Bank") is committed to the highest standards of Corporate Governance in the letter and spirit. The Bank follows the Code of Corporate Governance laid out by the Capital Market Authority (CMA) and the regulations for Corporate Governance of Banking and Financial Institutions issued by the Central Bank of Oman (CBO).

Corporate Governance is the system of rules, practices and processes by which the Bank is directed and controlled. Corporate governance essentially involves balancing the interests of stakeholders in the Bank - these include its shareholders, management, customers, suppliers, financiers, regulators, the government and the community. Since corporate governance also provides the framework for attaining the Bank's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

Governance at Bank Nizwa is not only about implementing laws and rules, but about upholding highest level of ethical standards and good business practices. We ensure fairness, transparency, responsibility and accountability in our internal and external affairs. Our excellence is driven from our acceptance of responsibility for financial inclusion and our all-encompassing Sharia compliance framework.

The CMA Code of Corporate Governance for Public Listed Companies and the CBO circular BM 932, Corporate Governance of Banking and Financial Institutions are the principal codes and drivers of Corporate Governance practices in the Sultanate of Oman. Bank Nizwa complies with all of their provisions. The CMA Code of Corporate Governance can be found at the following website: www.cma.gov.om.

Board of Directors

The Board is responsible for overseeing the Bank's management and business affairs and makes all major policy decisions for the Bank.

The Board is responsible for approving the financial statements of the Bank, and the overall compliance of the Bank with the applicable rules and regulations. The Board continuously protects and enhances shareholders' value by looking after the Bank's overall corporate governance. The Board members have acknowledged that they shall, during the term of the Board, remains compliant with the applicable rules and regulations, and they shall inform the Bank of any changes in their status which might affect their category or status. The Bank follows Commercial Company law where the process of nomination of directors is stipulated clearly. The Bank's Board's principal responsibilities are as follows:

- Appointing key executives with integrity, technical and managerial competence and appropriate experience, and deciding their compensation package;
- Overseeing succession planning and replacing key executives when necessary;
- Reviewing key executive and Board remuneration packages and ensuring such packages are consistent with the Bank's corporate values and strategy;
- Ensuring a formal and transparent Board nomination process;
- Effectively monitoring and evaluating management's performance in implementing agreed strategy and business plans, and ensuring that appropriate resources are available;

- Approving budgets, reviewing performance against those budgets and deciding on the future strategies and plans;
- Meeting regularly with senior management and respective Board Committees to establish and approve policies and review key developments;
- Identifying, understanding and measuring the significant risks to which the Bank is exposed in its business activities; and
- Board members independently assess and question the policies, processes and procedures of the Bank, with the intent to identify and initiate management action on issues requiring improvement (i.e. to act as checks and balances on management). Procedures may be defined to appoint advisors or external experts to assist Board members in effectively discharging their responsibilities.
- Approve financing transactions as per Delegation of Authority Matrix.
- Review and discuss financial, operational and control reports, as mandated by laws & regulations

Composition & Classification of the Board

The Shareholders elected the Board of Directors (the Board") of the Bank during the Annual General Assembly on March 28, 2022 for a period of three years. Nine Directors currently represent Bank Nizwa, where all of them are non-executive Directors.

Composition & Classification of the Board			
Name of Director	Status	Category	No. of Other SAOG Directorship
1. Sheikh Khalid Abdullah Ali Al Khalili	Non- Independent	Non-Executive	3
2. Musabah Saif Musabah Al Mutairy	Independent	Non-Executive	1
3. Sayyid Amjad Mohammed Ahmed Al Busaidi	Independent	Non-Executive	1
4. Hussain Yousef Dawood Al Shalwani	Independent	Non-Executive	0
5. Sheikh Saif Hilal Nasser Al Mawali	Independent	Non-Executive	0
6. Ishaq Zayed Khalifa Al Mawali	Independent	Non-Executive	3
7. Sheikh Majid Ali Majid Al Mamri	Independent	Non-Executive	0
8. Atif bin Said Al Siyabi	Independent	Non-Executive	1
9. Saleem Pir Bakhsh Al Raisi	Independent	Non-Executive	2

Profile of the Current Board of Directors

Sheikh Khalid Abdullah Ali Al Khalili- Chairman

Sheikh Khalid Al Khalili has over 21 years of experience in various fields. He is a graduate in Civil Engineering from Florida Institute of Technology, USA. He is the Chairman of Aflag Group, a diverse group of operating companies. In the past, he has held various senior management positions, involving varied business disciplines which include finance, project management and real estate development.

Sheikh Khalid is the Deputy Chairman of the board of directors in OMINVEST SAOG and member of the Board's Executive Committee and Nomination & Remuneration Committee. In addition, he is the Chairman of the Board of Liva Insurance SAOG. Moreover, Sheikh Khalid is a member of the Board of Omantel SAOG and its Investment and Strategy Committee.

Mr. Musabah Saif Musabah Al Mutairy – Vice Chairman

Mr. Almutairy has 30 years of experience in the areas of investment, finance, and accounting. Mr. Al Mutairi is a Member of several Boards, including Chairman of Green Valley Farms LLC, Member of the Board at Hotels Management Co. International SAOG, Khaleeji Commercial Bank Bahrain and Oman National Investments Development Company SAOC.

Mr. Almutairy holds a bachelor's degree in Accounting and a Master of Business Administration in Finance. In addition, he holds several internationally recognized accounting qualifications.

Sayyid Amjad Mohammed Ahmed Al Busaidi – Member

Sayyid Amjad presently holds the position of Director General of Administrative, Financial, and Human Resources at the Diwan of Royal Court. Previously, he held the role of Executive President at the Diwan of Royal Court Pension Funds and served as Deputy Director General at the Directorate General of Financial Affairs. Additionally, he currently acts as the Chairman of the Board at Oman Qatari Telecommunications Company SAOG (Ooredoo).

Sayyid Amjad is equipped with a Master's of Business Administration degree from Southern Cross University, Australia.

Sheikh Saif Hilal Nasser Al Mawali – Member

Sheikh Saif has a very professional career path including his high level experience over 20 years accompanied with his Bachelor degree in Economics from Arkansas University in the United States of America. He has worked for the Sultanate of Oman Ministry of Commerce and Industry in the Directorate General of Organizations and Foreign Relations. He has served as a Senior Customs Clearance Officer at Sultan Qaboos Sea Port as well as the Customs Liaison Officer for the regional office for MENA and Near East Region. As a key member of Free Trade Agreement negotiations between Oman and United States of America and as well with many other countries in Free Trade. Sheik Saif Al Mawali is an accredited expert for the MERCATOR program which assists governments in implementation of the WTO Trade facilitation Agreement and strategic planning. He has held other key positions within the burgeoning logistics sector in Oman as an associate of Tanfeedh Program.

Sheikh Al Mawali has extensive experience in and across the private sector, as he has successfully overseen the development of various real estate and culture renewal projects in Oman and the region. And being a Board member in Bank Nizwa also has added to his depth of knowledge to private sector and his boost strength decision making skills.

Mr. Hussain Yousef Dawood Al Shalwani – Member

Mr. Hussain is currently serving as director on the Board of Horizon Capital Market, Horizon Capital Funds and Bank Nizwa. He was previously a board member at Bank Sohar and played an active role its set up. Moreover, he was also founding committee member of Al Tawasul Financial and Investment Services.

Mr. Hussain has earned a Bachelor's degree with over 35 years of experience, holding various posts related to finance and investment in prestigious organizations like Al Ghadeer Investments, United Securities, Al Mawarid Securities, Qurum Investments etc.

Mr. Ishaq Zayed Khalifa Al Mawali – Member

Mr. Ishaq holds director positions at Shell Oman Marketing SAOG, Oman Cement Company SAOG, and Omantel SOAG, in addition to Bank Nizwa. He presently serves as Investments Director at the Social Protection Fund. His educational background includes a Masters in Finance from Victoria University, Australia. With approximately 23 years of extensive experience in funds and asset management companies, he has worked with notable organizations such as the State General Reserve Fund (now Oman Investment Authority), the Public Authority for Social Insurance (PASI), and the Oman Airport Management Company (OAMC).

Sheikh Majid Ali Majid Al Mamri – Member

Sheikh Majid presently holds the position of CEO at Al Ghadeer Investment Company, where he has dedicated 14 years of service, advancing through various roles. With a diverse background spanning banking, construction, real estate, property management, aviation, logistics, and agricultural investment, he brings over 14 years of extensive experience to the table. His expertise extends to strategic analysis and decision-making. Additionally, he contributes his insights as a board member of Salam Air SOAC.

Mr. Atif bin Said Al Siyabi - Member

Eng. Atif bin Said Al-Siyabi is the Chief Information Management at the Oman Investment Authority (OIA) in the Sultanate of Oman. His track record extends to more than 17 years in Information Technology and business transformation. His experiences vary from hands-on experience leading innovative technology solutions and system operations to transforming business operations and driving technological advancements. He is involved in various investment initiatives in the ICT sector, where he has been leading numerous assignments, devising comprehensive strategies, and delivering several ICT projects at the national level. Mr. Atif also holds a position as a member of the Board at Omantel SAOG.

He earned a Bachelor of Engineering in Computer Hardware and Networking Technology (Hons) from Coventry University and a Master of Business Administration from Franklin University. He also attained Professional Leadership Development Certificate from HEC Paris.

Mr. Saleem Pir Bakhsh Al Raisi - Member

Mr. Saleem Al Raisi is currently serving as a Director of Investments in Civil Services Employee Pension Fund. He is also member of the Board of Directors in Bank Nizwa SAOG, Oman Oil Marketing Company SAOG, Oman Flour Mills Company SAOG and United GCC Fund.

Mr. Al Raisi has a Bachelor Degree in Economics and Minoring in Administrative Sciences from Kuwait University.

Meetings and Remuneration of the Board and Management

The Board meets regularly, to discharge its duties, monitor the executive management, and exercise 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. During the financial year ended December 31, 2023, the board has conducted 8 meetings.

The attendance schedule of the meetings conducted during this year, and each Board member's attendance is as per the following:

Name of Director	29-Jan-2023	20-Mar-2023	AGM 28-Mar-2023	26-Apr-2023	25-Jun-2023	27-Jul-2023	14-Sep-2023	26-Oct-2023	21-Dec-2023
Sheikh Khalid Abdullah Ali Al-Khalili	✓	✓	✓	✓	✓	✓	✓	✓	✓
Sheikh Musabah Saif Musabah Al-Mutairi	✓	✓	✓	✓	✓	✓	✓	✓	✓
Sheikh Saif Hilal Nasser Al Mawali	✓	✓	✓	✓	✓	✓	✓	✓	✓
Sayyid Amjad Mohammed Ahmed Al-Busaidi	✓	✓	✓	✓	✓	✓	×	✓	✓
Mr. Ishaq Zayed Khalifa Al Mawali	✓	✓	✓	✓	✓	✓	✓	×	×
Sheikh Majid Ali Majid Al Mamri	✓	✓	✓	✓	✓	✓	✓	×	✓
Mr. Atif Al Siyabi	✓	✓	✓	✓	✓	✓	✓	✓	×
Mr. Saleem Al Raisi	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Hussain Yousuf Dawood Al-Shalwani	✓	✓	✓	✓	✓	✓	✓	✓	✓

Board of Director has received an amount of RO 88,300 as sitting fees for the year ended December 31, 2023, which includes the Board sub-Committees, where the sitting fees per each Director did not exceed RO 10,000 as per the guidelines of CMA. Apart from sitting fees, the Board was given remuneration of RO 225,000 during the year.

The total remuneration received by the top five (5) Executives in Management during the year ended December 31, 2023 is RO 1.523 Million. Members of Executive Management are hired in compliance with Labor regulations (permanent position for Omanis and 2-year contract for Non-Omanis). Executive Management has a notice period of 3 months. Management's employment contracts do not include severance payments, but they do incorporate a Malus and Clawback clause in accordance with FSB Principles.

Sub-Committees of the Board

The Board of Directors has created various sub-committees for specific purposes with the clearly defined term of reference and responsibilities. The committees' mandate is to ensure focused and specialized attention to specific issues related to the Bank's governance. The various committees of the Board together with the Internal Audit, Risk and Compliance Department form an important tool in the process of corporate governance.

Board Executive Committee

The members of the Board Executive Committee are playing an increasingly important role to ensure that the financing exposures and investments conform to the respective policies of the Bank and to ensure implementation of the Business Strategy, Policies and Procedures of the Bank.

Executive Committee	
Name of Members	**No. of Meetings Attended**
Sheikh Khalid Abdullah Ali Al Khalili - Chairman	9
Mr. Ishaq Zayed Khalifa Al Mawali - Member	9
Mr. Atif Al Siyabi - Member	8
Sheikh Majid Ali Majid Al Mamari - Member	9
Total Number of Meeting Held During the year:	9

Board Audit Committee

The main functions of the Audit Committee are to assist the Board in discharging its oversight responsibilities for the financial reporting process, reviewing the effectiveness of the Bank's internal financial control including accounting policies and changes thereto and review of annual and quarterly financial statements prior to publication in order to ensure their balance, transparency and integrity.

The Audit Committee also reviews the effectiveness of the internal audit function; the independent external audit process including recommending the appointment and assessing the performance of the external auditors as well as specifying their fees and the Bank's process for monitoring compliance with local laws and regulations affecting financial reporting.

Audit Committee	
Name of Members	**No. of Meetings Attended**
Mr. Hussain Yousuf Dawood Al-Shalwani - Chairman	4
Mr. Saleem Al Raisi	4
Mr. Musabah bin Saif Al Mutairy - Member	4
Total Number of Meeting Held During the year:	4

Board Remuneration & Nomination Committee

The role of the Board Remuneration & Nomination Committee is to review and approve the selection criteria and appointment procedures for the Chief Executive Officer, Senior Management and any other key position, as may be determined by the Board of Directors or the applicable laws, rules and regulations. The Committee also ensures application of the remuneration framework for the Chief Executive Officer, Senior Management and any other key position as may be determined by the Board of Directors or the applicable laws, rules and regulations.

Remuneration & Nomination Committee	
Name of Members	**No. of Meetings Attended**
Sheikh Majid Ali Majid Al Mamari – Chairman	4
Sheikh Saif Hilal Nasser Al Mawali - Member	4
Sheikh Khalid bin Abdullah bin Ali Al Khalili – Member	4
Total Number of Meeting Held During the year:	4

Board Governance, Risk and Compliance Committee

The Board Governance, Risk and Compliance Committee's (BGRCC) primary function is to assist the Bank's Board of Directors in fulfilling its governance, compliance and risk management responsibilities as defined by applicable laws, Central Bank of Oman regulations and the Bank's internal regulations. As such, the BGRCC exercises the authority and power delegated to it by the Board. The BGRCC's function is one of oversight, recognizing that Top Management is responsible for executing the Bank's risk management policies. BGRCC will neither be involved in the day-to-day management of risk nor in assessing / approving single transactions regardless of amount or risk level.

Governance, Risk & Compliance Committee	
Name of Members	**No. of Meetings Attended**
Shaikh Musabah bin Saif Al Mutairy - Chairman	4
Sayyid Amjad Al Busaidi - Member	4
Sheikh Saif Hilal Nasser Al Mawali - Member	4
Total Number of Meeting Held During the year:	4

Board Information Technology & Cyber Security Committee

The Board Information Technology Committee (BITC) has primary responsibility to overlook bank's information technology and electronic banking strategies, policies and framework. It also oversight bank's information and cyber security functions and bank's risk appetite management in relation to e banking and technology. BITC's oversight includes Bank's all digitalization activities and initiatives as well.

Information Technology Committee & Cyber Security Committee	
Name of Members	**No. of Meetings Attended**
Mr. Atif Al Siyabi - Chairman	3
Mr. Ishaq Zayed Khalifa Al Mawali– Member	3
Mr. Saleem Al Raisi - Member	3
Total Number of Meeting Held During the year:	3

Major Shareholders

Bank Nizwa was incorporated with a capital of RO 150 million. A further RO 70 million were raised through rights issue during the year 2021. The Bank's shares are listed on the Muscat Stock Exchange. The Shareholders, holding more than 5% as on December 31, 2023 are tabulated hereunder:

Major Shareholders	%
Aflag Investments	35
Civil Service Employees' Pension Fund	8.16308
Public Authority For Social Insurance	7.49823
Diwan of Royal Court Pension Fund	5.21277
Total Major Shareholders	55.87408
Other Shareholders	44.12592

Local investors hold 98.55% of Bank's shareholding, whereas foreign investors own the remaining 1.46%.

Bank Nizwa Share Price Movements

DATE	Bank Nizwa Share Performance			Average MSX 30 Index	Financial Sector Performance at MSX		
	HIGH	LOW	CLOSE		HIGH	LOW	CLOSE
Jan-23	0.1000	0.0990	0.100	4703.3840	7634.6330	7539.5280	7550.1710
Feb-23	0.1000	0.0980	0.100	4753.2820	7671.7630	7581.3730	7671.7630
Mar-23	0.0990	0.0970	0.098	4863.0910	7786.4620	7744.4580	7778.1840
Apr-23	0.0950	0.0950	0.095	4718.0780	7680.8870	7596.9570	7601.3000
May-23	0.0940	0.0940	0.094	4626.3970	7580.8640	7509.8670	7558.7440
Jun-23	0.0960	0.0950	0.096	4768.2160	7830.9670	7796.6850	7830.1330
Jul-23	0.0960	0.0940	0.095	4776.0980	7827.3480	7776.1340	7827.3480
Aug-23	0.1000	0.0990	0.100	4798.9670	7831.4290	7721.6410	7831.4290
Sep-23	0.0990	0.0960	0.099	4678.1300	7688.8080	7589.5520	7650.2110
Oct-23	0.0960	0.0940	0.095	4545.4600	7418.4860	7402.8150	7411.3690
Nov-23	0.1010	0.0950	0.100	4658.1530	7614.0670	7561.3990	7583.9170
Dec-23	0.0970	0.0960	0.096	4514.0680	7447.2410	7302.5760	7392.6730

Source: Muscat Stock Exchange

Communication with Shareholders and Investors

The Management Discussion and Analysis Report forms part of the annual report besides detailed disclosures in accordance with regulatory requirements and international standards. The Bank publishes its interim financial statements on quarterly basis and hosts these and other relevant information at its website (www.banknizwa.om) and Muscat Stock Exchange (MSX) website (www.msx.gov.om). The quarterly results are also published in two local newspapers in Arabic and English. These results remain available for the shareholders from the Bank. The Bank's official news releases are displayed on the Bank's website.

Compliance with Regulatory Requirements

During the calendar year of 2023, the Central Bank of Oman conducted on-site examination of the Bank. CBO established that the Bank was in violation of seven (7) regulatory directives; real estate ratio breach as per Banking Law, minimum SME financing ratio not achieved, irregularity with CMA regulation on other directorships by Directors, pending alerts of Suspicious Transaction Reports, Non-compliances in Digital Banking Services, Delays in submission of data during examination and non-adherence with CBO guidelines on downgrade of financing. CBO has penalized the Bank on the latter four violation.

Following is the detail of penalties imposed by CBO and CMA over three year's period:

Regulators	2021	2022	2023
Capital Market Authority	NIL	NIL	NIL
Central Bank of Oman	NIL	NIL*	28,000

**Central Bank of Oman (CBO) earlier imposed a penalty of RO 10,000 on 2022 Examination violations. However, this penalty was later waived by the CBO, due to corrective actions taken by the Bank.*

Dividend Policy

The Bank's dividends policy complies with the CBO and Capital Markets Authority guidelines. The Bank follows a conservative dividend policy and shall recommend the distribution of the dividends to the shareholders after due consideration of the regulatory guidelines, the future growth expectations, AGM approval and other factors.

During the year 2023, the Bank paid a cash dividend of 4.038 Baisa per share to the shareholders, as approved in Annual General Meeting dated March 23, 2023.

Sharia Supervisory Board (SSB)

As enshrined in the Islamic Banking Regulatory Framework (IBRF) issued by CBO, the SSB is the apex authority within the Bank for all Sharia related matters and/or ensuring the Sharia compliance of the Bank. To ensure Sharia compliance in all aspects and activities of the Bank, CBO has mandated several provisions in relation to the establishment of the SSB and the internal Sharia Compliance Department (SCD) in the Bank.

The Board of Directors (BOD), which bear the ultimate responsibility of overall Corporate & Sharia Governance of the Bank, rely on the SSB for all matters relating to Sharia in the end-to-end normal course of business and operations of the Bank. SSB plays a vital role in providing Sharia views and rulings pertaining to Islamic finance and investment activities of the Bank. The SSB is an independent Sharia Supervisory Body, which also acts as a monitoring body, which performs a supervisory role through the SCD to maintain Sharia compliance in the operations and business activities of the Bank. The accountability to ensure Sharia compliance as well as the implementation of SSB Sharia rulings remain with the BOD and the Management of the Bank.

The current SSB of the Bank comprise of the following scholars:

1. Dr. Majid bin Mohamed Al Kindi (Chairman)
2. Dr. Aznan Hasan (Deputy Chairman)
3. Dr. Ali bin Suleiman Al Jahdami (Member)

The Annual General Meeting elected Dr. Majid bin Mohamed Al Kindi as Sharia board member and Chairman on March 28, 2022 for a period of 3 years. Dr. Aznan Hasan was appointed as SSB member in December 2020, ratified in the AGM in March 28, 2021 and Dr. Ali bin Suleiman Al Jahdami was appointed in AGM of March 28, 2021.

The main roles and responsibilities of the SSB

- The SSB shall advise the BOD and the Management on Sharia matters in the day-to-day business of the Bank.
- To fulfil its roles and responsibilities on day-to-day dealings in the Bank, the SSB rely on the SCD and its functions such as via Internal Sharia Reviewer (ISR), Sharia Structuring & Compliance Unit (SSCU), Sharia Audit Unit (SAU) and 3 other functions namely Sharia Training Unit (STU), Sharia Risk Control Unit (SRCU) and Sharia General Administration (SGA). The SSB shall receive reports from SAU periodically and use them in its assessment and decisions.
- Review and approve all the policies & procedures,

product programs, processes, systems, contracts, and agreements either sourced internally or externally for their Sharia compliance to be ratified by the Board.

- Review and approve Product Program Documents (including product features, terms & conditions, underlying Islamic contracts, product manual marketing, collateral other legal documentation etc.).
- Conduct Sharia checks post product approval to ensure implementation of the related guidelines as approved by the SSB.
- Review and approve the work carried out by all functions within SCD.
- Guide relevant parties within our outside the Bank where the Bank have any relation with on Sharia matters (including but not limited to/with the external regulatory examiner, legal counsel and external auditor)
- Provide written Sharia opinion /ruling /fatwa on matters brought to its attention by the management of the licensee through ISR or such initiative can also be taken up by the SSB themselves directly to the CEO Office.
- Submit a report to the Board of Directors on the Bank's Sharia compliance and the same to be published as part of the Bank's Annual Report.
- SSB define the key elements to be evaluated while reviewing and approving new products. Such key elements shall be used as general guidelines by ISR while reviewing all new products and services, before presenting the product/ service document to SSB. This guidelines shall include, at minimum key features of the product, processes, structure, documentation (including legal contracts), risk and compliance considerations, marketing, collateral, and other such necessary details required to ensure proper business understanding. The SSB shall advise on the Sharia compliance of proposed product/ service backed by relevant Fiqh literature, evidence, and reasoning. Such key elements / general guidelines are documented in the form of Product Program Document (PPD).
- SSB members allocate appropriate time and effort to understand fully the issues under consideration. They are not at all time every time be compromised to perform their rigorous of the Sharia ruling processes due to commercial or business pressures.
- SSB shall document its Sharia rulings (Fatwa) and guidelines, which shall be maintained centrally by SCD for ready reference, dissemination, and implementation within the Bank by ISR and/or any of ISR's delegates.
- SSB also publish as Appendix to its annual Sharia compliance report on all Sharia Ruling (Fatwa) issued during the year, along with their bases (religious evidence).

Schedule of attendance for Sharia Supervisory Board members for the year 2023:

Name of Director	Position	26-Jan-2023	22-Mar-2023	04-Apr-2023	22-Jun-2023	21-Sep-2023	31-Oct-2023	21-Dec-2023
Dr. Majid Al Kindi	Chairman	✓	✓	✓	✓	✓	✓	✓
Dr. Aznan Hasan	Deputy Chairman	✓	✓	✓	✓	✓	✓	✓
Dr. Ali Al Jahdami	Member	✓	✓	✓	✓	✓	✓	✓

Details of attendance in Sharia executive committee meeting held during the year 2023:

Sharia Executive Committee	
Name of Members	**No. of Meetings Attended**
Dr. Majid Al Kindi	4
Dr. Ali Al Jahdami	4
Total Number of Meeting Held During the year:	4

Sharia Supervisory Board has received an amount of RO 58,700 as sitting fees for the year ended December 31, 2023, which included the SSB sub-Committee fee.

Details of payments done for Sharia Supervisory Board and Sharia Executive Committee during the year 2023 are as following:

No	Member	Total
1	Dr. Aznan Hasan	RO 18,500
2	Dr. Ali Al Jahdami	RO 20,100
3	Dr. Majid Al Kindi	RO 20,100
	Total	**RO 58,700**

Sharia Supervisory Board members do not have any financing facility or investment deposit with the Bank.

Sharia Supervisory Board Members Profiles:

Dr. Majid bin Mohamed bin Salim Al-Kindi (Chairman)

Dr. Majid Al-Kindi has joined the Shari'a Supervisory Board of Bank Nizwa in March 2022. Currently, he is the Chairman of Bank's Sharia Supervisory Board.

Dr. Majid Al-Kindi is one of the pioneers of Islamic banking and finance among local Shari'a scholars in Oman. He is an expert in Islamic Banking and used to be a Sharia Board member at Meethaq Islamic window. Dr. Majid works as the Secretary-General of the Fatwa Body of Oman and an Assistant Professor at Sultan Qaboos University.. He has been an Assistant Judge at the Ministry of Justice, and a researcher at the Fatwa Body of Oman.

He received a PhD in Islamic Jurisprudence from the International Islamic University –Malaysia (2012) and a second PhD in Economics and Islamic Banking from Yarmouk University – Jordan (2014). He is the first Omani author on Islamic finance and is frequently seen on Islamic forums. He has delivered several papers and studies on Shari'ah supervision in Islamic finance institutions.

Sheikh Dr Aznan bin Hasan (Deputy Chairman):

Dr. Aznan has joined the Shari'a Supervisory Board of Bank Nizwa in December 2020. Currently he is the Deputy Chairman of Bank Nizwa's SSB. He is an Associate Professor in Shari'a at Institute of Islamic Banking and Finance (IIiBF), IIUM. He is currently the President, Association of Shari'a Advisors in Islamic Finance (ASAS) He is also the Deputy Chairman, Shari'a Advisory Council, Securities Commission and Deputy Chairman, Shari'a Advisory Committee, Employee Provident Fund (EPF). He is also a member, Shari'a Advisory Council, AAOIFI, Bahrain and Higher Shari'a Authority, Central Bank of UAE. He also serves as a member of Board of Directors, Maybank Islamic Berhad.

Dr Aznan Hasan received his first Degree in Shari'a from University of al-Azhar (1994). He then successfully completed his Master's degree in Shari'a from Cairo University with distinction (1998) and his thesis was recommended for publication. He then obtained his Ph. D from University of Wales, Lampeter, United Kingdom (2003). Dr Aznan has conducted and published more than 50 research and presented more than 100 presentations.

Dr. Ali bin Suliman Aljahdami (Member):

He has obtained a Bachelor's in Fiqh and Da'wah from the College of Sharia Sciences in the Sultanate of Oman, then a Master's degree in Economics and Islamic Banking from Yarmouk University in Jordan. He is a PhD holder from the International Islamic University in Malaysia. He obtained some courses and experiences in the field of Islamic banking, such as a certificate of Islamic banking accredited by the Arab Academy for Banking and Financial Sciences in Jordan and a certificate of professional Sharia audit in Islamic banks and financial institutions.

He has worked as a fatwa researcher in the Fatwa Department of the Office of the General Mufti of the Sultanate since 2007, and a visiting lecturer at the College of Sharia Sciences in the diploma, bachelor's and master's stages. His subjects included Jurisprudence of Financial Transactions, Jurisprudence of Enjoining Good and Forbidding Evil, Introduction to Islamic Economics, Hadiths of Rulings, and Family Fiqh compared to the Personal Status Law.

Sheikh Ali participated as a member of the Drafting and Description Committee in a seminar on the development of jurisprudence organized by the Ministry of Endowments and Religious Affairs for a number of its sessions. He is also a member of the Committee for Reviewing and Approval of Books and Publications of the Research and Studies Department of the Ministry of Endowments and Religious Affairs.

Profile of Management Team:

Mr. Khalid Jamal Al Kayed, Chief Executive Officer - Khalid Al Kayed, esteemed CEO of Bank Nizwa, boasts an impressive career spanning over 29 years within the financial industry. With a solid foundation as the former Chief Finance Officer of the bank, he has orchestrated the institution's overarching business growth and strategic initiatives.

Recognized for his exceptional contributions, Al Kayed has been honored with prestigious accolades, including the titles of Best Islamic Bank CEO at both the New Age Banking Summit (NABS) and the Global Islamic Finance Awards (GIFA). Furthermore, he has been distinguished among the top 500 leaders in Islamic Finance.

Al Kayed's academic prowess is equally commendable, holding a master's degree in international accounting and finance from Liverpool University. Additionally, he is a Certified Management Accountant (CMA) and Certified Financial Manager (CFM) accredited by the Institute of Management Accountants. His affiliation with Columbia Business School as an alum further underscores his commitment to continuous learning and professional development. Notably, he also holds the designations of Associate, Chartered Institute of Management Accountants (ACMA) and Certified Global Managerial Accountant (CGMA).

Prior to his tenure at Bank Nizwa, Al Kayed held pivotal roles across esteemed financial institutions, including Deputy CEO and Chief Financial Officer at Jordan Dubai Islamic Bank, Chief Financial Officer at Standard Chartered Bank Jordan, and Financial Controller at the offshore banking unit of Jordan National Bank Cyprus. This wealth of experience has equipped him with invaluable insights and expertise, further solidifying his reputation as a trailblazer in the financial sector.

Mr. R. Narasimhan, GM Retail Banking – Mr. Narasimhan brings with him a wealth of experience amassed over four decades in the dynamic realm of banking and financial services. His extensive expertise encompasses diverse domains including Corporate, Retail, Treasury & Investments, SME Business, and Project Financing, with a notable geographical footprint across the Asian region. His strategic acumen and visionary leadership have significantly contributed to the bank's trajectory of success and transformation of various business functions and products.

Mr. Narasimhan's professional credentials include being a Certified Associate of the Indian Institute of Bankers, coupled with a Master's in Science and a Postgraduate Diploma in Banking. He actively engages in both local and international seminars, where he is sought after as a distinguished speaker and panelist. Furthermore, his contributions extend to the realm of academia, where he has authored chapters on Islamic banking in publications by the College of Banking and Financial Studies (CBFS).

Mr. Nasser Said Al Lamki, GM Internal Audit - has over 27 years of banking experience. Prior to joining Bank Nizwa, he worked in reputed local and international banks in Oman and Saudi Arabia. During his career, he led pragmatic and advanced audit function, while developing and maintaining strong working relationships at both strategic and operational levels, promoting strong risk management and raising the profile of audit. Mr. Lamki was Vice President of Audit in one of the leading Islamic Bank in Saudi Arabia. He holds an MBA in Leadership and Sustainability from University of Cumbria, UK. He has also graduated the Wharton Executive Education Global CxO Program.

Mr. Mujahid Said Al Zadjaly, GM IT – Mr. Mujahid is a strategic, decisive and result oriented leader with over 20 years of professional expertise with an in-depth knowledge in Digital Transformation & Innovation. He is leading the Digital Transformation & Innovation project as a part of banks long term strategic initiative to deliver Bank Nizwa's vision to become the "Digital Bank of Choice" for people of Oman.

Mujahid Al Zadjaly graduated the National CEO Program Cohort 2- 2016 developed under the patronage of the Diwan of Royal Court and delivered by International Institute of Management Development (IMD). He holds Masters in Business Administration from Luton University, UK. Other credentials include General Management Program from Harvard Business School, USA and Diploma in Leadership and Management from Institute of Leadership and Management, UK.

Mr. Mohamed Fida Hussain, GM Chief Risk Officer – He has MS in Engineering from the USA and MBA from Sultan Qaboos University. Has over all 28 years of experience in the banking industry and 15 years in core risk management. He is responsible for overseeing the Bank's Risk Management, provides independent oversight and guidance for managing risk and ensuring compliance including the development and implementation of Risk Management Framework, including the Risk Mitigation strategies, development and communicate Risk Management Policies, Risk Appetite & Limits, and Enterprise-wide Risk Management (ERM). He is a member of Bank's senior management committees. He is also a member of Oman Bank Association Chief Risk Officers' forum.

Mr. Khalid M Al Barwani, DGM Wholesale Banking Group - With a career spanning over 20 years' in Corporate & Institutional Banking Khalid has worked in Senior Roles within Multinational, Regional and Local Banks. Khalid has a Bachelor's Degree in Economic and Business Policy and a Master's Degree in Economics from the University of Portsmouth UK. His specialized international Leadership training and certifications include the Cambridge Leadership Program from University of Cambridge, Wharton University of Pennsylvania and Queens Business School Senior Leadership and Strategy Program.

Mr. Mohamed Al Ghassani, DGM Retail Banking Group – Mr. Ghassani is responsible for spearheading the bank's retail banking division. With a rich background spanning over 25 years in the banking and financial sector, Al Ghassani commenced his career at Bank Muscat, where he played a pivotal role in launching Meethaq Islamic Banking, the first Islamic Banking window in the Sultanate. Later, He became part of Alizz Islamic Bank, contributing as a vital member of the foundational team entrusted with shaping the bank's inception.

He holds a Master's Degree in Business Administration from Bedfordshire University College and is a Certified Islamic Finance Professional.

Mr. Salim Rashid Ali Al Maharbi, Chief Financial Officer – He has 28 years of diversified banking experience ranging from domestic and international banks. He is a Certified Islamic Professional Accountant (CIPA), Certified Accounting Technician (CAT) from ACCA UK, holds B.A in Accounting from University of Bedfordshire, UK and MBA Finance from Edinburgh Napier University, UK. He has obtained a leadership certificate in Islamic Finance from a specialized institute from UK with distinction. He possesses expertise in all the applicable financial standards of AAOIFI, IAS, IFRS and local legislations. He has varied experience in the field of Financial Reporting, Financial Accounting, Management Accounting, Internal Controls, Business Planning and Performance Management.

Ms. Haifa Abdul Ali Al Lawatia, AGM, Chief Human Resource Officer - With extensive years of total professional experience, she has previously worked in reputed organizations like PDO and Oxy Oman. She has an MBA, BSc, and other professional accounting certifications and has cross posting experience in Houston USA. In 2023, she completed her CXO certification (Chief Experience Officer Certification) with Wharton University. Ms. Haifa has held several important positions including Secretary to the Board of Directors at HRC, member of the Human Resources Committee at Oman Banks Association, and a member in CBFS College Advisory Committee. She joined Bank Nizwa at foundation stage and helped in building HR department from scratch. Her core competencies include Human Resources, Compensations & Benefits, talent acquisition, talent management, and Strategic HR and is currently responsible to support and align HR objectives with bank's overall vision, implement HR change initiatives to support the business strategy and continuous improvements in HR management to achieve organizational objectives.

Mr. Mohammed Hamed Al Hashmi, AGM, Chief Compliance Officer – With extensive experience in banking, including the role in the Central Bank of Oman, Mohammed brings a wealth of expertise. He is Secretariat to the Board Governance, Risk and Compliance Committee. Additionally, he is a member of the Oman Banks Association (OBA) Compliance Committee and chairs the Oman Banks AML & CTF Taskforce, pivotal in preparing for the Oman FATF mutual Assessment. Mohammed holds a Master's Degree in Financial Management from the University of Manchester, UK, and a Bachelor Degree in Accounting from Sultan Qaboos University. He is certified in Governance, Risk and Compliance by the International Compliance Association, UK and has completed multiple professional programs including Federal Deposit Insurance Corporation (FDIC) from the United States. Mohammed's commitment to professional development is further evident as he has in hand a leadership certificate by Cambridge Institutional Financial Advisory, UK and awarded as one of best performing delegates.

Mr. Tariq Mohammed Osman, Head of Legal Department and Board Secretary – He is a veteran in the field of legal and has 40 years of experience working with reputed financial institutions of the region. His major experience is with Dubai Islamic bank – UAE where he served as a legal advisor and lawyer for 12 years of his successful career. He has also served a reputed securities and investment banking company where he served 14 years as a legal advisor and Board secretary. He holds a Master's degree on commercial law.

Dr. Mansour Al Qudah, Internal Sharia Reviewer - Has over 24 years of experience in the Islamic Banking and Sharia audit. He worked in Jordan Islamic Bank as a Sharia board secretary and Sharia audit manager and in the Saudi-based Al Inma Bank as the Assistant General Manager of Sharia Group as well as section manager of Sharia policies and procedures auditing. Dr. Mansour has a PhD in Islamic Banking and Economics from the University of Yarmouk in Jordan. In addition, he has Professional Diploma in Accounting and Auditing from Arab Academy for Banking and Financial Sciences, Jordan. He is also Certified Islamic Banker (CIB), Certified Islamic Specialist Sharia Auditing (CISSA), Certified Entrepreneurship Consultant, Certified Internal Quality Evaluator and Auditor and Certified Expert in Contract Management and Contractual, Relationships.

Mr. Ahmed Al Waily, Head Corporate Communications – Ahmed Al Wayili boasts a remarkable 13-year career in marketing and corporate communications. He holds a distinguished Bachelor's degree in Mass Communication from Sultan Qaboos University, a testament to his commitment to excellence. With pivotal roles at leading international and local advertising and PR agencies like Four Communications and TBWA ZEENAH, Ahmed has cultivated extensive experience.

Currently, as the Head of Marketing, Corporate Communications, and Sustainability at Bank Nizwa, he forefronts impactful initiatives. Throughout his journey, Ahmed has showcased a deep understanding of market dynamics, driving impactful campaigns. His strategic acumen and dedication to sustainability have spurred positive change and tangible results. Ahmed's unwavering commitment to excellence and adept navigation of marketing and corporate communication landscapes underscore his status as a distinguished professional capable of delivering exceptional value in various capacities.

Related Party Transaction

Details of related party transaction have been disclosed in the notes to the financial statements.

Internal Control review

The Board gives great importance to maintaining a strong control environment and Board review has covered all controls including financial, operational, compliance and risk management.

The Board has established a management structure that clearly defines roles and responsibility and reporting lines and has approved the policies.

Financial information is prepared using appropriate accounting policies that are consistently applied. Operational procedures and controls have been established to facilitate complete accurate and timely processing to transactions and the safeguarding of assets through policies and procedures manuals, desk performance instructions and other circulars.

Auditors' Profile – KPMG

The shareholders of the Company appointed KPMG as its auditors for the year 2023. KPMG LLC in Oman was established in 1973 and is part of KPMG Lower Gulf Limited. KPMG in Oman employs more than 150 people, amongst whom are six partners and six directors, including Omani nationals. KPMG is a global network of professional services firms providing Audit, Tax and Advisory services. It operates in 143 countries and territories and have 265,000 people working in member firms around the world. KPMG Lower Gulf is part of KPMG International Cooperative's global network of professional member firms.

KPMG billed an amount of RO 69,147/-, including VAT, towards professional services rendered to the Bank for the year 2023.

Details	Amount
Financial Audit Fees for 2023	RO 67,782
Tax fees	RO 1,365
Total (including VAT)	**RO 69,147**

Declarations

During the period, the board has conducted a review of the effectiveness of the Bank's internal control, policies and procedures; and is satisfied that the Bank's internal control are effective and that appropriate procedures are in place to implement the regulatory and internal requirements.

Further, the Board of Directors confirms that there is no issue on going concern and that the Bank is able to continue its operations during the next financial year.

MANAGEMENT DISCUSSION & ANALYSIS **REPORT**

Mr. Khalid Jamal Al Kayed
Chief Executive Officer

The Management Discussion and Analysis Report is a detailed overview of Bank Nizwa's business for the financial year covering the period from 1 January 2023 to 31 December 2023.

It focuses on the core segments of the business and discusses prospects and opportunities for years ahead in the context of the prevailing macroeconomic environment and market penetration of Sharia-compliant products and services.

Poised for Growth

Since its inception, Bank Nizwa has diligently focused on fortifying its operations, broadening its service offerings, and elevating the customer experience to new heights. This relentless pursuit of excellence has positioned us ideally for future growth and expansion.

We are thrilled to announce that Bank Nizwa has marked this year with pivotal milestones, including achieving a strong operating profit and declaring a notable dividend rate to our shareholders. This achievement underscores our unwavering commitment to financial robustness and shareholder value. Our introduction of innovative products and services, alongside the expansion of our branch network and digital enhancements, has significantly boosted customer satisfaction, loyalty, and our brand's strength.

Within a decade, Oman has ascended to become the 15th largest Islamic banking market globally, holding a 17% stake in the country's total banking assets. As a leader in this impressive growth, Bank Nizwa continues to forge ahead, marked by remarkable financial outcomes. In 2023, we celebrated a robust net profit growth of 13%, navigating through challenges with resilience.

Bank Nizwa is committed to offering Sharia-compliant and innovative financial solutions tailored to meet the dynamic needs of our customers. Despite facing challenges, the bank has showcased outstanding performance across all departments, reflecting our operational resilience. Our total assets saw an 8% increase, reaching RO 1.61 billion. The growing preference of our customers is evident in the 6% rise in our deposit portfolio and a 12% increase in financing to customers.

Our exceptional performance, even in challenging market conditions, can be attributed to our strategic execution of our 2025 objectives, vision for the future, and heightened Islamic banking awareness among individuals and businesses. Bank Nizwa has embraced the responsibility to lead this responsibility.

As the largest and most rapidly expanding Islamic bank in the Sultanate, Bank Nizwa is poised to significantly contribute to Oman's economic development. Our strategy is customer-centric, focusing on digital engagement and operational excellence to spearhead growth across all banking segments. By maintaining a robust balance sheet, we aim to serve our customers effectively, achieve business goals, and ensure sustainable returns for our shareholders.

Throughout the year, Bank Nizwa has identified key opportunities for improvement within Oman's Islamic banking sector, devising strategic plans to address these areas. Our persistent efforts have solidified our leadership position, demonstrating our dedication to providing reliable and trustworthy services.

Bank Nizwa is committed to fostering sustainable profitability through efficient expense management, judicious capital allocation, and prudent credit decisions. Our efforts over the years have significantly enhanced our efficiency ratio, return on equity, and operating leverage. With a strong risk management framework and a CET1 ratio of 15.72% alongside a Liquidity Coverage Ratio of 109.47%, we are optimally positioned for continued growth and enhanced shareholder returns.

Country Economic and Business Environment

Despite their better-than-expected performance in 2023, many of the world's major economies appear likely to experience lackluster growth in 2024, amid still tight monetary policy and inflation rates that, while slowing, remain above target. Projections from the IMF point to a marginal slowdown in global growth, falling from a forecast of 3.0% in 2023 to 2.9% in 2024. Within that, advanced economies are forecast to fare poorly with an expected expansion of just 1.4% in 2024. While emerging markets, are projected to perform better, with growth of 4.0% expected in both 2023 and 2024.

In this broader economic context, the GCC region, including Oman, appears to be well-positioned to weather the global slowdown. The resilience of oil prices, despite OPEC+'s limited production capacity, provides a fiscal buffer for oil-exporting nations within the GCC. This financial cushion enables continued investment in infrastructure and strategic sectors, pivotal in mitigating the impacts of the global economic slowdown and fostering regional growth.

Oman, in particular, is making commendable strides in diversifying its economy beyond the energy sector. The Sultanate's long-term strategy aimed at economic diversification has been bearing fruit, with noticeable progress in enhancing its attractiveness as a business and investment destination. This is supported by robust infrastructure, investor-friendly policies, and a concerted push towards sectors outside of traditional hydrocarbon industries. The economic recovery signs in Oman are promising, supported by easing supply-chain disruptions, increased hydrocarbon production, and significant governmental reforms. These developments have contributed to an optimistic outlook for Oman's economy, with fiscal and current account deficits expected to shift towards surpluses, thanks to fiscal reforms and a combination of higher non-oil revenues and government expenditure optimizations.

As Oman and the wider GCC region navigate these changing economic tides, the focus on sustainable growth, diversification, and regional stability remains paramount. The continued investment in non-oil sectors and strategic economic reforms underline a proactive approach to building resilient economies capable of withstanding global economic fluctuations and setting a course for sustainable development and prosperity.

Outlook for the Banking Sector

The banking sector in Oman has demonstrated robust growth and resilience throughout 2023, supported by solid capital bases, low non-performing assets, and well-managed credit risks. The Central Bank of Oman (CBO) has been instrumental in guiding this growth, promoting the adoption of innovative service delivery models and technologies, particularly in response to the pandemic's challenges. The CBO's strategic policy measures have further strengthened the banking sector, ensuring its pivotal role in supporting Oman's ongoing economic recovery.

As the backbone of financing for both the corporate and household sectors, domestic banks in Oman have continued to lead the financial landscape. Their role is reinforced by domestic deposits, which remain the primary source of funding. This symbiotic relationship between banks and the economy has seen the sector's total assets grow impressively, reflecting the economy's expansion.

In 2023, the banking sector saw a significant surge in growth, with net profits of listed banks climbed by 18.6% to a record OMR 454 million. This growth was driven by increased revenue from government spending and exports, highlighting the sector's critical role in the broader economic fabric of Oman. Lending and deposits have also seen notable increases, with total bank lending expanding by 4.2% to OMR 30.4 billion and deposits rising by 12.3% to OMR 29.1 billion by December 2023. The rise in Islamic banking assets to OMR 7.3 billion, marking an 14.6% increase, showcases the growing diversification within the sector.

The banking sector's stability is further evidenced by its profitability, liquidity, and low infection ratios, indicating high asset quality and controlled credit exposure. With the economic forecast for Oman looking optimistic, demand for credit is expected to rise, fueling further growth within the sector. This positions the banking sector as a cornerstone for supporting economic recovery and diversification initiatives, ready to meet the evolving credit needs of the Sultanate.

In essence, Oman's banking sector stands on solid ground, characterised by steady growth, strategic adaptability, and a forward-looking approach. As the sector continues to evolve, it remains at the heart of Oman's economic development, poised to capitalise on future opportunities and navigate the challenges ahead.

Nature of Business of Bank Nizwa

Bank Nizwa stands at the forefront of Sharia-compliant financial services, dedicated to promoting economic, social, and ethical prosperity across Oman. Our comprehensive suite of services spans Personal Banking, Corporate & Commercial Banking, and Financial Markets & Investments, designed to meet our customers' diverse needs through an extensive network of branches, direct sales, call centers, ATM/CCDMs, mobile apps, and online banking platforms.

In our Retail Banking Division, we prioritise the financial wellbeing of individuals nationwide, offering a range of innovative, Sharia-compliant financial products. These include savings, current, and investment deposit accounts, alongside tailored financing solutions for homes, personal needs, and automobiles, empowering our customers to achieve financial security and peace of mind.

Our Wholesale Banking Division caters to the sophisticated needs of government sectors, state-owned enterprises, and the SME sector, delivering cutting-edge solutions in working capital, long-term financing, and trade finance. This comprehensive support underscores our commitment to driving economic growth and development across various sectors.

Integral to our mission is a steadfast commitment to sustainability and ESG principles, guiding our operations and investment decisions. Bank Nizwa actively engages in initiatives that promote environmental stewardship, social responsibility, and ethical governance. Our sustainability efforts are woven into the fabric of our business model, from green financing and renewable energy projects to community development programs and strict adherence to ethical banking standards.

By integrating ESG considerations into our core activities, we aim not only to enhance financial returns but also to contribute positively to society and the environment. These efforts reflect our dedication to pioneering a sustainable future for banking in Oman, ensuring that we meet the needs of the present without compromising the ability of future generations to meet their own.

As Bank Nizwa continues to evolve, our focus on innovation, customer service, and sustainability positions us as a leader in the financial sector, committed to excellence, integrity, and the holistic development of the communities we serve.

Retail Banking

In the past year, the Retail Banking Division of Bank Nizwa has achieved significant milestones that underscore our commitment to excellence and customer satisfaction. With the strategic implementation of the Retail Regional Manager structure, which includes three dedicated Omani Regional Managers, we have significantly boosted our performance and extended our reach. This initiative was complemented by the opening of four new branches in key locations across Oman and the installation of three offsite ATMs, enhancing our service accessibility and convenience for our customers.

Marking a pioneering stride towards sustainable finance, Bank Nizwa proudly stands as the first Islamic bank in Oman to introduce green finance products. This initiative is part of our commitment to environmental stewardship and is supported by strategic partnerships with leading developers, including collaborations aimed at promoting sustainable living and financing solutions.

In support of national housing initiatives and aligned with Oman Vision 2040, we have partnered with the Oman Housing Bank to launch the "Iskan" program, designed to facilitate access to subsidised housing finance for eligible citizens. This effort complements our ongoing work to expand our service offerings, including the introduction of new companies to our Target Market List and the enhancement of our Commercial Finance Product with innovative solutions. Our successful financing campaigns and strategic partnerships with vendors and real estate developers have significantly contributed to our growth and the expansion of our network.

A testament to our commitment to digital banking excellence, we have achieved a 75% increase in mobile banking penetration, reflecting our dedication to providing advanced digital solutions that enhance the banking experience for our customers. Innovations such as the digital Minor Onboarding and eIPO services through our mobile app have positioned us as a leader in digital banking, offering convenient and efficient solutions to our customers' banking needs.

Our recent introduction of eco-friendly cards as part of our sustainability initiatives further demonstrate our commitment to diversifying our financial services while upholding our environmental responsibilities.

Looking ahead to 2024, we are committed to further enhancing our services and accessibility for customers. Plans to expand our network of retail branches and offsite ATMs, coupled with our focus on digitalization, aim to provide unparalleled convenience and a seamless banking experience. The introduction of Interactive Teller Machines (ITMs) and a new wealth management model for top-tier clients are part of our strategy to meet the evolving needs of our customers, offering a comprehensive suite of banking services designed to cater to the diverse requirements of our valued clients.

Wholesale Banking Group

Wholesale Banking has continued to grow strongly in Year 2023 despite of challenges. Our aim is to emphasise and facilitate the rising demand for Shari'a-compliant finance, whilst also establishing its distinct footprint in the country's growth. This is achieved by providing innovative structured working capital, long-term financing and trade finance facilities to the government sector, government-owned entities, corporations and small-and-medium enterprises (SMEs) for capital intensive and strategically important projects that directly or indirectly impact the Sultanate and address key economic and social demands in vital sectors

In 2023, Wholesale Banking Group further strengthened its "Sustainable Finance" portfolio to support the Oman's transition to a low-carbon, more resource-efficient and sustainable economy and to be at the forefront of efforts to build a financial system that supports sustainable growth. Sustainable finance will help in supporting a resilient economy and a achieving the Sultanate's vision 2040.

Wholesale Banking Group will continue its focus on innovation through re-engineering processes and launching digital ventures and new business models. Furthermore, it aims at strengthening existing segments, supporting Small and Medium Enterprises and expanding its offerings. Wholesale Banking is also working to improve customer experience by investing heavily in digitalisation and automation.

1- Global Markets (Treasury)

2023 has been a year of growth and innovation for our bank's treasury. We have continued to strengthen our position as a trusted financial partner by consistently delivering value and maintaining a customer-centric approach. Through our dedication to excellence, we have not only embraced the changing dynamics of the industry but have also proactively pursued strategic initiatives to stay ahead.

In the face of an evolving regulatory landscape, we have maintained our commitment to sound risk and balance sheet management. In a year that witnessed Bond/Sukuk yields reaching their highest levels in more than 15 years Our treasury team has worked diligently to navigate the complexities of the market, ensuring that our clients' funds are deployed wisely and efficiently across various investment avenues. We have focused on optimizing liquidity, rigorously managing profit rate risk, and effectively allocating capital to deliver sustainable returns.

2- International Banking

The International Banking unit continues to build and maintain relationships with partner financial institutions, domestically and globally. This effort is fundamental to provide our clients with the requisite network for payment, trade finance business as well as state-of-the-art products by top regional and global banks. Supplemental funding/sourcing were also achieved through financial institution partnerships.

The team ensured smooth correspondent banking relations and business flows, while monitoring worldwide country exposures and risks. During 2023, Bank Nizwa continued to add new financial institution partners and connections from Africa, Asia and Europe. The Bank and its clients have access to more than 100 correspondents to cater their needs. New lines for handling variety of products continued to be set up and enhanced. The International Banking unit will continue to increase the participation to ensure the efficiency of the Bank's transaction processes, internally and externally.

3- Project Finance

Capitalizing on its strong deal structuring capabilities, the dedicated Project Finance business unit continued to deliver extensive coverage of both Greenfield and Brownfield project entities in the Sultanate. During the year 2023, the unit participated in a number of transactions, with a clear focus on Sustainable and Environment friendly projects of national importance.

Leveraging on the various government initiatives like, opening up new economic sectors for Private Sector participation, setting up a dedicated Public-Private Partnership unit, encouraging private sector participation in strategic national projects through Nazdehar program, promulgation of enabling regulations like The Public-Private Partnership Law, The Bankruptcy Law and Foreign Capital Investment Law, etc., Sultanate is expected to witness rising need of project financing.

With well-rounded skillsets and rich experience of offering Sharia compliant innovative deal structures, optimizing the financing costs and judicious risk allocations, Project Finance unit stands ready to meet the emerging needs of upcoming projects and contracts, across all the key economic sectors. The team endeavours to become a knowledge based leader in the Project Finance & Syndication market of the Sultanate. For the year 2024, the unit shall focus on green energy, infrastructure, utilities, renewables and manufacturing sectors, which contribute significantly to the wider economy, with 100% adherence to the principles of Sharia.

4- Government & Investment Banking

The Government & Investment Banking unit is essential in driving the wholesale deposit base that supports asset growth, apart from investments and advisory mandates. Increasing costs was a mounting challenge to the industry, and efforts by the Government unit had ensured the requisite sustenance while adding new clientele. With the increased budget rationalization in the public sector, a proactive relationship management approach had ensured uninterrupted business.

The Investment Banking unit continued to make efforts in developing the Islamic capital market sector. The existing portfolio has been streamlined and new investments has been added during the year. The Government & Investment Banking unit will continue to broaden the base for the Bank to deliver core-funding sources as well as supplement other income streams, including advisory services, with a differentiated approach

5- Corporate Banking

Corporate Banking remains one of the key growth drivers in the Wholesale Banking business, registering a record growth once again during 2023. Emphasis on asset quality through a diversified portfolio approach has resulted in achieving the main goals. The bank ensured its continued support of clients affected by the pandemic in order to ensure their business continuity and recovery. With a balanced approach, and focus clients and industries, the Bank continued to support businesses – and in turn the general economy – during the difficult period of the pandemic.

As in previous years, multi-location, multi-industry and multi-product approach has resulted in addition of new customers to our bank which sizeable business volume. During the year, special attention was given to finance infrastructure projects, financing in basic necessity industries. Supported companies involved in uplifting the natural calamity affected areas with innovative Sharia compliant solutions that delivered strong business value.

1- Mid-Corporate Banking

Our team of expert in Mid Corporate are equipped to offer comprehensive range of adaptable solutions customize as per the requirement with an objective to accelerate business. The scope of the unit is intended to bridge the segment between SMEs and large corporates. Companies within this segment present significant growth opportunities, along with the prospect of becoming their primary banker. The unit made commendable inroads in the market, on boarding key clients operating in national priority sectors.

2- Transaction Banking

Transaction Banking and Trade Finance business continued its journey of growth by providing new products, revamped services and delivery standards to meet the consistently rising demand for cash management, trade finance, salaries, payment services as well as international trade. Impressive growth of non-funded income also demonstrated the improved trade volumes and service standards. Corporate Internet Banking recorded a 300% increase in corporate online transactions, supported by enhanced features and services. The commendable performance was enabled by the continuous relationship and marketing efforts of the WBG business team which enhanced clients' confidence in the Bank's capabilities.

Our commitment to implement the best-in-class digital platforms and services including Transaction Banking and Trade Finance systems have been approved and achieved significant progress during the year. The sustained business growth achieved by the bank also recorded substantial increase in both the fee and non-funded income. Transaction Banking and Trade Finance will continue the efforts to improve the business volume and value by facilitating higher benchmarks in product range, service quality and customer experience.

3- SME Banking

Bank Nizwa acknowledges the vital role the small and medium enterprise (SME) sector plays in contributing to the economy and its impact in providing national employment, and supports the sector keenly with solutions tailor-made for SMEs in the Sultanate.

The trust placed in Bank Nizwa's Sharia compliant products and services is evident in the notable increase of the SME customer-base and business volume. The SME business continues to expand coverage in key cities outside Muscat. With a special focus on industrial areas such as Madayn, Oil Services Sectors and more tie-ups and associations with major corporations and oil majors are on the cards.

Affiliations with vendors in the supply chain of larger corporate enterprises, particularly SMEs, will remain a mainstay. The SME Banking unit added new business and products to register satisfactory growth. Bank Nizwa will continue to support the growth of SMEs with Sharia compliant products and services utilizing various channels.

Aligning itself to the country's economic diversification plan as outlined in its vision 2040 and in an endeavour to bridge the funding gap for SMEs operating in key sectors, the bank is constantly engaging with and signing numerous financing agreements with potential SME clients.

4- Product Development

As a pioneer in Islamic banking in Oman, we are able to continually develop Shariah Compliant new superior products and services that can deliver unique benefits with real added value to the customers. Islamic Banking Product Development unit in Wholesale Banking is involved in designing, developing new products and services, process re-evaluation, documentation streamlining, and customizing solutions to create an impactful suite of products and services that deliver on-point services to clients.

We believe in adding value to our customers' lives and businesses, through dynamic and competitive products and services that fulfil their needs while conforming completely to the dictates of Shariah. At the same time, we endeavour to deliver competitive risk adjusted returns to our stakeholders.

Product Development is involved in developing innovative, viable, and competitive value propositions that not only meet the requirements of today's complex financial world, but also do so with excellent service excellence, which our customers demand. Bank Nizwa leads the Islamic Banking industry in the sultanate with a critical responsibility of leading the way forward in establishing a stable and dynamic Islamic Banking system replete with dynamic and cutting-edge products and services.

5- Wholesale Banking Support

A key anchor for all Wholesale Banking units, the Wholesale Banking Support team was instrumental in the overall commendable performance and growth of the Wholesale Banking business. The team fortifies the efficiency of the Wholesale Banking Group covering multitude of client services.

The unit aims to deliver high client satisfaction levels through continuous improvement in its operations. In addition, the unit collaborates with all departments to resolve bottleneck issues in the timely delivery of services to clients. The unit will continue to provide all necessary support to new initiatives.

Risk Management

At Bank Nizwa, risk management is the backbone of our operations, interwoven into every decision and strategy. Our philosophy is simple yet powerful: risk management is everyone's business. This collective approach ensures we are always ahead of the curve, understanding the nuances of various risks, from market fluctuations and cyber threats to liquidity challenges and beyond.

In the past year, we have taken our commitment to risk management to new heights, guided by the directives of the Central Bank of Oman. Our focus is not just limited to navigate the complexities of risk but to thrive amidst them. We have been meticulous in diversifying our assets, always choosing quality over quantity to safeguard our sustainable profitability.

Central to our strategy is the keen identification of emerging risks and adapting to the ever-evolving economic landscape. This forward-thinking mindset led us to establish a solid Risk Governance framework, underpinned by the Board Governance, Risk, and Compliance Committee (BGRCC) and the dedicated Risk Management Group (RMG). Together, they form the cornerstone of our risk strategy, ensuring resilience and proactive risk management across the bank.

Our governance does not stop there. With the creation of Senior Management Committees, including the Assets and Liability Committee (ALCO), Credit and Investment Committee (CIC), and IT Steering Committee (ITSC), we have crafted a holistic risk management ecosystem. This structure, audited periodically for both manual and system-based activities, fosters a culture deeply aware of risk, encouraging continuous improvement across the board.

The vigilance of our Risk Management Group is unparalleled. They keep a watchful eye on our portfolios, ensuring growth is achieved within our risk appetite. By championing diversification and maintaining a stable portfolio, we have minimised credit losses and strengthened our balance sheet. Our adherence to stringent liquidity and operational risk management practices, aligned with Basel III standards, further solidifies our stance as a robust and resilient bank.

Integral to our approach is the Internal Capital Adequacy Assessment Process (ICAAP) and stress testing, tools that illuminate the path ahead, revealing potential challenges and capital needs under adverse conditions. We stay abreast of global regulatory trends and local directives, embedding them into our operations to enhance our resilience.

But our risk management extends beyond traditional metrics; we are deeply committed to Environmental, Social, and Governance (ESG) principles. ESG considerations are at the heart of our operations, influencing our banking practices and client relationships. Our innovative scoring system assesses counterparties on their commitment to environmental conservation, social responsibility, and governance, rewarding those who share our dedication to sustainability.

To champion these efforts, we have established a taskforce focused on integrating ESG-related risk policies, ensuring our practices align with global standards. This commitment not only underscores our role as a responsible bank but also positions us as a leader in sustainable banking, ready to face the future with confidence and integrity.

Raising Awareness and Education

Bank Nizwa continued its steadfast commitment to raising awareness and education in the Islamic finance sector, building on the strong foundation laid in the previous year. Our approach in 2023 was multifaceted, aimed at widening our project spectrum while integrating innovations and best practices prevalent in the industry.

Bank Nizwa has been at the forefront of promoting Islamic finance, evident through our series of initiatives and programmes. Among these, the Islamic Finance Knowledge Series (IFKS) stands out as a flagship project. We have significantly expanded IFKS, crossing the remarkable milestone of reaching over 10,000 beneficiaries. This achievement underscores our commitment to spreading the knowledge of Islamic finance through innovative and accessible formats. By incorporating interactive and digital learning tools, we have launched a range of online courses and webinars. These sessions delve into current issues and advancements within Islamic finance, covering topics from digital currencies to Sharia-compliant fintech solutions, making Islamic finance principles more relatable and understandable to a wider audience.

Alongside our own initiatives, we have also collaborated on sponsored programmes to deepen the understanding and application of Islamic finance principles. Following the inaugural success of the Waqf Forum, we hosted a second edition with an even broader international scope, drawing delegates from across the Islamic world. This forum highlighted the significance of Waqf in sustainable development, seamlessly integrating it with environmental, social, and governance (ESG) principles. Furthermore, our partnerships with educational institutions have been instrumental in launching courses and seminars on sustainable finance within the Islamic finance framework. These educational efforts are designed to prepare the next generation of finance professionals to blend Islamic finance principles with sustainability goals.

Through these endeavours, Bank Nizwa continues to lead the way in not only educating the community about Islamic banking and finance but also in highlighting its practical benefits and applications. Our commitment to expanding the scope and reach of Islamic finance education, both through our own programmes like the IFKS and through strategic partnerships, reflects our dedication to fostering a more informed and financially savvy society.

Additionally, Bank Nizwa solidified its role as a frontrunner in the Islamic finance sector, not just locally within Oman but also on the international stage. The bank's active engagement in significant events showcased its dedication to promoting Islamic finance and contributing to the sector's growth.

Internationally, Bank Nizwa made its mark by participating in the AAOIFI Conference in the Kingdom of Bahrain. This event was notable for its focus on developing human capital within Islamic finance, featuring workshops led by master trainers and participation from over 30 countries. Bank Nizwa's involvement underscored its commitment to Islamic finance education and raising awareness about Sharia-compliant banking practices.

Regionally, the bank played a pivotal role at the IFN Forum 2023, organized by Islamic Finance Magazine. As the lead partner, Bank Nizwa took center stage in discussions that highlighted the ethical impact and innovations within Sharia-compliant banking practices. The forum was a gathering of the industry's brightest minds, discussing pivotal developments and the future of Islamic banking.

At the national level, Bank Nizwa's participation in the Omani Islamic Finance Forum and its distinguished presence at the New Age Banking Summit 2023 further established its leadership in the sector. The Omani Islamic Finance Forum, under the auspices of His Excellency Dr. Mohammed bin Said Al Mamari, emphasized investment opportunities within Oman and the broader Gulf region. Meanwhile, the New Age Banking Summit allowed Bank Nizwa to showcase its leadership in digital transformation and innovative Islamic banking services, earning it prestigious awards and recognition for its contributions to the industry.

These engagements highlight Bank Nizwa's strategic efforts to advance Islamic finance, from educating the masses and fostering international collaborations to leading discussions on sustainable and ethical finance practices. Through these platforms, Bank Nizwa not only represented Oman on a global scale but also brought back valuable insights and practices to further enrich the local Islamic finance landscape.

Overall, Bank Nizwa's efforts in 2023 were characterized by an enhanced focus on education, community engagement, technological integration, and international collaboration, all aimed at raising awareness and understanding of Islamic finance. These initiatives reflected our commitment to promoting Sharia-compliant financing while contributing to the growth and development of the Islamic finance industry both locally and globally.

Corporate Social Responsibility (CSR)

Throughout the year, Bank Nizwa remained at the forefront of sustainability and Corporate Social Responsibility (CSR), honoring its dedication to the principles of Islamic banking and societal welfare. The bank has been leading and integrating sustainable practices within its operations, emphasizing environmentally responsible banking. This commitment was prominently displayed through its active participation in Oman Sustainability Week 2023 as the Islamic Banking Partner, highlighting its dedication to promoting sustainable and environmentally friendly banking practices. Bank Nizwa has launched various initiatives aimed at encouraging customers to invest in environmentally sustainable projects, alongside conducting regular awareness campaigns and workshops to foster environmental consciousness among its employees and customers.

Bank Nizwa's adherence to the UN Sustainable Development Goals (SDG) and its efforts to align with Oman's vision for environmental performance have led to the development of innovative, sustainable, and Sharia-compliant financial solutions. These endeavors not only support the bank's growth but also ensure the promotion of an inclusive financial ecosystem that incorporates sustainable programs.

Furthermore, Bank Nizwa has taken a significant step by becoming a Signatory of the UN Principles for Responsible Banking and joining the UN Environment Programme Finance Initiative (UNEP FI). This alignment with the UN SDGs and the Paris Climate Agreement underscores the bank's commitment to measuring and positively impacting the environmental and social aspects of its business activities. Through initiatives like eco-friendly debit and credit cards and sustainability-linked financing, Bank Nizwa is encouraging businesses to adopt green practices, thereby contributing to Oman's sustainable development and carbon emission reduction goals.

Bank Nizwa's CSR activities extend beyond environmental initiatives. The bank has been recognized for its CSR efforts in Islamic Finance, receiving the prestigious 'Excellence in CSR in Islamic Finance' award. This accolade reflects Bank Nizwa's dedication to enriching the lives of individuals across Oman and its role in using Sharia-compliant banking to improve the welfare of local communities.

By embedding social and economic empowerment into its organizational fabric, Bank Nizwa has emerged as a significant partner to communities throughout Oman. The bank's commitment to sustainable banking and CSR is not just about adhering to Islamic banking principles but also about leading by example to foster a positive future for both people and the planet. Through its initiatives, Bank Nizwa is paving the way for a sustainable future in Oman, demonstrating leadership in integrating environmental, social, and governance (ESG) criteria into the banking sector.

Awards & Accolades

Bank Nizwa's journey in 2023 was marked by a series of prestigious recognitions, each symbolizing the bank's unwavering commitment to excellence in Islamic banking, innovation, sustainability, and customer-centric financial solutions. These accolades not only reflect our dedication but also reinforce our position as an industry leader.

Our dedicated efforts in social responsibility were honored by the Ministry of Social Development for our contributions and support to the Oman Association for the Disabled. This acknowledgment from the Ministry highlights our deep commitment to inclusivity and community welfare, aligning with our core values of social responsibility and community engagement.

In the arena of Islamic banking, Bank Nizwa achieved significant recognition at the International Finance News (IFN) Awards. We were awarded 'Best Islamic Bank', 'Best Retail Bank', and 'Most Innovative Bank', underscoring our commitment to providing superior banking services while innovating to meet the evolving needs of our customers. Additionally, the 'IFN Deal of the Year' for the Towell Infrastructure Projects Co's (TIPCO) Syndicated Wakalah, with Bank Nizwa as a major investor, showcased our strategic role in significant financial ventures and expertise in structuring complex Islamic financial products.

Our continued excellence in mid-size banking was recognized at the New Age Banking Summit 2023 with the 'Best Bank in the Mid-Size Banks' award. Further, the 'Industry Leadership in Innovative Islamic Banking Services' award reflected our innovative approach in providing tailored Islamic banking solutions, demonstrating our leadership in creating and delivering services that resonate with our customers' evolving needs.

Individual leadership within our organization was also celebrated, with Ms. Haifa Al Lawati, Assistant General Manager HR, receiving the 'Visionary Leader of the Year Award' and Ms. Tahani Al Alawi, Deputy Manager, Sustainability, being honored with the 'Exemplary Contribution to CSR and Sustainable Islamic Banking Award' at the Muntada Al Mar'a Summit and Awards. These accolades underscore our commitment to leadership excellence and sustainable practices within the Islamic banking sector.

Bank Nizwa has been making its mark for its commitment to excellence and equality in the Islamic finance sector. Amna Al Balushi, Head of Information Security at Bank Nizwa, was recognized with a CIO 50 Award for her pivotal role in driving innovation, enhancing resilience, and leading rapid organizational transformation. This accolade underscores Bank Nizwa's dedication to fostering a culture of enterprise excellence.

In another significant acknowledgment, the Cambridge IFA WOMANi report highlighted Bank Nizwa's exceptional female leaders among the top 300 women in Islamic Finance. This recognition is a testament to the bank's dedication to creating equal opportunities for women and establishing itself as a female-friendly institution. Five of Bank Nizwa's employees were celebrated for their contributions to the industry, demonstrating leadership and innovation. The bank's effort to honor these women, in collaboration with Cambridge IFA, included hosting a special event in Oman, reflecting its commitment to gender equality and the empowerment of women in Islamic finance.

Our strength in retail banking was reinforced as we were named the 'Strongest Islamic Retail Bank in Oman 2023' at the Islamic Retail Banking Awards (IRBA). This recognition highlights our dedication to providing outstanding services to our retail customers and our consistent performance in the retail banking segment.

Further affirming our status in the Islamic banking sector, we were titled the 'Islamic Bank of the Year' at the Islamic Banking and Finance Summit and Awards, a testament to our operational excellence and innovation in the field.

Moreover, our strides in integrating digital technology into our banking services, enhancing customer experience and operational efficiency, were recognized with the Al Roya Economic Vision Award for Smart Digital Transformation. This award signifies our efforts and success in embracing digital transformation, ensuring we stay at the forefront of technological advancements in banking.

The numerous accolades received in 2023 are not merely recognitions of our past year's efforts but serve as a catalyst for our ongoing pursuit of excellence in Islamic banking. They reflect our dedication to innovation, customer satisfaction, sustainable practices, and social responsibility. Bank Nizwa remains steadfast in its commitment to setting benchmarks in the industry and contributing significantly to the growth of Islamic finance in Oman and beyond.

Building Brand Equity

Bank Nizwa continued to reinforce its position as the leading Islamic bank in Oman, building on its legacy of innovation, customer satisfaction, and corporate responsibility. Our strategic initiatives throughout the year were focused on strengthening our brand equity, closely aligning with our commitment to digitalization, sustainability, and socio-economic development.

Our focus on innovation remained a key driver in enhancing our brand value. In 2023, we introduced a series of additional products and services designed to meet the evolving needs of our customers. These offerings, aligned with Sharia principles, incorporated the latest in financial technology, providing unparalleled ease and convenience.

The bank's commitment to spearheading digitalization in the Islamic banking sector was further cemented through collaborations with leading FinTech companies. These partnerships led to the development of cutting-edge digital banking solutions, significantly enhancing customer experience and operational efficiency. Our digital transformation initiatives played a crucial role in driving socio-economic progress, particularly in financial inclusivity and accessibility. Additionally, the bank played a pivotal role in financing key projects of national significance, contributing to Oman's economic development and infrastructural advancements.

In line with Oman's national sustainability agenda, we intensified our efforts in promoting sustainable finance. Our initiatives included the introduction of green financing products, sustainable investment opportunities, and active participation in environmental conservation projects. These efforts resonated with environmentally conscious consumers and investors, enhancing our brand's perceived value.

Throughout 2023, Bank Nizwa effectively balanced the aspirations of our shareholders with our commitment to delivering enhanced value to our customers. Our holistic approach ensured that while pursuing financial performance and growth, we also upheld our responsibilities as a socially responsible corporate entity. This balance has been integral in reinforcing the bank's reputation as the preferred Islamic banking partner in the Sultanate.

Our engagement with customers and the community was further strengthened through various initiatives and programs. We hosted educational seminars, participated in community events, and launched targeted marketing campaigns that elevated our brand presence and demonstrated our commitment to community development and financial literacy.

The past year has been a remarkable period for Bank Nizwa, as we have made significant strides in strengthening and elevating our brand's presence. Our approach has been strategic and multifaceted, concentrating on innovation, embracing digital transformation, and actively participating in national projects. Our dedication to sustainability and our balanced engagement with stakeholders have been pivotal in our journey. These efforts have not only reinforced our leadership but also established us as the premier Islamic bank in Oman. Looking ahead, Bank Nizwa is set on maintaining this upward trajectory, focusing on growth and continuing to pioneer in the Islamic banking sector.

Sharia Governance

At Bank Nizwa, our dedication to Sharia compliance is not just about following rules; it's about embedding Islamic principles into every facet of our operations, from our products and services to our day-to-day transactions. Our comprehensive Sharia Governance Framework ensures that every step we take is in harmony with Islamic law, offering peace of mind to our customers and stakeholders that we are not just a bank, but a bank that truly lives by the values of Islamic finance.

The cornerstone of our Sharia compliance journey is the Islamic Banking Regulatory Framework (IBRF), a set of guidelines issued by the Central Bank of Oman. It serves as our roadmap, outlining the Sharia governance, risk management, and accounting concepts that align with Oman's banking laws and the broader principles of Islamic banking.

We also lean heavily on the standards set by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). These guidelines help us navigate the complexities of Sharia compliance, ensuring that our products and services meet the highest standards of Islamic finance.

The heart and soul of our Sharia governance is our Sharia Supervisory Board (SSB), a group of esteemed scholars from Oman and around the world. They are our compass, offering fatwas and resolutions that guide our operations and ensure they remain true to Islamic principles. Our SSB meets quarterly, but we also have a Sharia Executive Committee that convenes monthly to address immediate Sharia-related matters, ensuring our bank remains agile and responsive.

Our Internal Sharia Reviewer (ISR) plays a pivotal role, leading the charge in ensuring that our financing proposals and products align with Sharia guidelines. This involves a thorough pre-execution review process, coordinating closely with our Sharia structuring team and ensuring that all new initiatives get the green light from a Sharia perspective before they are rolled out.

Sharia Structuring & Compliance is where the rubber meets the road. Before any new product or transaction sees the light of day, this team dives deep to ensure everything we do is structured in accordance with Islamic law. They're the architects of our Sharia compliance, crafting solutions that not only meet our business objectives but also uphold our Islamic values.

The Internal Sharia Audit Function is our safety net, conducting post-transaction audits to ensure every aspect of our operations remains in compliance with Sharia law. This team's work is critical in maintaining the integrity of our Islamic banking operations, ensuring that any income from non-compliant transactions is identified and donated to charity, as per our strict guidelines.

External Sharia Audit adds another layer of oversight, with independent auditors assessing our compliance annually to provide an unbiased view of our adherence to Islamic principles.

Sharia Training ensures that our team is not just proficient in Islamic banking but also passionate advocates of its values. This education extends beyond our walls, reaching out to the community to raise awareness and understanding of Islamic finance.

Lastly, our Sharia Non-Compliance Risk management is our early warning system, identifying and mitigating risks that could veer us off the path of Sharia compliance. This unit is essential in keeping us aligned with Islamic principles, ensuring that our operations not only succeed financially but also spiritually.

In essence, at Bank Nizwa, Sharia compliance is more than just a set of rules to follow. It's a commitment to integrity, ethical banking, and the provision of financial services that not only grow wealth but also nurture societal values and principles laid down by Islamic law.

Human Resources: Empowering Our People

Employees are the driving force behind the Bank's success. Bank Nizwa believes that employees are the major asset for the organisation and efforts were centred on advancing their capacities and capabilities to become tomorrow's leaders in Islamic banking. As a result of this aspiration, the Bank witnessed higher achievements and stronger performance in 2023. In order to foster great organizational culture, the bank conducted a cultural survey. The aim was to help the management team to get better understanding on what type our current culture and how to optimize to drive the direction to enhanced business oriented one. The bank also run a job evaluation assessment and project for all its Omanis position from manager level and above in order to help the teams for improved progress and better knowing how to fill their existing gaps.

As part of the HR strategy, the Bank maintains a performance management approach to build a 'pay for performance' culture and develop a proper Succession Planning programme by providing a select group of high-potential employees with the required functional and technical skills. The Bank looks at this as a critical part of integrated approach of managing and developing its employees.

Attracting & Recruiting Talent

The Bank ended the year with 463 employees in 2023. Bank Nizwa continued to selectively recruit the necessary talent required by identifying Omani talents to service a comprehensive range of client segments and selective industries. Demonstrating its commitment to Diversity and Inclusion, the Bank took the initiative to recruit applicant with special needs, ensuring a workplace that embraces all abilities.

The Bank aims to be an 'employer of choice' attracting the best and brightest talent in the local Market. This includes hiring exceptional fresh graduates who demonstrate great promise, as well as highly qualified professionals with notable industry experience.

In 2023, Bank Nizwa introduced a digital assessment platform for fresh graduates as our commitment by integrating technology for a more dynamic and efficient Recruitment process. The new digital platform offers an interactive and engaging experience for candidates, allowing for a more comprehensive evaluation of their capabilities and potential.

In support of these recruitment goals, the Bank participated in two career fairs, one at Sultan Qaboos University and another at the College of Banking and Financial Studies. The Bank implements precise and clear recruiting policies based on levels of educational and professional qualifications and the suitability of the specialisation for vacant positions, while also fully committed to retaining key talents. Furthermore, a significant achievement for this year was that 86.7% of our new joiners are Omanis, showcasing our dedication to the supporting local talent. Additionally, 49% of our new recruits are fresh graduates, reflecting our focus on fostering new talent and offering opportunities to the next generations of professionals.

Training & Development

In the fiscal year 2023, the HR department implemented numerous strategic initiatives aimed at enhancing employee performance, effectiveness, and productivity. These efforts centered around talent management and comprehensive employee training programs, which were extended to all levels of the organization, including top management, middle management, and junior employees. Additionally, the bank dedicated resources to further develop its e-library and embraced an 'agile' approach. The overarching goal is to nurture the professional growth of all employees and address succession planning needs. Notably, in 2023, Bank Nizwa observed a notable increase in training delivery, attributed to the accessibility of the e-learning platform catering to both individual and group learning.

At Bank Nizwa, we acknowledge that retaining talent is fundamental to our commitment to Responsible Growth. We highly appreciate the diverse experiences and learning styles of our teammates. With our personalized approach, we provide learning and development programs to empower all team members, ensuring they have access to the resources necessary for advancing their careers.

In 2023, the Bank intensified its strategic focus on training and development, aiming to consistently enhance the skills of all employees. This comprehensive effort encompassed delivering advanced training across all functional categories, spanning the Bank's diverse departments and branches. Central to this approach is our Learning Partner model, which prioritizes performance consulting. Through this model, we identify specific business needs, delve into underlying causes, and develop tailored capability-building strategies to effectively address them.

In line with our vision for Learning and Development

(L&D), we are expanding our training modalities to include eLearning and VILT (Virtual Instructor Led Training), enabling us to scale up skill development initiatives. While we have embraced digital formats for most training programs, select ones, such as onboarding, remain in a classroom format. This year, our digital learning initiatives, coupled with a mobile learning app, have significantly broadened our reach to a wider employee base. These initiatives cover a spectrum of technical training areas including Islamic Banking, Product Development, Sales Leadership, Risk Management, Wealth Management, Corporate and Retail Banking, as well as Soft Skills.

Our commitment to fostering a culture of continuous learning and skill enhancement is further bolstered by leveraging cutting-edge technologies. Integration of innovative platforms, digital tools, and interactive resources has modernized our L&D approach and empowered our workforce to engage in dynamic and effective learning experiences. A prime example of this is Bank Nizwa's e-learning platform, 'Bank Nizwa Learning,' powered by a world-class learning experience platform. Hosting an extensive collection of over 100,000 learning programs and resources curated by industry leaders, the platform has facilitated over 6,000 hours of active learning within just 9 months.

In its dedication to executive development, Bank Nizwa invests in its leadership team. In alignment with this commitment, the bank has sponsored three top management team members for Global C-suite programs at Wharton and two executives to participate in the Islamic Leadership Program at Cambridge.

Bank Nizwa remains steadfast in its commitment to enhancing the skills of its board members, ensuring alignment with the latest market trends crucial for the effective discharge of governance duties. In pursuit of this commitment, the bank organized a comprehensive workshop on Strategic Corporate Governance specifically designed for its board members.

Continuing our commitment to elevate skill levels and empower Omanis for middle and senior management roles, Bank Nizwa nominated 28 employees to participate in the 'High Potential Employees (HiPo)' Leadership Development Program (LDP), and participated in the National Leadership Programme 'Etimad'. Furthermore, the bank provided support to over 35 employees pursuing academic and professional qualifications, including certifications such as CMA, CBBM, CSDG, CSAA, ACI, Islamic Sukuk, and Master's degrees, enhancing their professional competency. Demonstrating dedication to societal impact, we facilitated over 100 internship opportunities, aligning with our commitment to contribute to the community.

Compensation & Benefits

Bank Nizwa developed a workforce to optimise the balance between supply and demand for capabilities, and to manage the cost and employee base more efficiently and effectively in the long term. The Bank's strategic plan is 'pay for performance'.

HR has closely monitored the progress of the implementation of the equity, fairness and competitive pay. The Bank has applied performance appraisal system where annual variable and merit-based remunerations of the employees were linked to the performance system. The Bank participates annually in an Industry Salary Survey with a professional HR Services company to compare its pay position to the market, and to make appropriate decisions based on the results of the survey in order to position compensations appropriately.

Moreover, the Bank continuously enhances its HR systems to help speed-up HR processes like payroll, recruitment, training, employee payments, and employees' self-service. The aim is to ensure HR practices and decisions reinforced agile values and principles.

In Light of the recent Royal Degree 53/2023 issued in regards to the Omani labor law, the Bank has swiftly ensured that the regulatory changes are well implemented and communicated to all employees. We have also taken adequate measures that all our policies, procedures and system process align with the new labor law.

The Bank continuously strives to create sustainable processes to ensure that compensation structures for employees are appropriately aligned with regulatory requirements and drive sustainable performance at all levels.

Digital Transformation

Bank Nizwa continued to fortify its position as a leader in digital banking, integrating cutting-edge technology into every facet of our operations. Year 2023 marked significant strides in our digital transformation journey, aligning with our mission to be the 'Digital Bank of Choice' and focusing on providing innovative, customer-centric solutions.

A hallmark of our digital innovation this year was the launch of the Digital Branch at Mall of Oman. This state-of-the-art facility is not just a testament to our commitment to digitalization but also offers a unique banking experience to our customers. Utilizing advanced technologies, the branch operates beyond traditional banking hours, allowing customers to complete their transactions digitally or through video teller assistance.

Building on the success of our mobile platform, we introduced digital onboarding services that significantly ease the process of joining Bank Nizwa. This service has been instrumental in attracting new customers and growing our deposit base, emphasizing our position as a leader in digital banking services.

In an effort to make banking more inclusive and accessible, we introduced digital onboarding for minor accounts. This initiative not only simplifies the process for guardians but also fosters financial literacy and banking engagement from a young age.

Our investment in technologies such as data science and robotics continued, enhancing the efficiency and effectiveness of our services. This commitment to embracing cutting-edge technology is central to our strategy of exceeding customer expectations and seamlessly integrating with FinTech ecosystems, suppliers, and regulators.

Significant progress was made in our Digital Transformation Roadmap, with critical milestones achieved in Core Banking Transformation initiatives. These initiatives have been crucial in enhancing our service offerings, including the introduction of new corporate internet banking services and enhancing our mobile banking capabilities.

To ensure uninterrupted service, we achieved a high maturity level in our disaster recovery arrangements. This includes infrastructure revamp, online data replication across systems, and successful disaster drills, ensuring readiness for any eventuality. Acknowledging the dynamic threat environment, we have maintained a tight balance in system security. Numerous system upgrades were carried out to protect against internal and external cyber threats, ensuring the security of customer data and information.

Bank Nizwa's transformation journey continued with sustained improvements, keeping our customers and business at the center of everything we do. Our investments in digital branches, onboarding services, AI, and cybersecurity not only exemplify our commitment to digital excellence but also position us to meet the future demands of banking. As we progress, we remain dedicated to enhancing our digital capabilities and maintaining our leadership in the realm of digital banking.

Sustainable and Inclusive Growth

Bank Nizwa continued its unwavering commitment to sustainable and inclusive growth, aligning its operations and strategies with Environmental, Social, and Governance (ESG) priorities. This commitment reflects our corporate responsibility and resonates with the Government of Oman's Vision 2040, emphasizing sustainable development.

Seamlessly integrating ESG considerations into its business strategy, Bank Nizwa focused on creating a sustainable future. Following the successful launch of eco-friendly credit and debit cards in 2022, the bank furthered its efforts this year in reducing the environmental impact of banking services. Additionally, we expanded our portfolio of sustainable finance products, offering advisory services to guide clients through sustainable transformations, thereby contributing to broader socio-economic progress in Oman.

Recognizing the importance of innovation for sustainable growth, we invested in developing solutions that support Oman's vision for a sustainable ecosystem. These investments extend beyond financial products to initiatives driving environmental and social change. Our financial performance in 2023 saw notable growth, with an increase in net profit, total income, and total assets compared to previous year. This growth is a testament to the bank's robust strategy and operational efficiency. Furthermore, our investments in community initiatives underscore our commitment to inclusive growth and social responsibility.

Significant advancements were made in digital transformation, recognizing the role of technology in driving sustainable growth. Digitalization not only enhances efficiency and customer experience but also contributes to reducing the environmental impact of traditional banking operations.

2023 has been a pivotal year for Bank Nizwa in reinforcing its commitment to sustainable and inclusive growth. Through the strategic integration of ESG priorities into our business model, innovative sustainable finance products and community investments, Bank Nizwa has solidified its role as a leader in sustainable banking in Oman. Our efforts align with the national vision and set a precedent for responsible banking in the region. As we move forward, Bank Nizwa remains dedicated to fostering a sustainable future for all stakeholders and contributing positively to Oman's economic and environmental landscape.

Confidence in The Future

Bank Nizwa leads the Islamic banking sector in Oman, guided by a commitment to adhere to Sharia principles while embracing innovative technology to enhance efficiency, profitability, and customer loyalty. This commitment to fostering financial wellness within the community has been steadfast, particularly evident in the bank's supportive measures during the post-pandemic phase, such as financing deferments and restructuring to ease financial burdens.

As global economies rebound, Bank Nizwa embraces a future filled with optimism, ready to aid customers in achieving financial resilience. The bank recognises the government's efforts in enhancing the investment landscape, supporting SMEs, and executing the

'Tanfeedh' program for economic diversification, which collectively promise to boost credit demand and broaden Oman's economic spectrum beyond oil, into sectors like manufacturing, tourism, and more.

Bank Nizwa's growth reflects the Sultanate's expanding Islamic banking sector, a success attributed to the Central Bank of Oman's supportive policies. Looking ahead, the bank is focused on leveraging diverse financing portfolios, innovative products, especially in sustainable finance, and Sharia-compliant liquidity tools to spearhead further growth.

Guided by core values of innovation, integrity, and customer-centricity, Bank Nizwa's strategic blueprint is set towards amplifying shareholder value, capitalising on its strengths across various banking domains, and supporting Oman's Vision 2040 for economic diversification. With a commitment to digital enhancement and creating synergies across its services, Bank Nizwa is poised to redefine industry standards and elevate Oman's status in the global Islamic banking arena.

Acknowledgement

On behalf of the entire Bank, I would like to acknowledge the contribution of our team members and thank them for their commitment to our vision and performance during these difficult times. Our achievements would not have been possible without the support and guidance of the Central Bank of Oman, the Chairman, Sheikh Khalid Abdullah Ali Al Khalili, the Board of Directors and the Executive Management team for their support, guidance and efforts as we continue our journey to grow our market share.

We are committed to continuing to provide our customers with exceptional banking services and innovative solutions, supporting our employees' growth and development, delivering sustainable returns to our shareholders, and maintaining strong relationships with our regulators. We look forward to the future with optimism and are excited to build on this achievement as we continue to grow and evolve. Thank you for being a part of our journey.

Khalid Al Kayed
Chief Executive Officer

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Independent Reasonable Assurance Report to Bank Nizwa SAOG on control Procedures Relating to Shari'a compliance and Governance Structure

We were engaged by the Board of Directors of Bank Nizwa SAOG ("the Bank") to perform an independent reasonable assurance engagement on management's report (the "Report") on control procedures relating to Shari'a Compliance and the assertions related to the compliance with Islamic Banking Regulatory Framework ("IBRF") issued by Central Bank of Oman ("CBO") and guidelines of Shari'a Supervisory Board ("SSB"). The enclosed report as set out for the year ended 31 December 2023, in the form of an independent reasonable assurance conclusion about whether management's statement that the Report is properly prepared, in all material respects based on the requirements of the IBRF related to Shari'a Compliance, guidelines and decisions of SSB, Shari'a standards as issued by Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI"), and the Shari'a Governance Structure was suitably designed and implemented, is fairly stated.

Management's Responsibilities

The Management of the Bank is responsible for the preparation and presentation of the Report that is free from material misstatement including completeness, accuracy and development of control objectives of the Shari'a Compliance and Governance Structure; in accordance with relevant provisions of the IBRF issued by the CBO, the guidelines and directives issued by its SSB and Shari'a standards as issued by Accounting and Auditing Organization for Islamic Financial Institutions. and for the information contained therein. The Management of the Bank is also responsible for the prevention and detection of fraud, error and non-compliance with the laws and regulations applicable to the activities of the Bank including compliance with IBRF and guidelines and directives issued by the SSB.

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Our Responsibilities

Our responsibility is to examine the Report prepared by the Bank and to express an independent reasonable assurance conclusion and to report thereon in the form of an independent reasonable assurance conclusion based on the evidence obtained. We conducted our engagement in accordance with International Standard on Assurance Engagements ("ISAE") 3000, assurance engagements other than audits or reviews of historical financial information issued by the International Auditing and Assurance Standards Board and the Auditing Standard for Islamic Financial Institutions (ASIFI) 6 "Independent Assurance Engagement on Bank's Compliance with Shari'a Principles and Rules (External Shari'a Audit), issued by AAOIFI. These standards require that we plan and perform our procedures to obtain reasonable assurance about whether the Report, is fairly stated, in all material respects.

The firm applies International Standard on Quality Control 1 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.

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the Report whether due to fraud or error.

In making those risk assessments, we have considered internal control relevant to the preparation and presentation of the Report in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the Bank's internal control over the preparation and presentation of the Report. Our engagement also included: assessing the appropriateness of the Report, the suitability of the criteria used by the Bank in preparing the Report in the circumstances of the engagement, evaluating the appropriateness of the procedures used in preparation of the Report and the reasonableness of estimates made by the Bank and evaluating the overall presentation of the Report. Reasonable assurance is less than absolute assurance.

Work performed

Our work mainly included:

1) Discussion with the Bank's Management on the Shari'a compliance and governance structure of the Bank;

2) Review of documentation and systems established by the Bank to develop Shari'a compliance and governance framework, in order to develop an understanding of the Shari'a compliance and governance framework and an understanding of the related internal controls. This includes:

    a. Review of minutes of meetings of Shari'a Supervisory Board and Board of Directors;
    b. Review of policies and procedures;
    c. Review of selected job descriptions;
    d. Review of reports prepared by the Shari'a Supervisory Board; and
    e. Review of reports prepared by the Internal Shari'a Auditor;

3) Assessing the risks that Management's assertion on the description of controls may be materially misstated;

Work performed (continued)

4) Performing further procedures on the identified risks, as deemed appropriate, using a combination of inspection, observation, confirmation and inquiry;

5) On a sample basis testing of transaction level controls listed in the Management's Shari'a compliance and governance report;

6) On a sample basis testing of product specific controls listed in the Management Shari'a compliance and governance report;

7) Review of pool management and profit distribution system of the Bank;

8) Checking on compliance with employee training procedures of the Bank; and

9) On a sample basis, testing of other controls listed in the Shari'a compliance and governance report.

The scope of our work is also in compliance with 'scope of the auditor's work' as outlined in AAOIFI Auditing Standard No.4 regarding "Testing for Compliance with Shari'a Rules and Principles by an External Auditor".

As part of this engagement, we have not performed any procedures by way of audit, review or verification of the Report nor of the underlying records or other sources from which the Report was extracted.

Characteristics and Limitations of the Report

The report on control procedures relating to Shari'a compliance is prepared to meet the needs of a range of users and may not, therefore, include every aspect of the control procedures that each user may consider important in their own particular environment.

Our procedures regarding adequacy of systems and controls relating to the Bank's compliance with the SSB guidelines and directives are subject to inherent limitations and, accordingly, errors or irregularities may occur and not be detected. Furthermore, such procedures may not be relied upon as evidence of the effectiveness of the systems and controls against fraudulent collusion, especially on the part of those holding positions of authority or trust.

The conclusion relates only to the year ended 31 December 2023. The conclusion does not provide assurance in relation to any future periods as changes to systems or controls may alter the validity of our conclusion.

Criteria

The criteria for this engagement against which the Management's Shari'a Compliance and Governance Report for the year ended 31 December 2023 is assessed comprise the Shari'a principles and rules that for the purpose of external Shari'a compliance audit means the following, in the sequence provided below:

a) The regulations issued by the Central Bank of Oman's ("CBO") Islamic Banking Regulatory Framework insofar as these entail the regulatory Shari'a requirements;

b) The rulings of the CBO's High Shari'a Supervisory Authority;

c) The Shari'a standards issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI);

d) Approvals and rulings given by the Shari'a Supervisory Board of the Bank.

Conclusion

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

In our opinion, the Bank's management's assertion that the Report is properly prepared, in all material respects based on the requirements of the IBRF related to Shari'a Compliance, guidelines and decisions of SSB, Shari'a standards as issued by AAOIFI and the Shari'a Governance Structure was suitably designed and implemented is fairly stated.

Restriction of Use of Our Report

In accordance with the terms of our engagement, this independent reasonable assurance report on the Bank's Shari'a compliance and governance framework and its compliance with the relevant provisions of the IBRF and guidelines and directives issued by the SSB, has been prepared for the Board of Directors of the Bank and the Central Bank of Oman, solely to assist the management to meet the requirement of clauses 2.5.1.22 to 2.5.1.24 of Title 2 of IBRF and circular no. BDD/IB/CB/2013/7941 dated 2 September 2013 issued by the Central Bank of Oman, and for no other purpose or in any other context.

Our report should not be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Bank and Central Bank of Oman for any purpose or in any context. Any party other than the Bank and Central Bank of Oman who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk. We accept or assume no responsibility and deny any liability to any party other than the Bank and Central Bank of Oman for our work, for this independent reasonable assurance report, or for the conclusions we have reached.

Our report is released to the Bank and Central Bank of Oman on the basis that it shall not be copied, referred to or disclosed, in whole (save for the Bank's own internal purposes) or in part, without our prior written consent.

11 March 2024

KPMG LLC

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CR.No: 1358131

Management's Report On Control Procedures Relating to Shari'a Compliance and Governance Structure and Management's Statement of Compliance with the Shari'a Principles and Rules.

For the year ended 31 December 2023

Management's Report on control procedures relating to Shari'a compliance and governance structure

Bank Nizwa (the "Bank") was established in the Sultanate of Oman to carry out banking and other financial activities in accordance with Islamic Shari'a Rules and Principles. The Bank operates under an Islamic wholesale and retail banking license granted by the Central Bank of Oman ("the CBO") on 3 April 2012 The management of the Bank, under authorization from the Board of Directors ("BoD") of the Bank, is responsible for establishing and maintaining adequate internal controls to ensure Shari'a compliance at all times. These controls are designed and implemented under the supervision of the Shari'a Supervisory Board ("SSB") to provide assurance regarding compliance with respect to Islamic Shari'a Rules and Principles.

While the SSB is responsible for forming and expressing an opinion on the extent of the Bank's compliance with Shari'a, the responsibility of compliance rests with the management of the Bank, to enable management to carry out this responsibility effectively, the SSB of the Bank shall assist by providing guidance and advice relating to compliance with Shari'a. The presence of the SSB and Shari'a Audit and Compliance function of the bank does not relieve the Bank's management of its responsibility to undertake all transactions in accordance with Shari'a.

As per objectives listed in Appendix B, the following are the broad categories in which the abovementioned control procedures are designed:

a. Shari'a Governance
    - Structure for Sharia coordination and implementation and oversight
    - Sharia framework
b. Control environment
c. Transaction level controls
d. Product specific controls
e. Investment level controls
f. Hiring process, employee training and awareness
g. Other controls

Details of each category are provided in sections Appendix A

Based on the control objectives listed in Appendix B, we believe that:

a) The control procedures listed in Appendix A fairly present the Bank's controls designed and implemented throughout the period from 1 January 2023 to 31 December 2023;

b) The control procedures listed in Appendix A were suitably designed throughout the period from 1 January 2023 to 31 December 2023; and

c) The controls procedures listed in Appendix A operated effectively throughout the period from 1 January 2023 to 31 December 2023.

Approved by the management of the Bank on 03/01/2024

______________________	______________________
Chief Executive Officer	**Internal Sharia Reviewer**

Appendix A

1. Control procedures relating to Shari'a compliance and governance structure

1.1 Overview

This report provides information about the control procedures (Appendix A) which are designed, implemented and maintained by the Bank to achieve the Shari'a compliance objectives (Appendix B) during the period from 1 January 2023 to 31 December 2023. These control policies and procedures are regularly reviewed by the management, and accordingly may, from time to time, be modified with a view to achieving the control objectives. No representation is made to any parties that future control policies and procedures will reflect current practice.

All control systems have inherent limitations and cannot guarantee the totally effective operation of systems, nor the total completeness and accuracy of the records. Also, they cannot necessarily prevent fraudulent collusion.

1.2 Shari'a Governance

1.2.1 Structure for Shari'a coordination and implementation and oversight

a) Articles of Association permit the Bank to carry out all Islamic banking business activities.

b) The Shari'a governance framework of the Bank is in line with CBO's regulations, resolutions and directives and market best practices. The Shari'a governance framework of the Bank includes:

   i. Shari'ah Supervisory Board (SSB);
   ii. Internal Shari'a Reviewer;
   iii. Shari'a Compliance Structuring Unit;
   iv. Shari'a Audit Unit;
   v. Shari'a Training Unit; and
   vi. Shari'a Non-compliance risk unit.

c) The SSB of the Bank comprises of three (3) Muslim scholars specialized in Fiqh Al Mu'amalat holding an overall experience of over 10 years (in teaching, research, and Fatwa issuance). These members have extensive experience in the field of Islamic banking and finance and meet the fit & proper criteria specified by the CBO. The structure of the SSB is as follows:

No.	Name of the Scholar	Qualification	Position in the board	Nationality
1	Dr. Majid Alkindi	· Bachelors Degree in judiciary · Masters Degree in law &Fiqah. · PhD in Fiqah · PHD in Economics and Islamic Banking	Chairman	Omani
2	Dr. Aznan Bin Hasan	· Bachelors Degree in Shari'a · Masters Degree in Shari'a · PhD in Shari'a – Wales University	Vice Chairman	Malaysian
3	Dr.Ali Al Jahdami	· Bacherlors Degree in Fiqh · Masters in Economics and Islamic Banking · PhD in Fiqh	Member	Omani

d) The appointment of SSB members is formally documented by the Bank via a formal offer letter duly signed by the respective SSB member;

e) The appointment of the SSB has been approved by the shareholders of the Bank;

f) A charter for the SSB has been approved by the Board defining the scope of work for the SSB. The charter includes, at a minimum, the following:

   i. Purpose of the charter;
   ii. Authorization of the charter;
   iii. Membership of the SSB;
   iv. Composition of the SSB;
   v. Chairperson;

Appendix A

vi. Secretary;

vii. Possible cause/course of removal and replacement of a Member;

viii. Authority of the SSB;

ix. Responsibilities of the SSB;

x. Meetings / meeting frequency;

xi. Quorum;

xii. Agenda;

xiii. Meeting minutes;

xiv. Voting and decisions;

xv. Amendments to the charter; and

xvi. Relationship with the BoD and Management of the Bank and its various departments.

g) The roles and responsibilities of the SSB include the following:

i. To supervise the Bank's operations and activities to ensure compliance with the Islamic Shari'a, and also monitor and review transactions to ensure full compliance with Shari'a rules and principles and SSB pronouncements;

ii. To approve the internal Shari'a audit annual plans;

iii. To notify the CBO in case of any failure by the Board of directors to effectively deal with any major Shari'a non-compliances of the Bank;

iv. To approve all relevant documentation for new products and services, including contracts, agreements, marketing and promotional materials or other legal documentation used in the Bank's business transactions must be approved by the SSB;

v. To review and approve the Bank's annual Zakah calculations on behalf of the shareholders;

vi. To put on record, in written form, any opinion that it gives on Shari'a-related issues;

vii. At least one SSB member be present at the AGM to respond to any enquiries from the Banks' shareholders during the discussion of the end of year financial results;

viii. To review the reports and observations of the Shari'a coordination and implementation function and internal Shari'a audit function and provide advice on such reports and observations;

ix. To review the profit/loss allocation to the investment account holders and weightages,profit sharing Ratio conform as per the approved policy by SSB;

x. To specify the means of disposal of earnings that have been realised from sources or by means prohibited by Shari'a rules and principles;

xi. To approve the appointment and removal of the head of internal Shari'a reviewer function and supervise and approved the Shari'a compliance and structuring and internal Shari'a Audit Units' work;

xii. To develop its own operating procedures;

xiii. To report administratively to the Board of directors

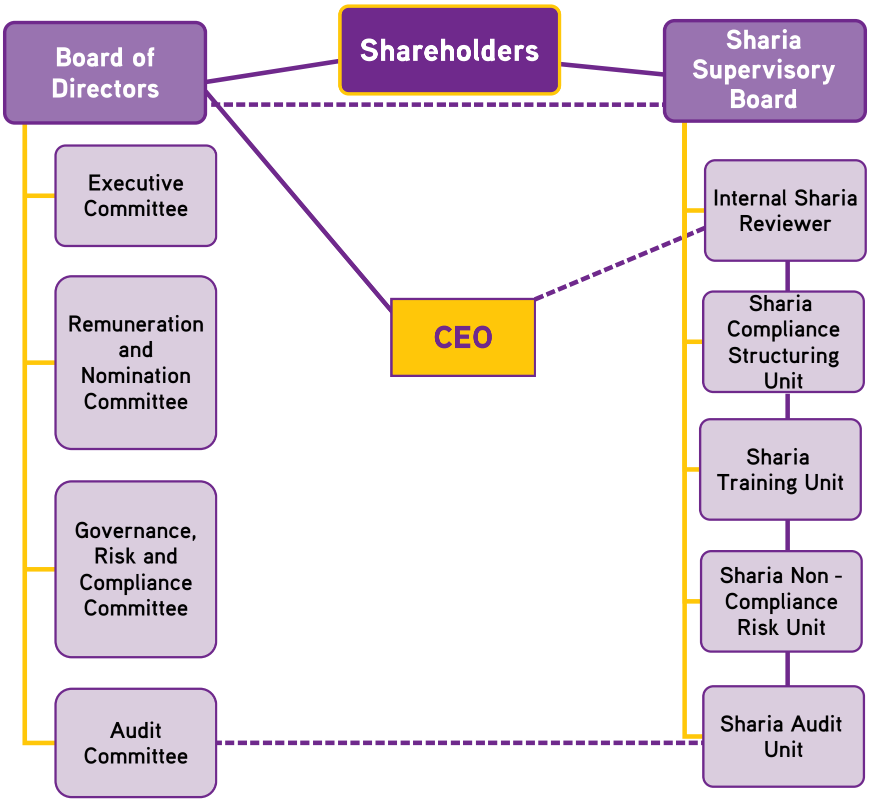
xiv. To meet with the Board of directors of the Bank at least once a year to discuss issues of common interest. Such meeting must have a clear and specific agenda including the difficulties faced by both parties and ways to resolve them;

xv. To submit the SSB report, as part of the annual report, to the shareholders with a copy to the Board of directors and the CBO as per AAOIFI, on the Bank's Shari'a compliance, provided that the SSB report includes any non-compliance issues to the Shari'a rules and principles; and

xvi. To ensure that information obtained in the course of their duties is kept confidential.

Appendix A

1.2.2 Shari'a framework



Overview

a) Dr. Mansour Ali Al Qudah, the Internal Shari'a Reviewer has been appointed by the SSB on 8 March 2017 and by the CBO on 16 January 2017 and has been included in the organizational structure of the Bank;

b) Dr. Mansour Ali Al Qudah is a full time employee of the Bank heading Shari'a Department and supervising Shari'a Compliance Structuring Unit (SCSU), Shari'a Audit Unit (SAU) of the Bank, and Shari'a Training Unit (STU), and Shari'a Non-compliance risk unit (NSCRU) of the Bank, appointed by the Management in consultation with the SSB and the approval of the CBO. Internal Shari'a Reviewer reports to the SSB independently from the Management;

c) Dr. Mansoor Al-Qudah spends part of his time annually in training management, bank employees and other stakeholders (clients and the public) on Sharia matters applicable to Islamic banking, and participates in many internal committees to answer inquiries from management, employees and bank customers regarding the Sharia aspect.

d) Dr. Mansour Ali Al Qudah has the added role of secretary to the SSB;

e) Dr. Mansour Ali Al Qudah reports to the SSB independently from Management; with the submission of administrative reports to the CEO.

f) Policies and procedures are in place which are up to date and approved by the SSB. On an overall basis, the policies and procedures include:

   i. References to relevant regulations issued by the Central Bank or other regulatory authority; and

   ii. Procedures to be followed in case of deviations from prescribed parameters and guidelines.

g) Operational procedures are approved by the Board of Directors and matters related to Shari'a principles are approved by the SSB;

h) Roles and responsibilities of Internal Shari'a Reviewer and Shari'a Compliance Structuring Unit and Shari'a Audit Unit and Shari'a Non-Compliance Risk Unit and Shari'a Training Unit are defined and documented in the Shari'a Compliance Policy and Procedures Manual. The Shari'a Compliance Policy and Procedures Manual is approved by the Bank's SSB. Responsibilities include a review of:

   i. Bank's organization structure (to ensure that the structure and segregation of functions is appropriate for undertaking Shari'a compliant activities);

   ii. Agreements/contracts (including employee/supplier contracts);

Appendix A

iii. Policies and procedures;
iv. Product manuals;
v. Product structures;
vi. Transactions;
vii. Bank's memorandum and articles of association;
viii. Financial statements;
ix. Reports (internal management reports and external reports); and
x. Advertisements and other communications to general public;

i) Job descriptions and update organization charts are in place for key positions that are approved by the Board of Directors or SSB as applicable;

j) All new products, services and product structures are reviewed by Internal Shari'a Reviewer and approved by the SSB before being offered to customers. Such information is documented in SSB minutes meeting and in the Bank's policies and procedures; and

k) New software or other systems (if any) implemented in the Bank are reviewed and approved by the Bank's Internal Shari'a Reviewer.

Shari'a Compliance Structuring Unit

a) Shari'a Compliance Structuring Unit is governed by the Shari'a Compliance Policy and Procedures Manual prepared by the management, vetted by the SSB and approved by the BoD;

b) Shari'a Compliance Structuring Unit facilitates the Management in ensuring compliance with Shari'a (as manifested by the guidelines and Fatawa issued by the SSB) and Islamic banking stipulations of the CBO on a day to day basis in all its business activities, operations and transactions. This is achieved through the review and evaluation, before any product is offered to a customer, the product program, the contracts, agreements, fees, charges, policies, procedures, product manuals, product transaction structures, memorandum and articles of association, and any other matter which can potentially impact the Shari'a compliance of the Bank or influence the perception of its Shari'a compliance. Subsequently, The head of Sharia Compliance and Structuring Unit submits his report, along with all the relevant documentation, to the SSB for their review and decision;

c) Shari'a Compliance structuring unit is involved in implementation of new products / services to ensure full Shari'a compliance under the relevant Fatawa. The function also assists the relevant staff in dealing with any Shari'a non-compliance issues arising from the implementation stage;

d) Acting as the first line of defense in Shari'a Department, this unit also shall be actively from time to time alerting both the Shari'a Audit and Shari'a Non-Compliance Risk Unit on any potential Shari'a risk during the review on any sensitive transaction especially from Wholesale Banking and to a certain extent the Retail Banking as well.

e) The head of Sharia Compliance and Structuring Unit participates in training the bank's employees and other stakeholders, including customers and the public.

Shari'a Training Unit

a) The Shari'a Training Unit prepares an annual training plan which is approved by Internal Shari'a Reviewer and SSB;

b) The Shari'a Training Unit participates in and arranges, in conjunction with the Human Resources Training Department training the Bank's employees by conducting internal and external trainings, and Shari'a awareness on Islamic banking, in order to make sure that all Bank Nizwa staff are fully aware of the Islamic principles and rules, and to answer queries raised by staff and clients. The Shari'a Training Unit also shares knowledge explaining principles of Fiqh al-Muamalat in general, and in particular the Fatawa, guidelines and instructions issued by the SSB about the products and services offered by the Bank;

c) The Shari'a Training Unit also coordinates with Communications unit to develop and implement public awareness campaigns on Islamic banking finance to provide written articles and information for the media like television, newspapers, and internal newsletter. They also coordinate with Internal Shari'a Reviewer to review Shari'a content of marketing material, pamphlets, booklets, and any written material published by the Bank, documentation including, promotion and marketing materials, advertisements and other communications to general public, as per the guidelines provided by SSB and Shari'a Executive committee.

Appendix A

Shari'a Audit Unit

a) The Bank has appointed Abdulrahman Al Shaikh on 6 June 2012 as the Head of Internal Shari'a Audit function reporting to the ISR. The Head of the function is appointed by the management subject to the approval of the SSB. The function is adequately resourced with proficient staff having the relevant qualification and experience;

b) Shari'a Audit Unit is governed by the Internal Shari'a Audit Charter prepared by the Shari'a audit Unit and reviewed by the Internal Shari'a Reviewer (ISR) , approved by the SSB;

c) Shari'a audit officers have no executive authority or responsibility for the activities they audit;

d) Abdulrahman Al Shaikh, is a full time employee of the Bank and is responsible for examining and evaluating the extent of the Bank's compliance with the following:
   - Shari'a principles;
   - The SSB's Fatawa, guidelines, pronouncements and instructions / recommendations;
   - Shari'a related regulations, resolutions and directives issued by the CBO;
   - Shari'a standards issued by AAOIFI; and
   - Shari'a related policies and procedures of the Bank.

e) On an quarterly basis, Abdulrahman Al Shaikh expresses his opinion to the SSB on the extent of Shari'a compliance of the Bank's operations through an actual audit of the business transactions;

f) Abdulrahman Al Shaikh reviews and examines the adequacy and effectiveness of the Bank's Shari'a compliance system, covering all aspects of the Bank's business operations and activities;

g) Abdulrahman Al Shaikh has direct and regular communications with all levels of Management, SSB, Audit Committee, Internal Shari'a Reviewer, and Independent External Shari'a Auditor. No scope limitation and/or restriction of access to documents or reports, is placed on Internal Shari'a Audit staff;

h) Abdulrahman Al Shaikh prepares periodic reports to the SSB, based on the audit plan, for consideration and appropriate action. A copy of such reports is also presented to the Audit Committee and the CEO;

i) Abdulrahman Al Shaikh follows up to ascertain that appropriate action is taken on his reported findings and recommended corrective actions. In addition, any other recommendations relating to Shari'a matters made by the SSB, the Independent External Shari'a Compliance Auditor and/or the CBO are also followed up;

j) In case of any difference of opinion between the Management and the Shari'a Audit Unit on matters relating to Shari'a interpretation, the issue is referred to Internal Sharia reviewer to review it and make a judgment and later decided by the SSB;

k) The internal Shari'a audit plan is in place which is approved by the SSB on an annual basis;

l) The internal Shari'a audit planning process includes, at a minimum, the following:
   - Developing an Internal Shari'a audit Program
   - Obtaining background information about the activities to be audited, such as locations, products/services, branches, divisions, etc.;
   - Establishing internal Shari'a audit objectives and scope of work;
   - Obtaining SSB Fatawa, guidelines, instructions, prior year internal and Independent External Shari'a Compliance Audit results, relevant correspondence including with the CBO;
   - Determining the resources necessary to perform internal Shari'a audit;
   - Communicating with all individuals at the Bank who need to know about Internal Shari'a Audit;
   - Performing, as appropriate, a survey to become familiar with activities, risks and controls to identify areas of Internal Shari'a Audit emphasis, and to invite comments and suggestions; and
   - Establishing a risk-based Shari'a audit plan

m) Internal Shari'a Audit reports is submitted to the audit committee in the end of the reporting year.

Shari'a Non-Compliance Risk Unit

a) Shari'a Non-compliance Risk Unit coordinates with branches and business departments to receive regular MIS and confirmations from the business departments and branches relating to the Shari'a compliance of key transactions and the actions taken to resolve any observations raised by the Shari'a Compliance Unit on operations, products or procedures.

b) Shari'a Non-Compliance Risk Unit identify, measure, monitor, control, and manage Shari'a non-compliance risks in the Bank arising from failure to comply with Shari'a rules and principles as set by Islamic Banking Regulatory

Appendix A

Framework issued by Central Bank of Oman, Shari'a standards issued by AAOIFI, and the Shari'a rulings and guidelines issued by Shari'a Supervisory Board of the Bank. Shari'a Non-Compliance Risk Unit assist Internal Shari'a Reviewer in identifying the Shari'a non-compliance risk parameters for each department or function.

c) Shari'a Non-Compliance Risk Unit measure quantitatively the volume of the identified parameters and detect any Shari'a non-compliance events for each parameter.

d) Shari'a Non-Compliance Risk Unit monitor the development of the Shari'a non-compliance parameters during the year periodically.

e) Shari'a Non-Compliance Risk Unit provide reasonable control measures to establish assurance on the soundness of operations which prevents violations of Shari'a compliance measures and guidelines.

1.2.3 SSB quorum, minutes etc.

a) During the year ended 2023, period from January 1 to 31 December 2023, the SSB has conducted five meetings to review and approve key decisions relating to Shari'a matters. Minutes of the meetings are prepared and provided to SSB members in the next meeting. The SSB members sign off the minutes to confirm the matters addressed therein. Decisions taken in SSB meetings are reflected in policies and procedures and operations of the Bank;

b) SSB meets at least on quarterly basis and each member of SSB attends at least seventh of the meetings during a calendar year. Further, in addition to the regular meetings, the SSB Chairperson may convene SSB meetings as and when he deems it necessary;

Meeting number	Date of Meeting	SSB Attendees	SSB Absentees
1st Meeting of SSB 47	26/1/2023	1. Dr. Majid Alkindi 2. Dr. Aznan Bin Hasan 3. Dr. Ali Al Jahdami	NIL
2nd Meeting of SSB 48	22/3/2023	1. Dr. Majid Alkindi 2. Dr. Aznan Bin Hasan 3. Dr. Ali Al Jahdami	NIL
3rd meeting of SSB 49	4/4/2023	1. Dr. Majid Alkindi 2. Dr. Aznan Bin Hasan 3. Dr. Ali Al Jahdami	Nil
4th Meeting of SSB 50	22/6/2023	1. Dr. Majid Alkindi 2. Dr. Aznan Bin Hasan 3. Dr. Ali Al Jahdami	Nil
5th Meeting of SSB 51	21/9/2023	1. Dr. Majid Alkindi 2. Dr. Aznan Bin Hasan 3. Dr. Ali Al Jahdami	NIL
6th meeting of SSB 52	31/10/2023	1. Dr. Majid Alkindi 2. Dr. Aznan Bin Hasan 3. Dr. Ali Al Jahdami	NIL
7th meeting of SSB 53	21/12/2023	1. Dr. Majid Alkindi 2. Dr. Aznan Bin Hasan 3. Dr. Ali Al Jahdami	Nil

c) All meeting is chaired by the SSB Chairperson and in his absence, by the vice-Chairperson;

d) The quorum of SSB meetings is majority of its members. SSB decisions are made through majority vote of SSB members;

e) The agenda of the SSB meetings along with sufficient details is sent to the SSB members well in advance, enabling them to come prepared in the meetings. The specific timelines for submission of the agenda is set by the SSB itself;

f) All the SSB approvals taken through circulation are made part of the minutes of the next SSB meeting;

g) The minutes of meetings are prepared and provided to the SSB members. The SSB ensures that the minutes of its meetings have necessary details of all the decisions made and / or Fatawa issued along with the detailed rationale (Fiqhi or other) and difference of opinion or dissenting note, if any. Further, the minutes are signed by all the SSB members who attended the meeting to confirm the matters addressed therein, no later than in the next meeting; and

h) The decisions taken in SSB meetings are reflected, as appropriate, in policies and procedures and day to day operations of the Bank as applicable

Appendix A

i) A Shari'a Ex-com meeting is held on a monthly basis as needed and during the period from January 1 to 31 December 2023, the Shari'a Ex-com has conducted 4 meetings to review and approve key decisions relating to Shari'a matters.

1.3 Control environment

We are committed to maintaining a control conscious environment throughout the Bank in order to ensure that the operations of the Bank are conducted in a Shari'a compliant and controlled manner. This is achieved through the following policies and procedures:

a) A management and organization structure is documented and approved by HRC committee in July 2020 and maintained by the Human Resource Department;
b) An appropriate Shari'a governance framework in compliance with CBO regulations, resolutions and directives, AAOIFI governance standards and guidelines and directives issued by SSB is maintained;
c) Key duties and functions are segregated. An independent executive is designated with the responsibility for Shari'a Compliance Structuring; another independent executive is designated with the responsibility for internal Shari'a audit;
d) Policies and procedures manuals and documentation in relation to Shari'a products, operations, compliance, trainings, and internal controls are maintained and available to all relevant staff;
e) Business monitoring and risk assessment are in place to obtain reasonable assurance that the business is operating in compliance with Shari'a, regulatory and internal control requirements;
f) Shari'a compliance and audit reports are submitted to the SSB in line with the agreed annual plan;
g) Procedures are in place on delegation of authority from senior Management;
h) New business initiatives and products are fully considered and approved by the Management taking into account the relevant risks and benefits, Shari'a compliance and internal control requirements; and
i) Documents are properly controlled and retained for five years for audit Reports and working papers but Fatwas and SSB related Issues are permanently retained. Other Documents (inter office memos, correspondence are retained for three years) in accordance with established policies and procedures and in line with CBO's regulations, resolutions and directives.

1.4 Transaction level controls

a) Only products and services that have been approved by the SSB are offered to customers. For this purpose, a list of approved products is circulated to the Bank's employees and included in the Bank's procedure manual. Employees are required to refer to the list at the time of initiating transactions and tick the appropriate product on the respective application form;
b) Documents provided by customers are verified to ensure their authenticity. Individuals verifying such documents are required to stamp, initial and date the documents to evidence verification;
c) Only standard templates approved by the SSB are used for initiating and executing transactions;
d) Daily transactions, exceeding a stipulated monetary limit are sent to the Committee for review and approval;
e) The income statement and sources of income including contracts made with counterparties are periodically reviewed by the ISR, SCSU and SAU depending on the nature of the transaction. The review is conducted to:
    i. Ensure that the Bank is operating within the parameters defined and approved by the Shari'a Supervisory Board; and
    ii. Determine whether any portion of income generated is non-Shari'a compliant and perform corrective actions (such as setting aside such income for charity purposes);
f) All agreements/contracts/forms are reviewed by the ISR, SCSU prior to execution. This may include templates to be used for employee contracts, rental agreements, and account opening forms.

1.5 Product specific controls

Before a product is launched to the general public, the Bank develops detailed product programs including but not limited to process flows, product features, product accounting treatment, IT system interaction, underlying contract templates and advertising material, which are approved by the SSB and other relevant authorities. Controls relating to the products currently being offered by the Bank are as follows:

Appendix A

Murabaha:

a) The Bank has developed a Murabaha contract template which is approved by the Shari'a Supervisory Board and is used for Murabaha transactions;

b) Staff executing Murabaha transactions are required to enter the following information before a transaction can be processed:
   i. Purchase price of the underlying asset and associated costs;
   ii. Sales price of the asset; and
   iii. Bank's profit margin.

c) Documents that confirm legal title and ownership of underlying asset in the name of the Bank are obtained and maintained;

d) A checklist containing the minimum requirements to be complied with for Murabaha transactions is available to the Bank's employees. The checklist is approved by the SSB;

Mudaraba:

a) A Mudaraba contract template approved by the SSB is used for Mudaraba transactions;

b) A checklist containing the minimum requirements to be complied with for Mudaraba transactions is available to the Bank's employees. The checklist is approved by the SSB;

c) Mudaraba calculations for profit and loss sharing are reviewed and approved by the Internal Shari'a Reviewer; and

d) Where the standard Mudaraba contract template is not used, the amended contract is reviewed and approved by the Internal Shari'a Reviewer or Shari'a Compliance Structuring Unit to confirm inclusion of appropriate clauses necessary to ensure the contract is Shari'a compliant.

Diminishing Musharaka (DM):

a) A Diminishing Musharaka contract template approved by the SSB is used for DM transactions;

b) Where the standard DM contract template is not used, the amended contract is reviewed and approved by the Internal Shari'a Reviewer or Internal Shari'a Reviewer Compliance Structuring Unit to confirm inclusion of appropriate clauses necessary for a Shari'a compliant transaction;

c) Diminishing Musharakah (DM) can be created only in tangible assets. DM will be limited to specified assets and not to whole enterprise.

Ijarah:

a) Ijarah contract templates for various asset classes, such as ready house or land are approved by the SSB;

b) Where standard Ijarah contract templates are not used, amended contracts are reviewed and approved by Internal Shari'a Reviewer or Internal Shari'a Reviewer Compliance Structuring Unit to confirm inclusion of appropriate clauses necessary for the contract to be Shari'a compliant; and

c) Documents that confirm legal title and ownership of underlying asset in the name of the Bank are obtained and maintained on file.

Wakala Bil Istithmar (WBI):

a) WBI agreement templates for both side (Bank Nizwa as Wakil (Agent) or Muwakil (Fund Owner) are approved by the SSB;

b) Where standard WBI contract templates are not used, amended contracts are reviewed and approved by Internal Shari'a Reviewer or Internal Shari'a Reviewer Compliance Structuring Unit before transactions being executed, and reviewed by the Shari'a audit unit after transaction being done to confirm inclusion of appropriate clauses necessary for the contract to be Shari'a compliant;

c) Wakala activities reviewed by Shari'a Compliance Structuring Unit, and profit distribution mechanism are reviewed by Shari'a audit manager and Internal Shari'a Reviewer to make sure that the Wakla investment Agency (Wakala bil Istithmar) activities and profit calculation and distribution are as per SSB rules.

Unrestricted Investment Accounts (URIA):

a) Mudaraba deposits is invested in the Bank's general mudaraba pool where the amount will be used / invested in Sukuk investments or for the Bank to provide financing via many contracts such as Ijara, Wakala Bil Istithmar, Diminishing Musharaka, Murabaha and Istisna' for which all the contracts mentioned are duly approved by the SSB; and

b) Quarterly and annually profit distribution and loss calculations are reviewed by the Internal Shari'a Reviewer before being disclosed to investors. On a monthly basis the profit distribution calculation is reviewed by the Head of Shari'a Audit / Shari'a Non-Compliance Risk Unit Manager to make sure that it is with the Profit Distribution Policy approved by SSB.

1.6 Investment controls

a) Investments are executed only after being approved by the Shari'a Supervisory Board;

b) The SSB reviews and approves investment acquisitions and exits to ensure compliance with Shari'a principles. Matters subject to review and approval may include:
   i. Preliminary deal analysis;
   ii. Deal structuring and financing;
   iii. Legal documentation;
   iv. Private Placement Memorandum; and
   v. Deal exit strategy (should be reviewed and approved by SSB members).

c) For each class/type of investment, the SSB issues a certificate of approval which is signed off by the members of the SSB. The certificate evidences the review and approval by the SSB. It also indicates the SSB's satisfaction that the investment structure and associated documentation are in compliance with Shari'a principles;

d) Investments are reviewed by the Internal Shari'a Reviewer / Head of Shari'a Audit Unit post acquisition to ensure they adhere to investment structure approved by the SSB; and

e) Internal Shari'a Reviewer / Head of Shari'a Audit Unit reviews short term investments (such as Wakalah and Mudaraba) to ensure these are made in line with the Bank's SSB approved Shari'a principles.

1.7 Hiring process, employee training and awareness

a) The senior Management of the Bank including the CEO has adequate knowledge, qualification and experience in Islamic banking and finance;

b) Hiring processes are well defined. Required competence in Shari'a matters is defined in the hiring criteria, in line with IBRF requirements;

c) The Internal Shari'a Reviewer oversees the Shari'a training plans and schedule for the Bank. He spends a significant percentage of his time, on an annual basis, in training the Management and the staff of the Bank.

d) The Bank has developed a comprehensive training plan for the year 2023 identifying the areas where training is required and ensuring relevant subjects are covered;

e) A database containing Fatwas and Shari'a guidelines issued by the Banks' SSB is in place that is accessible to key staff members who are engaged in the Bank's operations. The database is kept up to date with new Fatwas issued from time to time.

f) A log of time spent on training is maintained by the HR department of the Bank;

g) Sessions are conducted for employees to keep them up to date on:
   - New products and services approved by the Bank; and
   - Amendments to existing products and services.

h) Annual training budget is in place for employees;

1.8 Other controls

a) The SSB reviews and approves the Bank's annual Zakah calculations;

b) The Internal Shari'a Reviewer reviews the Bank's HR policies and procedures, code of conduct/ethics to ensure they are in line with SSB guidelines; and

c) Tools for obtaining customer feedback and complaints are implemented (suggestion drop box, email, phone, etc.). The Head of Shari'a reviews customer feedback/complaints received to ensure matters relating to Shari'a compliance are adequately addressed.

Appendix B

1. Control Objectives

The Bank's control objectives as approved by the Bank's SSB are provided below:

1.1 Overall control objective:

Ensure that the Bank's activities are conducted in a Shari'a compliant manner. Achievement of this objective requires compliance with Shari'a guidelines/directives issued by the Bank's SSB (referred to as the Bank's Shari'a principles) and other relevant authorities.

1.2 Specific control objectives:

Ensuring that:

a) The Bank's transactions, contracts and earnings are in accordance with the Bank's Shari'a principles;

b) Employees are appropriately and adequately trained to possess knowledge on Shari'a products/services offered by the Bank;

c) Revenues, collections and income that do not comply with the Bank's Shari'a principles are adequately segregated and appropriately treated;

d) Allocation of profit and charging of losses to investment accounts conform to the basis approved by the SSB; and

e) Management does not override or compromise the Bank's Shari'a principles to enhance the Bank's performance.

Appendix C

Management's statement of compliance with the Shari'a principles and rules

1. Introduction

This statement of compliance is being issued by the management of Bank Nizwa SAOG with regards to the state of compliance of the Islamic Bank's financial arrangements, contracts, and transactions with Shari'a principles and rules for the year ended 31 December 2023.

1.1 Acknowledgement of management's responsibility for compliance with Shari'a principles and rules

We, as management of the Islamic Bank, are responsible to ensure that the financial arrangements, contracts and transactions having Shari'a implications, entered into by the Islamic Bank with its customers, other financial institutions and stakeholders and related policies and procedures are, in substance and in their legal form, in compliance with the requirements of Shari'a principles and rules in line with the applicable criteria as provided below.

1.2 Applicable criteria

The criteria for the compliance with Shari'a principles and rules comprises the following, in the sequence provided below:

a) The Shari'a standards issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI);

b) The regulations stipulated by the Central Bank of Oman (CBO) Islamic Banking Regulatory Framework (IBRF);

c) The rulings of the CBO's High Sharia Supervisory Authority of the Sultanate of Oman;

d) Requirements of the applicable Financial Accounting Standards as issued by AAOIFI insofar as these entail Shari'a related requirements; and

e) Approvals and rulings given by the Shari'a Supervisory Board of Bank Nizwa SAOG.

1.3 Confirmations and representations

We confirm that during, and with regards to the year ended 31 December 2023:

a) The Islamic Bank has developed and implemented a sound and robust system of corporate and Shari'a governance, in line with the IBRF and AAOIFI governance standards and other related requirements and best practices including regulatory requirements;

b) The management has developed and maintained internal control including internal control necessary to ensure compliance with Shari'a principles and rules and to prevent any material non-compliance thereof. In fulfilling this responsibility, estimates and judgments are required to assess the expected benefits and related costs of controls. We confirm that the Islamic Bank's system of internal control is sound in design and has been effectively implemented and monitored, as well as updated and improved for identified non-compliances, if any;

c) The financial statements for the year ended 31 December 2023 reflect fairly the Islamic finance transactions and Shari'a related matters;

d) The management complied with all aspects of contractual agreements that would have had a material effect on the Islamic Bank's compliance with Shari'a principles and rules, and in the event of a material non-compliance thereof, have reported the same in the respective sections of this statement below;

e) We are not aware of any transactions, accounts or material agreements or arrangements with Shari'a implications which have not been fairly described, or properly recorded in the financial and accounting records underlying the financial statements;

f) We confirm that there have been no frauds or irregularities involving management or employees who have significant roles in the accounting and system of internal control or any irregularities involving others that could have a material effect on the financial statements or compliance with Shari'a principles and rules;

g) The management has provided fair and transparent information and access to records to the external Shari'a auditors, internal Shari'a auditors, Shari'a compliance officials and the members of Shari'a Supervisory Board for all matters that may have a Shari'a implication; and

Appendix C

h) The management has developed a code of conduct for the Islamic Bank and code(s) of ethics for employees, directors and other officials of the Islamic Bank in line with the Shari'a requirements and we confirm that all employees, directors and other officials have provided confirmation of compliance with the respective code(s) of ethics and we, the management, confirm that the Islamic Bank has complied with the Islamic Bank's code of conduct.

1.4 Unresolved issues and non-compliance of Shari'a principles and rules

We are not aware of any issues with regard to the Shari'a compliance of the Islamic Bank which remained unresolved till the date of this Statement or are established as a material non-compliance with Shari'a principles and rules having an impact on the period under coverage of this Statement.

All immaterial non-compliances with Shari'a principles and rules have been satisfactorily resolved and matters have been concluded in light of the approvals and guidelines of the Shari'a Supervisory Board.

1.5 Charity

We confirm that any amounts determined to be payable / transferable to charity fund have been transferred to the charity fund within reasonable time of identification and as of the date of the financial statements, there is no amount of charity pending transfer to the charity fund. We further confirm that all amounts allocated to charity fund were spent in accordance with the approved charity policy, as approved by the Shari'a Supervisory Board, and that there is no unreasonable delay in spending of such charity amount.

1.6 Explanations on Shari'a Supervisory Board reporting matters

The Shari'a Supervisory Board has conducted its review on the Islamic Bank's compliance with Shari'a rules and principles which included examining, on a test basis, of each type of transaction, the relevant documentation and procedures adopted by Bank Nizwa SAOG. We confirm that the Shari'a Supervisory Board report for the year ended 31 December 2023 does not have any Shari'a non-compliance matters.

1.7 Statement of compliance

Based on our above made representations and confirmations, we conclude and confirm to the best of our knowledge and belief that in our opinion the Islamic Bank's financial arrangements, contracts and transactions for the year ended 31 December 2023 are in compliance with the Shari'a principles and rules, in all material respects, in line with the criteria for compliance with Shari'a principles and rules as described above, and, where applicable, have been reflected adequately in the financial statements of the Islamic Bank as of that date.

For all and on behalf of Bank Nizwa SAOG

Chief Executive Officer	**Internal Sharia Reviewer**

Sharia Supervisory Board Report

بِسْمِ اللهِ الرَّحْمٰنِ الرَّحِيْمِ

Praise is to Allah Almighty, and prayers on Prophet Muhammad and his family and followers;

To the Shareholders of Bank Nizwa,

Assalam 'Alaykum Wa Rahmatul-Allah,

In compliance with the letter of appointment, we are required to submit the following report in respect of the operations of Bank Nizwa during the Year 2023 for the period from 01/01/2023 to 31/12/2023.

We have reviewed the applied principles and contracts relating to the products and services as well as transactions and applications introduced by Bank Nizwa during the mentioned period. We have also conducted our required review to form an opinion as to whether Bank Nizwa has complied with Sharia rules and principles, and also with specific Sharia rulings, resolutions and guidelines issued by the Sharia Supervisory Board.

We conducted our review directly, or through the Sharia Compliance Department, which included examining, on sample basis of each type of transactions, the relevant documentation and procedures adopted by Bank Nizwa. We planned and performed our review so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to establish reasonable assurance that Bank Nizwa has not violated Islamic Sharia rules and principles.

Our responsibility is restricted to provide an independent opinion, based on our review of the operations of Bank Nizwa, and report to you. The management at Bank Nizwa is responsible to ensure that Bank Nizwa conducts its business in accordance with Islamic Sharia rules and principles.

Based on the above, the Sharia Supervisory Board discloses the following opinion:

1) The contracts, transactions and operations concluded by Bank Nizwa during the Year 2023 for the period from 01/01/2023 to 31/12/2023, which we have reviewed, are in compliance with Islamic Sharia rules and principles;

2) The allocation of profit and charging of losses relating to investment accounts conform to the basis that have been approved by the Sharia Supervisory Board and in accordance with Islamic Sharia rules and principles;

3) All earnings which have been realized from sources or by means not in compliance with the Sharia rules have been disbursed to the charity account under the supervision and guidelines of the Sharia Supervisory Board; and

4) We have reviewed the Zakat account and calculated the Zakat amount for each share. Also, the disbursement of Zakat is the responsibility of Shareholders and not the responsibility of the Bank.

We pray to Allah the Almighty to grant us all, success and obedience to Sharia.

Sheikh Dr. Majid bin Muhamad Al Kindi	**Sheikh Dr. Aznan bin Hasan**	**Sheikh Dr. Ali bin Sulaiman Aljahdami**
Chairman of Sharia Supervisory Board	Member of Sharia Supervisory Board	Member of Sharia Supervisory Board

Place and Date: Muscat, 15 of Rajab, 1445 Corresponding to 25 January 2024.

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Independent auditors' report

To the Shareholders of Bank Nizwa SAOG

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Bank Nizwa SAOG (the "Bank"), which comprise the statement of financial position as at 31 December 2023, the statements of income, cash flows, changes in owners' equity, and sources and uses of charity fund for the year then ended, and notes, comprising material accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2023, and results of its operations, changes in owners' equity, its cash flows, and sources and uses of charity fund for the year then ended in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") as modified by the Central Bank of Oman (the "CBO").

In our opinion, the Bank has also complied with the Islamic Shariah Principles and Rules as determined by the Shariah Supervisory Board of the Bank during the year ended 31 December 2023.

Basis for Opinion

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions ("ASIFIs") issued by AAOIFI. Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions, together with the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and this Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CR No. 1358131
Tax Card No. 8063052

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 (continued)

Impairment allowance on financing subject to credit risk	
See notes 2.4.1, 7, 9, 10, 11, 39 (credit risk) and 40 to the financial statements.	
The key audit matter	**How the matter was addressed in our audit**
The Bank recognised allowances for credit losses in its financial statements using expected credit loss ("ECL") models. The Bank exercises significant judgment and makes a number of assumptions in developing its ECL models determined as a function of the probability of default ("PD"), loss given default ("LGD"), adjusted for the forward looking information, and exposure at default ("EAD") associated with the underlying exposures subject to ECL. Complex disclosure requirements apply regarding credit quality of the portfolio including disclosure of key judgments and material inputs used in estimation of expected credit losses. It is necessary toestimate ECLs on an unbiased forward-looking basis incorporating a range of economic conditions. Significant management judgment is applied in determining the economic scenarios used and the probability weights applied to them. This is considered a key audit matter, as the estimation of ECL involves significant management judgement, use of complex models and assumptions and has a material impact on the financial statements of the Bank.	Our audit procedures in this area include the following, among others: • Evaluating the appropriateness of the methodology adopted based on the requirements of applicable accounting standards and our business understanding. • Obtaining an understanding on the ECL accounting estimate by performing walkthrough on the process including, but not limited to, obtaining information about the Bank's control environment in relation to the estimate, obtaining an understanding of the process by which the estimate is developed, understanding the methods, assumptions and data used to develop the accounting estimate. Assessing the design, implementation, and testing the operating effectiveness of selected controls in relation to governance and data migration. • Involving our Financial Risk Management ("FRM") specialists, for a selection of models, to assess the reasonableness and appropriateness of the methodology and assumptions used in various components of ECL modelling and the application of expert credit judgment to determine the ECL. This included, where applicable, challenging key assumptions / judgments relating to significant increase in credit risk ("SICR"), definition of default, probability of default, use of macro-economic variables and probability weighted outcomes to check that the ECL amounts recorded are reflective of underlying credit quality and macroeconomic trends.

CR No. 1358131
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Key Audit Matters (continued)

Impairment allowance on financing subject to credit risk	
See notes 2.4.1, 7, 9, 10, 11, 39 (credit risk) and 40 to the financial statements.	
The key audit matter	**How the matter was addressed in our audit**
	• Testing the completeness and accuracy of the data used within the ECL calculation by sample testing over key data inputs used in estimating the ECL. • Involving our Information Technology (“IT”) specialists to test the relevant general IT and application controls over key systems used for data extraction used in the ECL process. • Re-performing key aspects of the Bank’s SICR determinations for selected samples of loans, advances and Islamic financing to determine whether a SICR event was appropriately identified. • Performing credit assessments for a sample of selected customers, including Stage 3 customers, to test the appropriateness of the credit grades, including staging, assessing the financial performance of the borrower, source of repayment and future cash flows of the borrower, and as necessary, challenging the appropriateness of the ECL calculation by involving FRM Specialists to re-perform the calculation for a sample of borrowers. • Assessing the adequacy of the Bank’s disclosures by reference to the requirements of the relevant accounting standards.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the annual report but does not include the financial statements and our auditors' report thereon. Prior to the date of this auditors' report, we obtained the Board of Directors' report and other sections which forms part of the annual report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the Financial Statements

The Board of Directors are responsible for the Bank's undertaking to operate in accordance with Islamic Sharia Rules and Principles as determined by the Bank's Shariah Supervisory Board.

The Board of Directors are also responsible for the preparation and fair presentation of the financial statements in accordance with FAS as modified by CBO and their presentation in compliance with the relevant requirements of the Capital Market Authority and the applicable provisions of the Commercial Companies Law of 2019, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

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

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

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

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

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

CR No. 1358131
Tax Card No. 8063052

Report on Other Legal and Regulatory Requirements

Further, we report that financial statements of the Bank as at and for the year ended 31 December 2023, comply, in all material respects, with the:

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

Kenneth Macfarlane
11 March 2024

KPMG LLC

KPMG
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Children's Public Library Building
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P O Box 641, PC 112
Sultanate of Oman
CR.No: 1358131

CR No. 1358131
Tax Card No. 8063052

STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	Notes	2023	2022
		RO'000	RO'000
Assets			
Cash and balances with Central Bank of Oman	4	**51,300**	52,578
Due from banks and financial institutions	5	**9,199**	11,929
Inter-bank Wakala investments	6	**15,315**	29,053
Sales receivables and other receivables – net	7	**274,963**	271,930
Investment securities	8	**144,742**	143,537
Musharaka Financing – net	9	**484,986**	364,836
Ijara Muntahia Bittamleek – net	10	**228,309**	250,548
Wakala Bil Istethmar – net	11	**371,924**	339,446
Property and equipment	13	**5,239**	5,261
Intangible assets	14	**3,527**	3,144
Other assets	15	**18,791**	13,861
Total assets		**1,608,295**	1,486,123
Liabilities, equity of unrestricted investment accountholders and owners' equity			
Liabilities			
Customers' accounts	16	**218,828**	205,208
Other liabilities	17	**38,997**	39,592
Total liabilities		**257,825**	244,800
Equity of unrestricted investment accountholders	18	**1,097,426**	995,267
Owners' equity			
Paid-up capital	19	**220,011**	220,011
Share premium	20	**2,091**	2,091
Investment fair value reserve	21.1	**(259)**	741
Legal reserve	21.2	**7,727**	6,025
Impairment reserve		**150**	150
Retained earnings		**23,324**	17,038
Total owners' equity		**253,044**	246,056
Total liabilities, equity of unrestricted investment accountholders and owners' equity		**1,608,295**	1,486,123
Net assets per share (RO)	34	**0.113**	0.110
Contingent liabilities and commitments	23	**381,640**	391,304

The financial statements were approved by the Board of Directors on 10th March 2024 and signed on their behalf by:

Khalid bin Abdullah Al Khalili
Chairman

Musabah bin Saif Al Mutairy
Vice Chairman

Khalid Al Kayed
Chief Executive Officer

The attached notes 1 to 40 form part of these financial statements.

STATEMENT OF INCOME

For the year ended 31 December 2023

	Notes	2023 RO'000	2022 RO'000
Sales receivables and other receivables revenue	24	**14,352**	13,248
Ijara Muntahia Bittamleek	25	**12,129**	14,071
Profit from Wakala Bil Istethmar		**19,191**	20,355
Profit from Musharaka Financing	26	**25,119**	18,078
Profit from inter-bank Wakala investments	27	**1,132**	724
Profit from investment securities	28	**8,439**	6,327
Income from jointly financed investments and receivables		**80,362**	72,803
Return on unrestricted investment accountholders before the Bank's share as Mudarib	29	**(42,668)**	(36,552)
Bank's share as Mudarib		**6,226**	5,943
Return on unrestricted investment accountholders		**(36,442)**	(30,609)
Bank's share in income as Mudarib and Rabul Maal		**43,920**	42,194
Bank's income from its own investments and financing	30	**550**	1,706
Revenue from banking services	31	**9,431**	7,580
Foreign exchange gain – net		**1,455**	1,016
Total revenues		**55,356**	52,496
Operating expenses	32	**(24,730)**	(21,905)
Depreciation and amortization	13, 14	**(2,921)**	(2,449)
Total expenses		**(27,651)**	(24,354)
Profit before provisions and tax		**27,705**	28,142
Impairment losses - net	12	**(7,949)**	(10,626)
Profit before tax		**19,756**	17,516
Income tax	33	**(2,734)**	(2,460)
Profit for the year		**17,022**	15,056
Earnings per share basic and diluted – (RO)	35	**0.008**	0.007

The attached notes 1 to 40 form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Notes	2023	2022
		RO'000	RO'000
Cash flows from operating activities			
Profit before tax		**19,756**	17,516
Adjustments for:			
Depreciation and amortization	13, 14	**2,921**	2,449
Impairment losses	12	**7,949**	10,626
Investment risk reserve		**-**	(89)
Board remunerations		**-**	(225)
Cash flows from operating activities before changes in operating assets and liabilities		**30,626**	30,277
Changes in operating assets and liabilities:			
Increase in sales receivables and other receivables		**(3,177)**	(43,199)
Decrease in Ijara Muntahia Bittamleek assets		**22,105**	41,613
Increase in Musharaka financing		**(124,248)**	(95,003)
Increase in other assets		**(6,977)**	(4,768)
Increase / (Decrease) in customers' accounts		**13,620**	(8,180)
Increase in other liabilities		**2,744**	3,270
Cash used in operations		**(65,307)**	(75,990)
Tax paid		**(2,455)**	(2,125)
Net cash used in operating activities		**(67,762)**	(78,115)
Investing activities			
Increase in investment in financial assets at FVOCI		**(4,368)**	(14,448)
Decrease in investment in financial assets at amortized cost		**2,002**	-
Movement in Wakala Bil Istethmar		**(36,638)**	(2,051)
Purchase of intangible assets	14	**(878)**	(272)
Purchase of property and equipment	13	**(3,104)**	(3,997)
Inter-bank Wakala investment		**(5,775)**	-
Payment of lease liabilities		**(191)**	(1,533)
Net cash flows used in investing activities		**(48,952)**	(22,301)
Financing activities			
Increase in unrestricted investment accountholders		**102,342**	78,611
Dividends paid		**(9,034)**	(7,700)
Net cash flows generated from financing activities		**93,308**	70,911
Decrease in cash and cash equivalents		**(23,406)**	(29,505)
Cash and cash equivalents at the beginning of the year		**92,923**	122,428
Cash and cash equivalents at the end of the year		**69,517**	92,923
Cash and balances with CBO	4	**51,300**	52,578
Capital deposit with CBO	4	**(500)**	(500)
Due from banks and financial institutions	5	**9,202**	11,995
Inter-bank Wakala investment less than three months	6	**9,515**	28,850
Cash and cash equivalents for the purpose of cash flow statement		**69,517**	92,923

The attached notes 1 to 40 form part of these financial statements.

STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2023

	Paid-up capital	Share premium	Investment fair value reserve	Legal reserve	Impairment reserve	Retained earnings	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Balance at 1 January 2023	**220,011**	**2,091**	**741**	**6,025**	**150**	**17,038**	**246,056**
Investment fair value reserve (net of tax)	**-**	**-**	**(1,000)**	**-**	**-**	**-**	**(1,000)**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**17,022**	**17,022**
Transfer to legal reserve	**-**	**-**	**-**	**1,702**	**-**	**(1,702)**	**-**
Dividend paid	**-**	**-**	**-**	**-**	**-**	**(9,034)**	**(9,034)**
Balance as at 31 December 2023	**220,011**	**2,091**	**(259)**	**7,727**	**150**	**23,324**	**253,044**

	Paid-up capital	Share premium	Investment fair value reserve	Legal reserve	Impairment reserve	Retained earnings	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Balance at 1 January 2022	220,011	2,091	1,655	4,519	150	11,413	239,839
Investment fair value reserve (net of tax)	-	-	(914)	-	-	-	(914)
Profit for the year	-	-	-	-	-	15,056	15,056
Transfer to legal reserve	-	-	-	1,506	-	(1,506)	-
Dividend paid	-	-	-	-	-	(7,700)	(7,700)
Board remuneration	-	-	-	-	-	(225)	(225)
Balance as at 31 December 2022	220,011	2,091	741	6,025	150	17,038	246,056

The attached notes 1 to 40 form part of these financial statements.

STATEMENT OF SOURCES AND USES OF CHARITY FUND

For the year ended 31 December 2023

	2023	2022
	RO'000	RO'000
Sources of charity fund		
Balance as at 1 January	-	-
Non-Islamic income for the year	90	45
Total source	90	45
Uses of charity fund		
Use of charity fund *	90	45
Undistributed charity fund as at 31 December	-	-

* The charity fund is utilised by making contribution to organizations which are registered with the Ministry of Awqaf and Religious affairs, namely Zakat Seeb Committee, Oman Charitable Organization and Oman Association of the Care of Holy Quran.

The attached notes 1 to 40 form part of these financial statements.

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Bank Nizwa SAOG ("the Bank") was registered in the Sultanate of Oman as a public joint stock company under registration number 1152878 on 15 August 2012. The Bank's shares are listed on the Muscat Stock Exchange "MSX" and its principal place of business is in Muscat, Sultanate of Oman.

The Bank commenced its operations on 23 December 2012 and currently operates through twenty two branches (2022: nineteen branches) in the Sultanate under the banking license issued by the Central Bank of Oman on 19 December 2012.

The principal activities of the Bank are opening current, saving and investment accounts, providing Murabaha finance, Ijara financing and other Shari'a compliant forms of financing as well as managing investors' money on the basis of Mudaraba in exchange for a profit share or agency in exchange for a fee, and excess profit as incentive providing commercial banking services and other investment activities.

The Bank's activities are regulated by the Central Bank of Oman ("CBO") and supervised by a Shari'a Supervisory Board ("SSB") whose role is defined in Bank's Memorandum and Articles of Association.

At 31 December 2023, the Bank had 463 employees (2022: 436 employees) and its address is: P O Box 1423, Postal Code 133, Muscat, Sultanate of Oman.

The Board of Directors of the Bank and Sohar International SAOG on 30 November 2023, announced through MSX that they have discontinued the discussion of the proposed Merger for the time being and that the Board shall update the market and shareholders of any material development in timely manner.

2 BASIS OF PREPARATION

2.1 Statement of compliance

In accordance with the requirements of Section 1.2 of Title 3 of the Islamic Banking Regulatory Framework ("IBRF") issued by CBO, the financial statements have been prepared in accordance with Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank and the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), as adopted by CBO and other applicable regulations of CBO. In accordance with requirements of AAOIFI, matters that are not covered by FAS, the Bank uses guidance from the relevant International Financial Reporting Standards ("IFRS"). Thus, subject to preparation of the financial statements in accordance with FAS issued by AAOIFI, the financial statements comply with the relevant disclosure requirements of the Commercial Companies Law of 2019, as amended and Capital Market Authority of the Sultanate of Oman.

Statement of restricted investment accountholders, statement of Qard fund and Zakat are not presented as these are not applicable.

2.2 Basis of measurement

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

2.3 Functional and presentation currency

The financial statements have been presented in Rial Omani (RO) which is the functional currency of the Bank. Except as otherwise indicated, financial information presented in RO has been rounded off to the nearest thousand Rials Omani.

2.4 Use of estimates and judgements

The preparation of financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and assumptions are based on historical experience and various other factors including expectation of future events that are believed by the Bank to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The significant use of judgments and estimates are as follows:

2.4.1 Expected Credit Loss on financial assets

Judgments made in applying accounting policies that have most significant effects on the amounts recognized in the financial statements pertain to the following:

- Classification of financial assets: assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and profit of the principal amount outstanding.
- Calculation of expected credit loss (ECL): changes to the assumptions and estimate on uncertainties that have a significant impact on ECL. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation.

2. BASIS OF PREPARATION *(continued)*

2.4 Use of estimates and judgements (continued)

2.4.1 Expected Credit Loss on financial assets (continued)

Inputs, assumptions and techniques used for ECL calculation

The following have the most significant impact and require a high level of judgment, as considered by the Bank while determining the impact assessment, are:

- Assessment of significant Increase in credit risk
- Macro-economic factors, forward looking information and multiple scenarios
- Definition of default
- Expected life

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

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

3 SIGNIFICANT ACCOUNTING POLICIES

There financial statements have been prepared using accounting policies, which are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2023 except for the adoption of new standards as set out in note 3.35.1.

3.1 Cash and cash equivalents

For the purposes of the statement of cash flows cash and cash equivalents comprise cash in hand, non-restricted balance with the CBO, amounts due to / from banks and financial institutions, inter-bank Wakala, with remaining maturity of three months. Cash and cash equivalents are carried at amortised cost at the reporting date.

3.2 Sales receivables and other receivables

- Sales receivables consist mainly of sales transaction agreements (Murabaha) stated net of deferred profits and provision for impairment. The Bank considers the promise made in the Murabaha to the purchase orderer as obligatory.
- Istisna receivables is a sale agreement between the Bank as the seller and the customer as the ultimate purchaser whereby the Bank undertakes to have manufactured (or acquire) goods and sell it to the customer for an agreed upon price on completion at future date. Istisna receivables are stated net of deferred profits and provision for impairment.
- Ijara income receivables represent outstanding rentals at the end of the year less any provision for doubtful amount.

3.3 Ijara Muntahia Bittamleek and Ijara income receivables

Assets acquired for leasing (Ijara) are stated at cost, less accumulated depreciation. Leased assets are depreciated over the life of the lease in a systematic manner.

3.4 Wakala Bil Istethmar

Wakala Bil Istithmar is used as a short to medium and long-term working capital financing tool. The Bank, in its capacity as the Principal (hereinafter referred to as the "Muwakkil") appoints the Client as its Agent (hereinafter referred to as the "Wakil") to manage the investment amount (hereinafter referred to as the "Investment Amount") in Shari'a-compliant activities that may be entered into, as agreed, by the Wakil on behalf of the Muwakkil. The prime objective of making such an investment is to generate profit from the business activities and get the Investment Amount paid back along with the realized profit amount, if any, on the investment maturity date compared to the anticipated profit rate Investments.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.5 Musharaka financing

Diminishing Musharaka is a contract, based on Shirkat-ul-Mulk, between the Bank and a customer for joint ownership of a fixed asset (e.g. house, land, plant or machinery). The Bank divides its share in the fixed asset into units and gradually sells the ownership of these units to customer (at carrying value).It is a contract in which the Bank contributes capital. These are stated at the fair value of consideration given less impairment.

3.6 Investments

Equity-type instruments at fair value through profit and loss

Investments at fair value through statement of income include investments held for trading and investments designated upon initial recognition as investments at fair value through statement of income.

An investment is classified as held for trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Any investments that form part of a portfolio where there is an actual pattern of short-term profit taking are also classified as 'held for trading'.These investments are subsequently measured at fair value. The unrealised gains and losses arising from the remeasurement to fair value are included in the statement of income.

Equity-type instruments at fair value through equity

This includes all equity-type instruments that are designated as fair value through equity upon initial recognition. Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value with unrealised gains or losses recognised proportionately in owners' equity and equity of investment accountholders until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in owners' equity or equity of investment accountholders is recognised in statement of income. These investments are subject to impairment testing at each reporting date.

Debt-type instruments at fair value through equity

These include investments which have fixed or determinable payments of profit and capital and are held within a business model whose objective is achieved by both collecting expected cashflows and selling the investments. These are initially recognised at fair value, being the value of the consideration given including transaction costs directly attributable to the acquisition.

Debt-type instruments at amortised cost

Debt-type instruments which are managed on a contractual yield basis and are not held for trading and has not been designated at fair value through statement of income are classified as debt-type instruments at amortised cost. Such investments are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such investment is recognised in the statement of income, when the investment is de-recognised or impaired.

3.7 Financial Instruments

a) Classification of financial instruments

Financial assets consist of balances with Central Bank of Oman, due from banks and financial institutions, financial assets at amortised cost, financial assets through equity, sales receivables and other receivables, Musharaka Financing, Inter-bank Wakala Investments, Ijarah Muntahia Bittamleek, Diminishing Musharaka, and other receivables.

Financial liabilities contracts consist of customers' accounts and other payables.

All financial assets and financial liabilities are carried at amortised cost.

b) Measurement of financial Instruments

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit and loss, transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

Amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus the capital repayments, plus or minus the cumulative amortization using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability. The calculation of the effective profit rate includes all fees paid or received that are an integral part of the effective profit rate.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.7 Financial Instruments *(continued)*

c) Trade and settlement date accounting

The Bank recognises financing, investments, deposits and equity of investment accountholders on the date on which they are originated. Purchases and sale of all other financial assets and liabilities are recognised on the trade date, i.e. the date that the Bank contracts to purchase or sell the asset or liability.

d) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risk and rewards of ownership.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to pay.

Financial liabilities are derecognised when the obligation specified in the contract is legally discharged, cancelled, or expired.

e) Impairment

Overview of the ECL principles

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

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

Both LTECLs and 12-month ECLs 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 financing exposure into Stage 1, Stage 2, and Stage 3, as described below:

Stage 1: Twelve months ECL

For exposures where there has not been a Significant Increase in Credit Risk ("SICR"), since initial recognition, a portion of the LTECL associated with the probability of default events occurring within next twelve months is recognised.

Stage 2: LTECL – not credit impaired

For credit exposures where there has been a SICR since initial recognition but that are not credit impaired, LTCEL is recognised. LTECL (Stage 2) is a probability-weighted estimate of credit losses and is determined based on the difference between the present values of all cash shortfalls. The cash shortfall is the difference between all contractual cash flows that are due to the Bank and the present value of the recoverable amount, for financial assets that are not credit-impaired at the reporting date.

Stage 3: LTECL – credit impaired

Financial contracts are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.

For Stage 3 financial contracts, the provisions for credit-impairment are determined based on the difference between the net carrying amount and the recoverable amount of the financial contract.

The calculation of ECLs

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

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

- PD – The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.7 Financial Instruments *(continued)*

e) Impairment *(continued)*

The calculation of ECLs *(continued)*

- EAD – The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued profit from missed payments.
- LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Bank would expect to receive, including from the realisation of any collateral, if any. It is usually expressed as a percentage of the EAD. The Bank has applied a LGD of 0% on Government Sukuk issued by Government of Oman which are classified as debt investments under amortised cost.

Credit-impaired financial assets

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

a) Significant financial difficulty of the borrower or issuer;
b) A breach of contract such as a default or past due event;
c) The restructuring of a financing or advance by the Bank on the terms that the Bank would not consider otherwise;
d) It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
e) The disappearance of an active market for a security because of financial difficulties.

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

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

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

Write-offs

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

Presentation of allowance for credit losses in the statement of financial position

Allowance for credit losses are presented in the statement of financial position as follows:

- financial assets measured at amortised cost, as a deduction from the gross carrying amount of the assets;
- financing commitments and financial guarantee contracts: generally as a provision under other liabilities; and
- Where a financial contract includes both a drawn and undrawn component, and the Bank has identified the ECL on the financing commitments / off-balance sheet component separately from those on the drawn component, the Bank presents allowance for credit losses for drawn components. The amount is presented as a deduction from the gross carrying amount of the drawn component. Allowance for credit losses for the undrawn component is presented as a provision in other liabilities.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.7 Financial Instruments *(continued)*

e) Impairment *(continued)*

Calculation of expected credit loss (ECL)

Inputs, assumptions and techniques used for ECL calculation

Key concepts in FAS 30 that have the most significant impact and require a high level of judgment, as considered by the Bank while determining the impact assessment.

Assessment of Significant Increase in Credit Risk

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Bank compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Bank's existing risk management processes.

The Bank's assessment of significant increases in credit risk is being performed at least quarterly for each individual exposure based on eleven factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2:

The Bank will consider a financial asset to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

a. The remaining Lifetime PD at the reporting date has increased as result of downgrading of internal rating by two notches;
b. Inadequate or unreliable financial and other information such as unavailability of audited financial statement
c. Non-cooperation by the counterparty in matter pertaining to documentation
d. Counterparty is the subject of litigation by third parties that may have a significant impact on his financial position
e. Frequent changes in senior management
f. Intra-group transfer of funds without underlying transactions
g. Deferment/delay in the date for commencement of commercial operations by more than one year
h. Modification of terms resulting in concessions granted to counterparty including extension of moratorium, deferment of payment, waiver of covenants, etc. In applying this requirement, bank is guided by the extant instructions of CBO in regard to treating an account as restructured.
i. A fall of 25 percent or more in the turnover or in the EBIT as compared to previous year
j. Erosion in net-worth by more than 20 percent as compared to the previous year and coupled with an increase in leverage.
k. A fall in the debt service ratio below 1.

FAS 30 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date.

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios

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

Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables), that are closely correlated with credit losses in the relevant portfolio.

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios (continued)

The Banks base case scenario is based on macroeconomic forecasts using historical information from external sources including impact of portfolio and industry related information. Where worse-case scenario is developed taking the historical information of defaults and is regressed to arrive at forward looking results.

Scenarios are probability-weighted according to the Bank best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights are updated on an annual basis (if required).

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.7 Financial Instruments *(continued)*

e) Impairment *(continued)*

Definition of default

The definition of default used in the measurement of ECL and the assessment to determine movement between stages is consistent with the definition of default used for internal credit risk management purposes. FAS 30 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due. The Bank considers any exposure greater than 90 days past due as a default account.

Expected life

When measuring ECL, the Bank must consider the maximum contractual period over which the Bank is exposed to credit risk. All applicable contractual terms are considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Bank is exposed to credit risk and where the credit losses would not be mitigated by management actions.

3.8 Investment in Ijarah muntahia bittamleek

Operating Ijarah of the Bank as lessee:

Ijarah instalments are allocated over the financial periods of the lease term and recognised in the financial period in which these instalments are due. Ijarah instalments are presented in the lessee's statement of income as Ijarah expenses. Initial direct cost incurred by lessee for arranging for the lease agreement is, if material, allocated to periods in the lease term in a pattern consistent with that used for allocating Ijarah expenses. If immaterial they are charged directly as an expense to the financial period in which the lease agreement is made.

Operating Ijarah of the Bank as lessor:

Is an Ijarah that is not accompanied with an option of transfer of ownership of the underlying asset to the Lessee.; the leased asset is presented in the lessor's statement of financial position under Investment in Ijarah assets.

3.9 Derecognition of financial assets and liabilities

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

(i) the right to receive cash flows from the asset has expired;

(ii) the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

3.10 Jointly and self-financed

Investments, financing and receivables that are jointly owned by the Bank and equity of unrestricted investment accountholders are classified under the caption "jointly financed" in the financial statements. Investments, financing and receivables that are financed solely by the Bank are classified under "self-financed".

3.11 Fair value for financial assets

For investments quoted in an active market, fair value is determined by reference to quoted market prices.

For financial instruments where there is no active market, fair value is normally based on comparison with the current market value of highly similar financial instruments.

Where the fair value of an investment cannot be reliably measured, it is stated at the fair value of consideration given or amortised cost and any impairment in the value are recorded in statement of income. For Sales (Murabaha) receivables the fair value is determined at the end of the financial period at their cash equivalent value.

3.12 Fair value for non-financial assets

Market prices represent the fair value for non-financial assets. In case market prices are not available, they are assessed by taking average value of three assessments from experienced and certified parties.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.13 Property and equipment

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment in value. Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives from the date the assets is brought in to use as follows:

	Years
Furniture	5
Fixtures	10
Equipment	7
Motor vehicle	7
Computer hardware	5

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amount, and the impairment is recorded in the statement of income.

Right-of-use asset

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use 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 Bank 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. The carrying value of right to use the underlying asset is presented as "Right-of-use assets" in the statement of financial position.

Amortization charge for the period is presented with net Ijarah costs under other general and administrative expenses.

3.14 Intangible assets

Intangible assets are classified according to their useful life for a specified or unspecified period of time. Intangible assets with definite useful life are amortised over 10 years and amortisation is recorded in statement of income. For intangible assets with indefinite useful life, impairment in value is reviewed at the reporting date and any impairment in their value is recorded in statement of income.

Any indications of impairment of intangible assets are reviewed at the reporting date; in addition, the useful lives of these assets are reviewed annually. If expected useful lives vary from the estimated ones the change in estimate is adjusted prospectively.

3.15 Equity of unrestricted investment accountholders

Equity of investment accountholders ("IAH") are funds held by the Bank in one common pool of unrestricted investment account, which is invested by the Bank ('Mudarib') in its own discretion. These include funds raised under Mudaraba contracts and Wakala contracts under multi-level investment arrangements. The funds received under the Wakala arrangement is invested in the Mudaraba investment pool and is considered as investment made by an investment account holder.

Under both the Mudaraba and a comingled Wakala arrangement, the investment accountholder authorizes the Bank to invest the accountholder's funds in a manner which the Bank deems appropriate without laying down any restrictions as to the purpose the funds should be invested.

The Bank charges management fee (Mudarib fees) to investment accountholders. The allocation of income is determined by the management of the Bank at a pre-agreed ratio with IAH. Administrative expenses incurred in connection with the management of the fund are borne directly by the Bank and are not charged to investment accounts. Only profits earned on pool of assets funded from IAH are allocated between the owners' equity and IAH. All equity of investment accountholders are carried at cost plus profit and related reserves less amounts settled.

The basis applied by the Bank in arriving at the equity of investment accountholder's share of income is total investment income less shareholders' income. Incase of Wakala contracts, the Bank does not acts as both an investment agent and Mudarib of the same fund at one time. Therefore, in case of comingling of Wakala investment funds with the Mudaraba pool, the investment agent will only charge Wakala Fee and will not share profits from the Mudaraba investment pool in the capacity of Mudarib.

Under FAS 30, ECL is allocated to the assets invested using funds from unrestricted investment accounts.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.16 Lease

At the inception of the contract, the Bank (as a "Lessee") assesses whether a contract is, or contains, a lease. The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

3.17 Profit equalisation reserve

Profit equalisation reserve, this is the amount appropriated by the Bank out of Mudaraba income before allocating the Bank's share as investment manager (Mudarib), in order to maintain a certain level of return on investment for unrestricted investment accountholders and increase owners' equity.

3.18 Investment risk reserve

Investment risk reserve is the amount appropriated by the Bank 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 Bank.

3.19 Foreign currencies

Transactions in foreign currencies are recorded at the exchange rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Omani Riyal at the mid-rate of exchange at the reporting date. All differences are taken into the statement of income. Translation gains or losses on non-monetary items carried at fair value are included in equity as part of the fair value adjustment.

3.20 Offsetting

Financial assets and financial liabilities are only offset and the net amount is reported when there is a Shari'a or legally enforceable right to set off the recognized amounts and the Bank intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.21 Revenue recognition

Sales receivables and other receivables

Murabaha profit from sales transactions is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised on a time-apportioned basis over the period of the transaction. Where the income from a contract is not contractually determinable or quantifiable, it is recognised when the realisation is reasonably certain or when actually realised.

Istisna profit from Istisna is recognised using proportionate allocation over the future financial period of credit whereby each financial period shall carry its portion of profits irrespective of whether or not cash received.

Ijara Muntahia Bittamleek Ijara income is recognised on a time apportioned basis over the Ijara term.

Wakala Bil Istethmar

Income from Wakala Bil Istethmar is recognised on a time apportioned basis so as to yield a constant periodic rate of return based on the balance outstanding.

Investment in Ijarah asset

Ijarah revenue is allocated proportionately to the financial periods in the lease term. Ijarah revenue is presented in the lessor's statement of income as Ijarah revenue. Initial direct cost incurred by lessee for arranging for the lease agreement is, if material, be allocated to periods in the lease term in a pattern consistent with that used for allocating Ijarah expenses. If immaterial they are charged directly as an expense to the financial period in which the lease agreement is made. Ijarah receivables are measured at their cash equivalent value.

Musharaka

Income on Musharaka financing is recognised when the right to receive payments is established or on distribution.

Bank's share as Mudarib of income from equity of unrestricted investment accountholders

The Bank's share as a Mudarib for managing equity of unrestricted investment accountholders is accrued based on the terms and conditions of the related Mudarib agreements.

Fee and commission

Fees and commission income is recognised upon rendering the services.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.21 Revenue recognition *(continued)*

Dividends

Dividends are recognised when the right to receive payment is established.

Income from investments

Income from investments is recognised when earned.

Rental income from investment in real estate

Rental income is accounted for on a straight-line basis over the term of the lease.

3.22 Return on equity of unrestricted investment accountholders

Investors' share of income is calculated based on income generated from joint investment accounts after deducting profit equalisation reserve, Bank's share as Mudarib, fund provider and investment risk reserve. The investors' share of income is distributed to the investors based on average participation balance in the Mudaraba pool.

3.23 Employee benefits

Obligations for contributions to an unfunded defined benefit retirement plan, for Omani employees, in accordance with the Oman Social Insurance Scheme, are recognised as an expense in statement of income as incurred.

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

3.24 Directors' remuneration

Director's remuneration is calculated in accordance with the requirements of Commercial Companies Law and Capital Market Authority of the Sultanate of Oman.

3.25 Segment 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 management to make decisions about the resources allocated to each segment and assesses its performance and for which discrete financial information is available. The Bank's primary format for reporting segmental information is business segment, based upon management internal reporting structure. The Bank's main business segments are comprised of retail, corporate and treasury and investment banking.

3.26 Taxation

Taxation is provided for based on the tax laws of Sultanate of Oman. Income tax comprises current and deferred tax. Income tax expense is recognised in statement of income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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 is 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 at 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 utilized. 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.

3.27 Earnings prohibited by Shari'a

The Bank is committed to avoid recognising any income generated from Sharia non-compliant sources. Accordingly, all Shari'a non-complaint income is credited to a charity fund and the Bank disburses these funds according to the Shari'a Supervisory Board supervision and instructions.

3.28 Zakah

Shari'a supervisory board has the responsibility to review the Zakat account and calculate the Zakat amount for each share. Also, the disbursement of Zakat is the responsibility of Shareholders and not the responsibility of the Bank.

The Bank uses net invested assets method in order to calculate Zakah amount. Total due Zakah amounted to RO 5.8 million divided into 2,236,953,032 shares equal to 0.0026 per share.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.29 Shari'a supervisory board

All business activities, products, transactions, agreements, contracts and other relevant documents are subject to the supervision of the Shari'a Supervisory Board of the Bank which meets quarterly and consists of three prominent Shari'a scholars appointed by the General Assembly of Shareholders.

- Sheikh Dr. Majid Al Kindi	Chairman
- Sheikh Dr. Aznan Hasan	Member
- Sheikh Dr. Ali Al Jahdhmi	Member

3.30 Trade date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Bank commits to purchase or sell the asset.

3.31 Dividend on ordinary shares

Dividend on ordinary shares is recognised as liability and deducted from equity in the period when it is approved by the Bank's shareholders. Interim dividend is deducted from equity when they are paid.

3.32 Earnings per share (EPS)

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

3.33 Provisions

The Bank recognizes provisions when it has a present legal or constructive obligation to transfer economic benefits as a result of past events and reasonable estimate of the obligation can be made. Where the company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

3.34 Collaterals pending sale

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

3.35 New standards, amendments and interpretations

3.35.1 New standards, amendments and interpretations effective from 1 January 2023

FAS 39 Financial Reporting for Zakah

The objective of this standard is to establish the principles of financial reporting related to Zakah attributable to different stakeholders of an Islamic financial institution and provides guidance on two main categories of institutions namely "institutions obliged to pay Zakah" and "institutions not obliged to pay Zakah". 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. The Bank has disclosed the requirement of the standard in note 3.28 of the financial statements.

FAS 41 Interim Financial Reporting

This standard prescribes the principles for the preparation of condensed interim financial information and the relevant presentation and disclosure requirements, emphasizing the minimum disclosures specific to Islamic financial institutions in line with various financial accounting standards issued by AAOIFI. This standard is also applicable to the institutions which prepare a complete set of financial statements at interim reporting dates in line with the respective FAS's.

This standard is effective for financial statements for the period beginning on or after 1 January 2023. The Bank adopted this standard for the basis of preparation of its condensed interim financial information. The adoption of this standard did not have any significant impact on the Bank's interim financial information.

FAS 44 Determining Control of Assets and Business

The Bank has adopted FAS 44 Determining Control of Assets and Business with immediate effect from the date of issue. This standard prescribes the principles assessing as to whether and when an institution controls an asset or a business, both in the case of underlying asset(s) of a participatory structure, as well as, for the purpose of consolidation of financial statements of subsidiaries. This standard is applicable to the institutions preparing financial statements in line with the requirements of AAOIFI Financial Accounting Standards. As Bank has already adopted the FAS 33 for participatory investments earlier in 2022, therefore, upon the adoption of the standard there is no significant impact on Bank's financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

3.35.2 New standards, amendments and interpretations issued but not yet effective

The new and amended standards and interpretations that are issued by AAOIFI, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

FAS 1 General Presentation and Disclosures in the Financial Statements

AAOIFI has issued the revised FAS 1 General Presentation and Disclosures in the Financial Statements in 2021. This standard describes and improves the overall presentation and disclosure requirements prescribed in line with the global best practices and supersedes the earlier FAS 1. It is applicable to all the Islamic Financial Institutions and other institutions following AAOIFI FAS's. This standard is effective for the financial reporting periods beginning on or after 1 January 2024 with an option to early adopt.

The revision of FAS 1 is in line with the modifications made to the AAOIFI conceptual framework for financial reporting.

FAS 1 General Presentation and Disclosures in the Financial Statements (continued)

Some of the significant revisions to the standard are as follows:

a) Revised conceptual framework is now integral part of the AAOIFI FAS's;

b) Definition of Quassi equity is introduced;

c) Definitions have been modified and improved;

d) Concept of comprehensive income has been introduced;

e) Institutions other than Banking institutions are allowed to classify assets and liabilities as current and non-current;

f) Disclosure of Zakah and Charity have been relocated to the notes;

g) True and fair override has been introduced;

h) Treatment for change in accounting policies, change in estimates and correction of errors has been introduced;

i) Disclosures of related parties, subsequent events and going concern have been improved;

j) Improvement in reporting for foreign currency, segment reporting;

k) Presentation and disclosure requirements have been divided into three parts. First part is applicable to all institutions, second part is applicable only to banks and similar IFI's and third part prescribes the authoritative status, effective date an amendments to other AAOIFI FAS's; and

l) The illustrative financial statements are not part of this standard and will be issued separately.

The Bank is assessing the impact of adoption of this standard and expects changes in certain presentation and disclosures in its financial statements in line with the wider market practice.

FAS 45 Quasi-Equity (Including Investment Accounts)

AAOIFI has issued FAS 45 Quasi-Equity (Including Investment Account) in 2023. The objective of this standard is to establish the principles of financial reporting related to instruments classified as quasi-equity, such as investment accounts and similar instruments invested with the Islamic financial institutions. This standard applies to all instruments that meet the definition of quasi-equity held with an institution in line with the conceptual framework. The standard will be effective from the financial periods beginning on or after 1 January 2026 with earlier adoption being permitted. Based on the initial review, Management believes that there is no significant impact on the Bank's financial statements.

FAS 46 Off-Balance-Sheet Assets under Management

AAOIFI has issued FAS 46 Off-Balance-Sheet Assets under Management in 2023. The objective of this standard is to establish the principles of financial reporting related to off-balance-sheet assets under management in line with the "AAOIFI Conceptual Framework for Financial Reporting". This standard applies to Islamic financial institutions preparing financial statements in line with the requirements of AAOIFI Financial Accounting Standards with regard to the assets managed in a fiduciary capacity without establishing control except for the participants' Takaful fund / participants' investment fund of a Takaful institution; and an investment fund managed by an institution, being a separate legal entity. The standard will be effective from the financial periods beginning on or after 1 January 2026 with earlier adoption being permitted. Based on the initial review, Management believes that there is no significant impact on Bank's financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

3.35.2 New standards, amendments and interpretations issued but not yet effective

FAS 47 Transfer of Assets between Investment Pools

AAOIFI has issued FAS 47 Transfer of Assets between Investment Pools in 2023. The objective of this standard is to establish the principles of financial reporting that apply in respect of transfer of assets between various investments pools of an Islamic financial institution. This standard applies to all transfers of assets between investment pools related to (and where material, between significant categories of) owners' equity, quasi-equity and off-balance-sheet assets under management of all institutions, irrespective of their type or business model. The assets transferred include both monetary and non-monetary assets. The standard will be effective from the financial periods beginning on or after 1 January 2026 with earlier adoption being permitted. Based on the initial review, Management believes that there is no significant impact on Bank's financial statements.

FAS 42 Presentation and Disclosures in the Financial Statements of Takaful Institutions

This standard sets out the principles for the presentation and disclosure in the financial statements of Takaful Institutions and prescribes the set of financial statements that the institutions should periodically publish to satisfy the common information needs of users of financial statements. Further this standard also establishes the general principles of presentation of information and adequately reflecting the rights and obligations of different stakeholders within the Takaful business model. This standard should be read in conjunction with FAS 43 – Accounting for Takaful Recognition and Measurement.

This standard supersedes the existing FAS 12 General presentation and disclosures in the financial statements of Islamic Insurance Companies and introduces following key changes:

- The standard is aligned with the AAOIFI Conceptual Framework for Financial Reporting (Revised 2020) and FAS 1 General Presentation and Disclosures in the Financial Statements;
- The presentation and disclosure in the standard have been amended to be aligned with the Sharia principles and rules relating to Takaful, whereby the Takaful operator is distinct from the participants' funds (including participants' Takaful fund (PTF) and participants' investment fund (PIF);
- The PTF and PIF are considered to be off-balance sheet assets under management, therefore, separate from the Takaful Operator;
- Statements for the managed PTF and managed PIF have been introduced, including separate statements for financial position and financial activities of the managed PTF;
- Disclosures of Zakah, Charity and Qard funds have been relocated to the notes to the financial statements in line with FAS 1; and
- New definitions of Takaful, Takaful institution, Takaful operator, PIF and PTF have been introduced.

This standard is applicable to all Takaful institutions regardless of their legal form or size, including Takaful window operations and is effective for the financial reporting periods beginning on or after 1 January 2025 with an option to early adopt.

The Bank will assess the impact of the adoption of this standard on the financial statements.

FAS 43 Accounting for Takaful Recognition and Measurement

This standard supersedes the following FAS; FAS 13 – Disclosure of Bases for Determining and Allocation Surplus or Deficit in Islamic Insurance Companies; FAS 15 – Provisions and Reserves in Islamic Insurance Companies and FAS 19 – Contributions in Islamic Insurance Companies introduces following key changes:

- new accounting treatments have been introduced in respect of matters which were not addressed or superseded standards or were not in line with the global best practices, particularly with regard to the accounting for provisions (or liability, as appropriate) for Takaful arrangements and accounting treatment and presentation for the investment component;
- Accounting treatments mapped in the standard are mapped to the Sharia principles and rules relating to Takaful, including the rights and obligations of respective stakeholders of Takaful arrangements;
- new definitions for the accounting terms in respect of the newly introduced accounting treatments, as well as, improved definitions for earlier used terms, have been incorporated; and
- Accounting treatments respect to ancillary transactions have been introduced, particularly the transactions and balances between various stakeholders of Takaful institutions, eg. Accounting for Wakala fees and Qard Hassan.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

3.35.2 New standards, amendments and interpretations issued but not yet effective

Under the transitional provisions of this standard, following approaches are prescribed upon first time adoption:

- A full retrospective approach – whereby the effects of transition shall be incorporated from the beginning of the earliest period presented in the financial statements; however, the disclosure of the effect of such adoption in each line item and to the basic and diluted earnings per share shall not be mandatory; or
- A modified retrospective approach – whereby effects of transition shall be taken to retained earnings, as well as accumulated surplus or deficit in the respective Takaful funds at the beginning of the current financial period; or
- A fair value option – whereby the Takaful residual margin or loss component of the provision for the remaining entitlement period, at the transition date (beginning of the current period) shall be determined as the difference between fair value of Takaful arrangements at that date and the fair value of the fulfilment cash flows measured at that date, and the corresponding effects shall be adjusted in the retained earnings of Takaful institution, as well as accumulated surplus or deficit in the respective Takaful funds.

This standard shall apply to Takaful institutions (including in their capacity of being Takaful operators) and their managed participants' Takaful fund (PTF) and managed participants investment funds (PIF) in respect of the following, a) Takaful arrangements, including re-Takaful arrangements issued; b) re-Takaful arrangements held; c) investment contracts with or without discretionary features that are issued along with, and part of, the Takaful arrangements; and d) ancillary transactions related to Takaful operations. This standard is effective for the financial reporting periods beginning on or after 1 January 2025 with an option to early adopt.

The Bank will assess the impact of the adoption of this standard on the financial statements.

4 Cash and balances with Central Bank of Oman

	2023	2022
	RO'000	RO'000
Cash in hand	**8,523**	6,828
Balances with Central Bank of Oman	**42,277**	45,250
Capital deposit with Central Bank of Oman	**500**	500
	51,300	52,578

The capital deposit with the Central Bank of Oman cannot be withdrawn without the prior approval of the Central Bank of Oman.

During the year, average minimum balance to be kept with Central Bank of Oman as statutory reserves was RO 36.424 million (2022: RO 34.750 million).

All the above exposures are classified as Stage 1 as at 31 December 2023.

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

5 Due from banks and financial institutions

	2023	2022
	RO'000	RO'000
Foreign banks – foreign currency	**9,202**	11,995
	9,202	11,995
Less: Impairment losses	**(3)**	(66)
Total	**9,199**	11,929

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

	2023	2022
	RO'000	RO'000
Balance at beginning of year	**66**	55
(Released) / provided during the year (note 12)	**(63)**	11
Total	**3**	66

6 Inter-bank Wakala investments

	2023	2022
	RO'000	RO'000
Local banks – local currency	2,067	25,000
foreign banks – foreign currency	13,223	3,850
Profit receivable	33	235
	15,323	29,085
Less: Impairment losses (note 12)	(8)	(32)
	15,315	29,053

The impairment losses movement against Inter-bank Wakala investments is as follow:

	2023	2022
	RO'000	RO'000
Impairment losses as at 1 January	32	214
Impairment losses released during the year (note 12)	(24)	(182)
Balance at 31 December	8	32

7 Sales receivables and other receivables – net

	Jointly-financed 2023	Self-financed 2023	Total 2023
	RO'000	RO'000	RO'000
Sales receivables (Murabaha)- retail	169,128	1,753	170,881
Sales receivables (Murabaha)- corporate	138,233	-	138,233
Istisna receivables – corporate	1,274	-	1,274
Ijara rent receivables - retail	260	-	260
Ijara rent receivables – corporate	499	-	499
Credit card receivables	3,561	-	3,561
Gross sales receivables and other receivables	312,955	1,753	314,708
Less:			
Deferred profit	(29,146)	(173)	(29,319)
Impairment losses	(10,165)	(13)	(10,178)
Reserved profit	(248)	-	(248)
Net sales receivables and other receivables	273,396	1,567	274,963

	Jointly-financed 2022	Self-financed 2022	Total 2022
	RO'000	RO'000	RO'000
Sales receivables (Murabaha)- retail	146,347	1,703	148,050
Sales receivables (Murabaha)- corporate	156,255	-	156,255
Istisna receivables – corporate	1,999	-	1,999
Ijara rent receivables - retail	171	-	171
Ijara rent receivables – corporate	218	-	218
Credit card receivables	3,145	-	3,145
Gross sales receivables and other receivables	308,135	1,703	309,838
Less:			
Deferred profit	(27,562)	(156)	(27,718)
Impairment losses	(10,020)	(14)	(10,034)
Reserved profit	(156)	-	(156)
Net sales receivables and other receivables	270,397	1,533	271,930

7 Sales receivables and other receivables – net *(continued)*

The impairment losses movement against sales receivables and other receivables is as follow:

	2023	2022
	RO'000	RO'000
Balance at 1 January	10,034	6,041
Impairment losses during the year (note 12)	144	3,993
Balance at 31 December	10,178	10,034

The Deferred profit movement against sales receivables and other receivables is as follow:

	2023	2022
	RO'000	RO'000
Balance at 1 January	27,718	26,863
Deferred profit for the year	13,986	6,570
Deferred profit waived of during the year	(12,385)	(5,715)
Balance at 31 December	29,319	27,718

The reserved profit movement against sales receivables other receivables is as follow:

	2023	2022
	RO'000	RO'000
Balance at 1 January	156	120
Profit reserved during the year	92	36
Balance at 31 December	248	156

Total non-performing financing amounted to RO 32.261 million representing 2.33% of gross financing, as of 31 December 2023 (31 December 2022: RO 27.899 million representing 2.25% of gross financing).

8 Investment securities

	2023	2022
	RO'000	RO'000
Debt instrument measured at amortised cost (note a)	-	2,002
Debt/equity instruments measured through equity (note b)	144,914	141,665
Total before impairment losses	144,914	143,667
Less: Impairment losses (note 8a and 8b)	(172)	(130)
	144,742	143,537

a. Debt instrument measured at amortised cost

	Self-financed	
	2023	2022
	RO'000	RO'000
Local listed sukuk	-	2,002
Less: Impairment losses	-	(6)
Total local listed sukuk at amortised cost	-	1,996

b. Debt/equity instruments measured through equity

	Jointly-financed	
	2023	2022
	RO'000	RO'000
Debt instruments measured through equity (note i)	140,284	139,415
Equity instruments measured through equity (note ii)	4,630	2,250
Total before impairment losses	144,914	141,665
Less: Impairment losses	(172)	(124)
	144,742	141,541

8 Investment securities *(continued)*

i. Debt instruments measured through equity

	2023	2022
	RO'000	RO'000
Quoted investments		
Government Sukuk	116,550	116,338
Corporate Sukuk	9,521	9,101
Unquoted investments		
Government Sukuk	14,213	13,976
	140,284	139,415
Less: Impairment losses	(172)	(124)
	140,112	139,291

ii. Equity instrument measured through equity

	2023	2022
	RO'000	RO'000
Regional un-listed funds	1,128	1,178
Regional un-listed shares	189	189
Local listed shares	3,313	883
Total	4,630	2,250

8.1 Debt/equity instruments measured through equity

	Cost 2023	Fair value 2023
	RO'000	RO'000
International un-listed Sukuk	13,475	13,467
International listed Sukuk	768	746
Regional un-listed Sukuk	6,125	6,125
Regional listed Sukuk	12,585	12,514
Regional un-listed funds	1,128	1,128
Regional un-listed shares	335	189
Local rated listed Sukuk	104,329	105,002
Local Unrated listed Sukuk	2,430	2,430
Local listed shares	4,041	3,313
Less: Impairment losses (note 8.i)	-	(172)
	145,216	144,742

	Cost 2022	Fair value 2022
	RO'000	RO'000
International un-listed Sukuk	13,363	13,266
International listed Sukuk	767	710
Regional un-listed Sukuk	13,625	13,558
Regional listed Sukuk	8,132	8,105
Regional un-listed funds	1,192	1,178
Regional un-listed shares	333	189
Local rated listed Sukuk	98,858	100,130
Local Unrated listed Sukuk	3,646	3,646
Local listed shares	868	883
Less: Impairment losses (note 8.i)	-	(124)
	140,784	141,541

8 Investment securities *(continued)*

The impairment losses against investments are as follow:

	2023 RO'000	2022 RO'000
Balance at 1 January	130	716
Impairment losses created / released during the year (note 12)	42	(586)
Balance at 31 December	172	130

9 Musharaka financing - net

	2023		
	Jointly-financed RO'000	**Self-financed RO'000**	**Total RO'000**
Musharaka financing corporate	345,485	-	345,485
Musharaka financing retail	150,950	4,222	155,172
	496,435	4,222	500,657
Reserved profit	(452)	-	(452)
Less: Impairment losses	(15,219)	-	(15,219)
Net investment in Musharaka financing	480,764	4,222	484,986

	2022		
	Jointly-financed RO'000	**Self-financed RO'000**	**Total RO'000**
Musharaka financing corporate	252,336	-	252,336
Musharaka financing retail	120,055	3,846	123,901
	372,391	3,846	376,237
Reserved profit	(280)	-	(280)
Less: Impairment losses	(11,121)	-	(11,121)
Net investment in Musharaka financing	360,990	3,846	364,836

The Impairment losses movement against Musharaka as follow:

	2023 RO'000	2022 RO'000
Balance at 1 January	11,121	7,694
Impairment losses created during the year (note 12)	4,098	3,427
Balance at 31 December	15,219	11,121

10 Ijara Muntahia Bittamleek – net

	2023		
	Jointly-financed	**Self-financed**	**Total**
	RO'000	**RO'000**	**RO'000**
Real estate			
Cost	**275,156**	**12,619**	**287,775**
Accumulated depreciation	**(65,566)**	**(3,421)**	**(68,987)**
Net book value	**209,590**	**9,198**	**218,788**
Equipment			
Cost	**21,156**	**-**	**21,156**
Accumulated depreciation	**(10,487)**	**-**	**(10,487)**
Net book value	**10,669**	**-**	**10,669**
Total cost	**296,312**	**12,619**	**308,931**
Accumulated depreciation	**(76,053)**	**(3,421)**	**(79,474)**
Net book value before impairment losses	**220,259**	**9,198**	**229,457**
Less: Impairment losses	**(1,135)**	**(13)**	**(1,148)**
Net book value after impairment losses	**219,124**	**9,185**	**228,309**

	2022		
	Jointly-financed	**Self-financed**	**Total**
	RO'000	RO'000	RO'000
Real estate			
Cost	289,652	13,087	302,739
Accumulated depreciation	(59,782)	(3,047)	(62,829)
Net book value	229,870	10,040	239,910
Equipment			
Cost	19,893	-	19,893
Accumulated depreciation	(8,241)	-	(8,241)
Net book value	11,652	-	11,652
Total cost	309,545	13,087	322,632
Accumulated depreciation	(68,023)	(3,047)	(71,070)
Net book value before impairment losses	241,522	10,040	251,562
Less: Impairment losses	(1,002)	(12)	(1,014)
Net book value after impairment losses	240,520	10,028	250,548

The impairment losses movement against Ijara Muntahia Bittamleek is as follow:

	2023	2022
	RO'000	RO'000
Balance at 1 January	**1,014**	1,565
Impairment movement during the year (note 12)	**134**	(551)
Balance at 31 December	**1,148**	1,014

11 Wakala Bil Istethmar – net

	Jointly-financed	
	2023	**2022**
	RO'000	RO'000
Wakala Bil Istethmar	**371,298**	332,624
Profit Receivable	**14,340**	16,137
Gross investment in Wakala Bil Istethmar	**385,638**	348,761
Reserved profit	**(256)**	(17)
Less: impairment losses	**(13,458)**	(9,298)
Net investment in Wakala Bil Istethmar	**371,924**	339,446

The impairment losses movement against Wakala Bil Istethmar is as follows:

	2023	2022
	RO'000	RO'000
Balance at 1 January	**9,298**	7,271
Impairment losses created during the year (note 12)	**4,160**	2,027
Balance at 31 December	**13,458**	9,298

12 Impairment losses provision movement

	2023	2022
	RO'000	RO'000
Balance at 1 January	**34,759**	24,852
Impairment losses / (reversals) during the year for:		
Sales and other receivables (note 7)	**144**	3,993
Ijara Muntahia Bittamleek (note 10)	**134**	(551)
Wakala Bil Istethmar (note 11)	**4,160**	2,027
Musharaka financing (note 9)	**4,098**	3,427
Investments (note 8)	**42**	(586)
Due from banks (note 5)	**(63)**	11
Inter-bank Wakala investments (note 6)	**(24)**	(182)
Non-funded facilities (note 17)	**(1,784)**	1,768
Total impairment losses	**6,707**	9,907
Balance at 31 December	**41,466**	34,759

12.1 In addition to the impairment losses of RO 6.7 million (2022: RO 9.9 million) on account of expected credit losses under FAS 30, the Bank has discharged impairment on certain investments amounting to RO 0.064 million (2022: Provided RO 0.72 million) under the requirements of FAS 33. Also the Bank has recorded write off amounted to RO 1.306 million (2022: Nil).

13 Property and equipment - net

2023	Furniture and fixture	Equipment	Motor vehicle	Computer hardware	Capital work in progress	Right-of-use assets	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Balance at 1 January	5,554	1,698	131	3,668	355	4,079	15,485
Additions	119	283	-	372	186	2,144	3,104
Transfers	354	-	-	-	(354)	-	(0)
Balance at 31 December	6,027	1,981	131	4,040	187	6,223	18,589
Accumulated depreciation at 1 January	(4,341)	(1,089)	(108)	(2,395)	-	(2,991)	(10,924)
Depreciation expense	(311)	(157)	(5)	(367)	-	(1,586)	(2,426)
Accumulated depreciation at 31 December	(4,652)	(1,246)	(113)	(2,762)	-	(4,577)	(13,350)
Carrying value at 31 December	1,375	735	18	1,278	187	1,646	5,239

2022	Furniture and fixture	Equipment	Motor vehicle	Computer hardware	Capital work in progress	Right-of-use assets	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Balance at 1 January	4,974	1,211	131	2,401	183	2,588	11,488
Additions	398	487	-	1,267	354	1,491	3,997
Transfers	182		-	-	(182)	-	-
Balance at 31 December	5,554	1,698	131	3,668	355	4,079	15,485
Accumulated depreciation at 1 January	(4,008)	(978)	(98)	(2,132)	-	(1,014)	(8,230)
Depreciation expense	(333)	(111)	(10)	(263)	-	(1,277)	(1,994)
Accumulated depreciation at 31 December	(4,341)	(1,089)	(108)	(2,395)	-	(2,291)	(10,224)
Carrying value at 31 December	1,213	609	23	1,273	355	1,788	5,261

14 Intangible assets

	Software	Capital work in progress	Total
2023	RO'000	RO'000	RO'000
Carrying value at 1 January	2,579	565	3,144
Additions	764	114	878
Amortisation	(495)	-	(495)
Carrying value at 31 December	2,848	679	3,527

	Software	Capital work in progress	Total
2022	RO'000	RO'000	RO'000
Carrying value at 1 January	2,046	1,281	3,327
Additions	-	272	272
Transfers	988	(988)	-
Amortisation	(455)	-	(455)
Carrying value at 31 December	2,579	565	3,144

15 Other assets

	2023	2022
	RO'000	RO'000
Profit receivable	10,379	10,080
Prepaid expense	593	624
Refundable deposits	89	89
Inventory	52	59
Asset seized by Bank	6,552	243
Deferred tax assets (note 33)	-	2,047
Others	1,126	719
	18,791	13,861

16 Customers' accounts

	2023	2022
	RO'000	RO'000
Current accounts	111,085	96,807
Margin accounts	107,743	108,401
	218,828	205,208

17 Other liabilities

	2023	2022
	RO'000	RO'000
Payment orders	5,662	5,823
Creditors and accruals	18,561	13,854
Profit payable	8,825	10,022
Expected credit loss on non-funded facilities (note 12)	1,280	3,064
Tax liability	2,623	4,645
Deferred tax liability	241	-
Lease liability	1,342	1,533
Others	463	651
	38,997	39,592

18 Equity of unrestricted investment accountholders

	2023	2022
	RO'000	RO'000
Inter-bank Wakala (refer note (a) below)	55,803	11,571
Customers' Wakala (refer note (b) below)	673,606	615,040
Unrestricted investment accountholders (refer note (c) below)	368,060	368,516
Investment fair value reserve	(43)	140
	1,097,426	995,267

Unrestricted investment accounts comprise Mudaraba deposits accepted by the Bank. The funds received from equity of unrestricted investment accountholders have been commingled and jointly invested by the Bank.

The Bank has utilised full amount of investment risk reserve during the current year.

Equity of investment accountholders' fund is commingled with Bank's and Wakala fund to form one general Mudaraba pool. This pooled fund is used to fund and invest in banking assets generating income, however no priority is granted to any party for the purpose of investments and distribution of profits.

The Bank does not allocate non-performing assets to IAH pool. All the impairment allowances are allocated to owners' equity. Recoveries from non-performing financial assets are also not allocated to IAH accountholders. Only the profits earned on pool of assets funded from IAH and owners' equity are allocated between the owners' equity and IAH.

As per the policy of the Bank, minimum of 50% of return on assets earned is distributed to investment accountholders and 50% is retained by the Bank as Mudarib share. The Bank did not charge any administration expenses to investment accounts.

The average profit rate attributed to the equity of investment accountholders based on the above ratio for the year was 50% (2022: 50%).

18 Equity of unrestricted investment accountholders (continued)

a) Inter-bank Wakala

	2023 RO'000	2022 RO'000
Local banks – local currency	50,000	-
Foreign banks – local currency	28	21
Foreign banks – foreign currency	5,775	11,550
	55,803	11,571

b) Customers' Wakala

Under Wakala arrangement, Bank accepts funds from investors as Wakeel and invests in Sharia compliant assets. Wakeel is entitled to a fixed fee as a lump sum or percentage of fund provided. Expected profit payout is mentioned to investors upfront while any return generated in excess of expected profit is retained by the Bank as Wakeel. Wakeel should bear the loss in case of Wakeel's default, negligence or violation of any terms and conditions of the Wakala agreement, otherwise the loss would be borne by the investor or Muwakkil.

c) Equity of unrestricted investment accountholders

Account type	2023 RO'000	2022 RO'000
Saving account	298,446	278,247
Investment accounts:		
One month	19	92
Three months	348	441
Six months	997	1,249
Nine months	180	112
One year	33,523	34,263
One and a half year	2,318	2,755
Two years	24,332	41,379
Three years	709	667
Four years	255	211
Five years	1,818	1,766
More than five years	5,115	7,334
	368,060	368,516

Basis of distribution of profit between owners' equity and unrestricted investment accountholders

The investment profits have been distributed between owners' equity and unrestricted investment accountholders for the year 2023 and 2022 as follows:

	2023 Percentage	2022 Percentage
Unrestricted investment accountholders share	50%	50%
Mudarib share	50%	50%

The investment risk reserve at nil percent (2022: nil) is deducted from customers' share after allocating the Mudarib share of profit as per the approved policy in order to cater against future losses of equity of unrestricted investment accountholders. Investment risk reserve will revert to the investment accountholders as per terms and conditions of Mudaraba contract.

The profit equalisation reserve is the amount the Bank appropriates in excess of the profit to be distributed to equity of unrestricted accountholders before allocating the Mudarib share of income to maintain a certain level of return. Profit equalisation reserve will revert to owner equity and unrestricted investment accountholders.

18 Equity of unrestricted investment accountholders *(continued)*

c) Equity of unrestricted investment accountholders *(continued)*

The percentages of the profit allocation between owners' equity and unrestricted investment accountholders are as follows:

Account type	Participation factor		2023 average rate of return	2022 average rate of return
	RO	USD	RO	RO
Saving account	10% - 70%	15% - 30%	1.00%	0.91%
One-month tenure	46% - 50%	-	1.70%	1.38%
Three months tenure	51% - 55%	-	1.91%	1.51%
Six months tenure	61% - 68%	-	2.37%	1.88%
Nine months tenure	66% - 73%	-	2.58%	2.02%
One-year tenure	71% - 78%	-	2.75%	2.73%
One year and a half tenure	78.5% - 85%	-	2.96%	3.21%
Two years tenure and above	79.5% - 87%	-	3.04%	3.77%

Unrestricted investment accountholders are commingled with Bank funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits. The administration expenses are only charged on the Bank expenses.

19 Paid-up capital

The authorised share capital of the Bank is RO 300,000,000 and the issued and paid up capital is RO 220,010,538 divided into 2,236,953,032 shares of a nominal value of RO 0.098 each (31 December 2022: RO 220,010,538 divided into 2,236,953,032 shares of a nominal value of RO 0.098 each).

Aflag Financial Investment LLC is the only shareholder which owns 10% or more of the Bank's shares. On 31 December 2023 shareholding of Aflag Financial Investment LLC was 782,933,561 shares equivalent to 35% (31 December 2022: shareholding of Aflag Financial Investment LLC was 782,933,561 shares equivalent to 35%).

20 Share premium

This represent share premium of RO 2,091,192 on issue of the shares of the Bank through Initial Public Offering (IPO). Expenses incurred on issuance were netted off.

21 Reserves

21.1 *Investment fair value reserve*

The fair value reserve includes the cumulative net change in fair value of the investment at fair value through equity.

21.2 *Legal reserve*

	2023	2022
	RO'000	RO'000
1 January	6,025	4,519
Appropriation for the year	1,702	1,506
31 December	7,727	6,025

In accordance with Article 274 of Commercial Companies Law of 2019, annual appropriation of 10% of the profit for the year is required to be made to legal reserve until such time that accumulated reserve equals to one third of the Bank's paid up capital. This reserve is not available for distribution.

22 Dividend proposed

The Board of Directors in their meeting held on 29 January 2024 has proposed a cash dividends of 2.3 Baiza per share; amounting to RO 5.1 Million (2022 approved: 4.038 Baiza per share; amounting to RO 9.033 Million) and Mandatory Convertible Additional Tier 1 Sukuk (MCSs) amounting RO 9.99 Million to be issued at a rate of 4.47 units per 100 ordinary shares with a face value of Bz. 100 per unit, paid fully from the Retained Earnings for the year 2023. The MCSs is subject to the approval of Central Bank of Oman, Capital Market Authority, and the Shareholders approval. However, the cash dividend has already been approved by the regulators. The Board's resolution of dividend distributions will be presented to the shareholders at the Annual General Meeting which will be held on 26 March 2024.

23 Contingent liabilities and commitments

a) Contingent liabilities

	2023	2022
	RO'000	RO'000
Letters of guarantee	124,878	118,216
Letters of credit	109,881	107,501
Acceptances	5,706	1,586
Bills for collection	693	1,057
Total contingent liabilities (a)	**241,158**	228,360

The table below analysis the concentration of contingent liabilities by economic sector:

	2023	2022
	RO'000	RO'000
Construction	57,802	73,756
Manufacturing	29,543	19,355
Service	51,577	105,072
Others	102,236	30,177
	241,158	228,360

b) Commitments

	2023	2022
	RO'000	RO'000
Unutilised limits	140,482	162,944
Total commitments (b)	140,482	162,944
Total contingent liabilities and commitments (a+b)	381,640	391,304

24 Sales receivables and other receivables revenue

	Jointly-financed	
	2023	2022
	RO'000	RO'000
Retail	7,819	6,956
Corporate	6,533	6,292
	14,352	13,248

25 Ijara Muntahia Bittamleek revenue

	Jointly-financed	
	2023	2022
	RO'000	RO'000
Ijara Muntahia Bittamleek – real estate	33,427	53,930
Ijara Muntahia Bittamleek – equipment	3,055	2,914
Depreciation on Ijara Muntahia Bittamleek assets	(24,353)	(42,773)
	12,129	14,071

26 Profit from Musharaka Financing

		Jointly-financed
	2023	2022
	RO'000	RO'000
Retail	7,129	5,712
Corporate	17,990	12,366
	25,119	18,078

27 Profit from inter-bank Wakala investment

	Jointly-financed	
	2023	2022
	RO'000	RO'000
Inter-bank Wakala local	**434**	487
Inter-bank Wakala foreign	**698**	237
	1,132	724

28 Profit from investment securities

	Jointly-financed	
	2023	2022
	RO'000	RO'000
Profit on Sukuk and funds	**6,929**	6,284
Gain on sale of Sukuk and shares	**1,321**	31
Dividend income	**189**	12
	8,439	6,327

29 Return on unrestricted investment accountholders before the Bank's share as a Mudarib

	2023	2022
	RO'000	RO'000
Profit paid on wakala	**30,273**	24,428
Saving accounts	**7,300**	6,922
Investment accounts	**5,095**	5,202
	42,668	36,552

30 Bank's income from its own investments and financing

	2023	2022
	RO'000	RO'000
Rental income from investment in real estate	**-**	1,134
Profit from financial assets at amortised cost	**112**	130
Sales receivables revenue	**56**	55
Musharaka financing revenue	**123**	105
Ijara Muntahia Bittamleek revenue - net of depreciation	**259**	282
	550	1,706

31 Revenue from banking services

	2023	2022
	RO'000	RO'000
Commission income	**2,513**	1,884
Processing fees	**4,782**	3,734
Service charges	**2,136**	1,962
	9,431	7,580

32 Operating expenses

	2023	2022
	RO'000	RO'000
Staff cost	16,059	14,339
Advertisement	1,980	2,149
Operational leasing	22	53
Maintenance expense	1,579	1,243
Security and cleaning	347	291
Professional and consulting charges	507	661
Boards expenses	372	147
Government fee	278	255
Printing and stationery	185	97
Telephone, electricity and water	762	722
Traveling expense	93	79
Subscription expense	186	163
Cards expense	1,569	1,028
Finance charges on lease liability	79	82
Others	712	596
	24,730	21,905

33 Income tax

33.1 Recognised in the statement of income

	2023	2022
	RO'000	RO'000
Current tax liability	446	3,857
Deferred tax	2,288	(1,397)
Income tax expense	2,734	2,460

The Bank is subject to income tax at the rate of 15% of taxable profits (2022 - 15%).

33.2 Reconciliation

The following is a reconciliation of income taxes calculated at the applicable tax rate with the income tax expense:

	2023	2022
	RO'000	RO'000
Profit as per financial statements	19,756	17,516
Tax liability at the rate mentioned above	2,963	2,627
Non-deductible expenses and other permanent differences	(219)	(3)
Deferred tax/ tax provision recognised from previous years	(10)	(164)
	2,734	2,460

33.3 Net deferred tax asset / (liability) routed through statement of income are attributable to the following items:

Deferred tax asset / (liability) is attributable to the following items:

	As at 1 Jan 2023	Recognised in income	As at 31 Dec 2023
	RO'000	RO'000	RO'000
Property and equipment	(310)	(48)	(358)
Other provisions	2,357	(2,240)	117
Net deferred tax asset / (liability)	2,047	(2,288)	(241)

33 Income tax *(continued)*

	As at 1 Jan 2022	Recognised in income	As at 31 Dec 2022
	RO'000	RO'000	RO'000
Property and equipment	(489)	179	(310)
Other provisions	1,139	1,218	2,357
Net deferred tax asset	650	1,397	2,047

The tax assessment of the Bank for the tax years up to 2020 have been agreed with the Tax Authority.

No deferred tax assets and liabilities routed through owner's equity is attributable to investment fair value reserve.

34 Net assets per share

Net assets per share is calculated by dividing the net assets at the year-end by number of shares outstanding at the end of reporting period

	2023	2022
Net assets (RO'000)	**253,044**	246,056
Number of shares at reporting date (note 19)	**2,236,953,032**	2,236,953,032
Net assets per share (RO)	**0.113**	0.110

35 Earnings per share- basic and diluted

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

Profit for the year (RO'000)	**17,022**	15,056
Weighted average number of shares outstanding during the year (note 19)	**2,236,953,032**	2,236,953,032
Earnings per share basic and diluted (RO)	**0.008**	0.007

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

36 Segment reporting

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

Retail banking offers various products and facilities to individual customers to meet everyday banking needs.

Corporate banking delivers a variety of products and services to corporate and SMEs customers that includes financing, accepting deposits, trade finance and foreign exchange.

Treasury and investment banking provide a full range of treasury products and services including money market and foreign exchange to the clients in addition to managing liquidity and market risk, in addition to asset management corporate advisory and investment products high net worth individuals and institutional clients.

Management monitors the operating results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the financial statements. The costs incurred by the central functions are managed on an overall basis and are not allocated to operating segments.

36 Segment reporting *(continued)*

Segment information is as follows:

31 December 2023	Retail banking RO'000	Corporate banking RO'000	Treasury and investment RO'000	Others RO'000	Total RO'000
Total revenue (joint)	24,746	46,045	9,571	-	80,362
Return on unrestricted investment accountholders	(8,085)	(29,506)	(4,250)	5,399	(36,442)
Bank's share in income from investment as a Mudarib and Rabul Maal	16,661	16,539	5,321	5,399	43,920
Bank's income from its own investments and financing	438	-	112	-	550
Other operating income	2,834	7,247	805	-	10,886
Total revenue	19,933	23,786	6,238	5,399	55,356
Staff cost	(10,728)	(4,325)	(1,006)	-	(16,059)
Other operating expenses	(5,843)	(2,350)	(478)	-	(8,671)
Depreciation and amortisation	(2,509)	(340)	(72)	-	(2,921)
Total expense	(19,080)	(7,015)	(1,556)	-	(27,651)
Profit before provisions and tax	853	16,771	4,682	5,399	27,705
Impairment losses	(541)	(7,517)	109	-	(7,949)
Profit before tax	312	9,254	4,791	5,399	19,756
Income tax	-	-	-	(2,734)	(2,734)
Profit for the year	312	9,254	4,791	2,665	17,022
Total assets	500,110	845,732	221,105	41,348	1,608,295
Total liabilities and equity of unrestricted investment accountholders	570,720	689,775	55,803	38,953	1,355,251

31 December 2022	Retail banking RO'000	Corporate banking RO'000	Treasury and investment RO'000	Others RO'000	Total RO'000
Total revenue (joint)	23,796	41,957	7,050	-	72,803
Return on unrestricted investment accountholders	(7,888)	(22,884)	(244)	407	(30,609)
Bank's share in income from investment as a Mudarib and Rabul Maal	15,908	19,073	6,806	407	42,194
Bank's income from its own investments and financing	-	-	1,264	442	1,706
Other operating income	2,175	5,899	522	-	8,596
Total revenue	18,083	24,972	8,592	849	52,496
Staff cost	(9,067)	(4,327)	(945)	-	(14,339)
Other operating expenses	(4,202)	(2,936)	(428)	-	(7,566)
Depreciation and amortisation	(2,082)	(313)	(54)	-	(2,449)
Total expense	(15,351)	(7,576)	(1,427)	-	(24,354)
Profit before provisions and tax	2,732	17,396	7,165	849	28,142
Impairment losses	306	(10,968)	36	-	(10,626)
Profit before tax	3,038	6,428	7,201	849	17,516
Income tax	-	-	-	(2,460)	(2,460)
Profit for the year	3,038	6,428	7,201	(1,611)	15,056
Total assets	469,749	740,873	236,941	38,560	1,486,123
Total liabilities and equity of unrestricted investment accountholders	558,177	630,588	11,569	39,733	1,240,067

37 Financial instruments and financial assets

(a) Fair values of financial instruments

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between carrying value and fair value estimates. As at the reporting date the fair values of the Bank's financial instruments are not significantly different from their carrying values.

(b) Fair values of financial instruments valuation hierarchy

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements. This fair value disclosure is divided into three levels as follows:

Level 1 portfolio

Level 1 assets and liabilities are typically exchange -traded positions and some government bonds traded in active markets. These positions are valued using unadjusted quoted prices in active markets.

Level 2 portfolio

Fair value is determined using valuation techniques based on valuation models with directly or indirectly market observable inputs. These valuation techniques include discounted cash flow analysis models, option pricing models, simulation models and other standard models commonly used by market participants. Valuation techniques incorporate assumptions that other market participants would use in their valuations, such as discount rates, default rates, credit spreads and option volatilities. These inputs need to be directly or indirectly observable in order to be classified as level 2.

Level 3 portfolio

Level 3 assets are valued using techniques similar to those outlined for level 2, except that if the instrument has one or more inputs that are unobservable and significant to the fair value measurement of the instrument in its entirety, it will be classified as level 3.

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Bank recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Transfer between Level 1 and 2

There were no transfers between level 1, level 2 and level 3 of the fair value hierarchy of investment securities during the year.

	Level 1	**Level 2**	**Level 3**	**Total**
	RO'000	**RO'000**	**RO'000**	**RO'000**
Investment securities (note 8b)	**47,940**	**96,974**	**-**	**144,914**
Total financial assets at 31 December 2023	**47,940**	**96,974**	**-**	**144,914**

	Level 1	Level 2	Level 3	Total
	RO'000	RO'000	RO'000	RO'000
Investment securities (note 8b)	40,709	100,956	-	141,665
Total financial assets at 31 December 2022	40,709	100,956	-	141,665

38 Related party transactions

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

31 December 2023	**Principal shareholders**	**Shari'a Board**	**Senior management**	**Total**
	RO'000	**RO'000**	**RO'000**	**RO'000**
Sales receivables and other receivables	**150**	**-**	**105**	**255**
Ijara Muntahia Bittamleek	**327**	**-**	**1,133**	**1,460**
Wakala Bil Istethmar	**-**	**-**	**-**	**-**
Musharaka Financing	**4,684**	**-**	**328**	**5,012**
Customers' accounts	**560**	**-**	**151**	**711**
Unrestricted investment accountholders / Customers' wakala	**3,839**	**-**	**201**	**4,040**
Wakala Deposits	**127,403**	**-**	**-**	**127,403**

31 December 2022	Principal shareholders	Shari'a Board	Senior management	Total
	RO'000	RO'000	RO'000	RO'000
Sales receivables and other receivables	153	42	128	323
Ijara Muntahia Bittamleek	362	65	1,275	1,702
Wakala Bil Istethmar	2,980	-	-	2,980
Musharaka Financing	4,701	107	238	5,046
Customers' accounts	1,519	2	192	1,713
Unrestricted investment accountholders / Customers' wakala	73,568	-	333	73,901

The ECL for exposures to related parties amount to RO 35,508 (2022: 41,166)

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

31 December 2023	**Principal shareholders**	**Shari'a Board**	**Senior management**	**Total**
	RO'000	**RO'000**	**RO'000**	**RO'000**
Profit account	**270**	**-**	**62**	**332**
Profit Expense	**(4,147)**	**-**	**-**	**(4,147)**
Operating expenses				
- Staff expense	**-**	**-**	**2,393**	**2,393**
- Other expenses	**313**	**59**	**-**	**372**

31 December 2022	Principal shareholders	Shari'a Board	Senior management	Total
	RO'000	RO'000	RO'000	RO'000
Profit account	323	11	49	383
Profit Expense	(2,260)	-	-	(2,260)
Operating expenses				
- Staff expense	-	-	2,236	2,236
- Other expenses	88	59	-	147

Key management comprises of 18 personnel (2022: 15) of the management executive committee in the year 2023. The Bank considers the personnel of Management Executive Committee to be key management personnel for the purposes of 'Related Party Disclosures.

39 Financial risk management

The Bank's activities expose it to a variety of financial risks. The management's aim is to achieve an appropriate balance between risk and return and minimize potential adverse effects on its financial performance. The Bank's risk management program is designed to set out the overarching philosophy, principles, requirements and responsibilities for a sound approach to risk oversight, management and on-going internal control assurance required within the Bank. All risk management policies and systems are regularly reviewed to reflect changes in markets, products and emerging best practice. Risk management is carried out by the Bank under policies approved by the Board of Directors. Risk policies explain the Bank's underlying approach to risk management, roles and responsibilities of the key players in risk management process as well as outlines tools and techniques for management of risks. The principal risks associated with the banking business are: credit risk, market risk, liquidity risk and operational risk.

The high-level risk framework mainly addresses the following:

- The oversight of board and senior management
- Overall policy approach of the Bank to establish risk appetite/tolerance, procedures and limits
- Identification, measurement, mitigation, controlling and reporting of risks
- Risk MIS at the Bank wide level

The risk management processes have been effective throughout the year and members of Senior Management and Board of Directors have remained active and involved in maintaining risk profile of the Bank at acceptable level and adequate capital is held as per the regulatory requirements.

Credit risk

Credit risk is the risk that a customer or counterparty may not settle an obligation for full value, either when due or at any time thereafter. This risk arises from potential that a customer or counterparty's willingness to meet an obligation or its ability to meet such an obligation is impaired, resulting in an economic loss to the Bank. Credit risk management, administration and control are carried out by risk management teams, which report to the Board Governance, Risk and Compliance Committee. The Bank has well defined credit structures under which credit committees, comprising of senior officers with requisite banking background, critically scrutinize and sanction financing up to the delegated authority. The Bank's exposure to credit is managed on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. To reduce the potential of risk concentration, counterparty limits, group exposure limits, and industry limits are monitored in light of changing

Counterparty and market conditions. All credit decisions are taken as per the Bank's credit risk policies and CBO regulations and are monitored accordingly. For purpose of capital charge, the Bank uses Basel II Standardardized approach.

With the recent adoption of FAS 30 standards, credit risk management has been enhanced further where more attributes have been taken into consideration, including but not limited, identifying existing emerging key risks related to industry, economics, transaction structure, terms and condition of the payments etc in assessment of ECL.

In addition to this, the Bank has also employed statistical model to incorporate related macro-economic factors including historical default rates. In absence of some important parameters or the where the information is too much deviated from the present forecast, qualitative PD overlay is used by the management after analysing the portfolio as per diagnostic tool.

Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect the Expected Credit Loss (ECL) applicable to the stage 1 and stage 2 exposures which are considered as performing. The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically. The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Bank uses mathematical function which links the GDP with PD as a key input to ECL. These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument.

Types of credit risk

Credit risk arises mainly on sales receivables and other receivables, Ijara Muntahia Bittamleek, Wakala Bil Istethmar, Musharaka financing, due from banks, investment in Sukuk and securities, investments in real-estate and interbank wakala.

39 Financial risk management *(continued)*

Credit risk *(continued)*

Types of credit risk *(continued)*

Sales receivable and other receivables *(continued)*

The Bank finances these transactions based on two structures:

1) Murabaha: In this structure, the Bank buys an asset which represents the object of the Murabaha and the Bank resells this asset to the customer (beneficiary) at a profit. The sale price (cost plus the profit margin) is repaid in instalments by the customer over the agreed period. The transactions are secured at all times

by the object of the Murabaha (in case of real estate and auto finance) and other times by a total collateral package securing the facilities given to the client.

2) Istisna: This is a sale agreement between the Bank as the seller and the customer as the ultimate purchaser whereby the Bank undertakes to have manufactured (or acquire) goods and sell it to the customer for an agreed upon price on completion at future date. Istisna is stated net of deferred profits and provision for impairment.

Ijara Muntahia Bittamleek

This is a lease whereby the legal tittle of the leased asset passes to the lessee at the end of the Ijara (lease) term, provided that all Ijara Instalments are settled.

Wakala Investments

This is an investment in which the Bank, in its capacity as the "Muwakkil" (Principal) appoints the customer as "Wakeel" (Agent) to manage the invested fund amount in Sharia-compliant activities that may be entered into, as agreed, by the Wakeel on behalf of the Muwakkil. The investment amount is not guaranteed while the profit rate is anticipated and cannot be fixed. Therefore, the utmost care is taken before taking any exposure.

Musharaka financing

Musharaka means relationship established under a contract by a mutual consent of parties for profits and losses arising from a joint enterprise or venture. Investments come from all partners/shareholders and profits are distributed in the proportion mutually agreed in the contract. If one or more partners choose to become non-working or silent partners, the ratio of their profit cannot exceed the ratio which their capital investment bears to the total capital investment in Musharaka. Under the arrangement, both partners mutually agree to contribute capital for the Musharaka business activity and share any profit arising from the Asset or business activities according to a pre-agreed ratio, while loss is borne proportionate to their respective capital contribution.

Capital from the Bank (finance amount) can either be disbursed as a lump-sum amount or staggered through progressive payments, as mutually agreed by both parties in the agreement. The Musharaka Asset is co-owned by the Bank and the client proportionate to their respective capital contribution. In such a transaction, the Bank takes a risk in the Musharaka Asset to an extent of its share / capital contribution in it. The Bank's exposure (and hence the associated risk) continues to reduce over the life of the transaction, as the customer buys back units of the Bank's ownership share in the Musharaka Asset.

In case of a loss, the Bank bears the loss equivalent to its share / capital contribution in the Musharaka Asset. However, this is applicable subject to the fact that the loss has not occurred due to the gross negligence or wilful misconduct of the customer, as the Musharaka Manager, in which case, the customer shall solely be responsible for the entire loss.

39 Financial risk management *(continued)*

Credit risk *(continued)*

The analysis of credit portfolio is given below:

(a) **Geographical concentrations**

	Assets			Liabilities		
	Gross due from banks and Interbank Wakala investment	**Gross financing**	**Gross investments in Sukuk and securities**	**Customer account, unrestricted IAH and customer Wakala**	**Interbank Wakala**	**Contingent liabilities and commitments**
31 December 2023	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Sultanate of Oman	**2,067**	**1,416,120**	**110,744**	**1,260,494**	**50,000**	**347,153**
Other GCC countries	**10,609**	**-**	**17,505**	**-**	**5,775**	**21,914**
Europe and North America	**9,469**	**-**	**3,197**	**-**	**-**	**3,280**
Africa and Asia	**2,347**	**-**	**13,468**	**-**	**28**	**9,293**
	24,492	**1,416,120**	**144,914**	**1,260,494**	**55,803**	**381,640**

	Assets			Liabilities		
	Due from banks and Interbank Wakala investment	Gross financing	Gross investments in Sukuk and securities	Customer account, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
31 December 2022	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Sultanate of Oman	25,000	1,270,261	106,661	1,188,764	-	355,580
Other GCC countries	1,407	-	21,039	-	11,550	22,855
Europe and North America	13,215	-	2,703	-	-	5,634
Africa and Asia	1,223	-	13,264	-	21	7,235
	40,845	1,270,261	143,667	1,188,764	11,571	391,304

	Assets			Liabilities		
2023	**Due from banks and Interbank Wakala investment**	**Gross Financing**	**Investments in Sukuk and securities**	**Current, unrestricted IAH and customer Wakala**	**Interbank Wakala**	**Contingent liabilities and commitments**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Personal	**-**	**522,383**	**-**	**525,959**	**-**	**-**
Corporate	**24,492**	**893,737**	**14,151**	**140,277**	**55,803**	**320,598**
Government	**-**	**-**	**130,763**	**594,258**	**-**	**61,042**
Total	**24,492**	**1,416,120**	**144,914**	**1,260,494**	**55,803**	**381,640**

	Assets			Liabilities		
2022	Due from banks & Interbank Wakala investment	Gross Financing	Investments in Sukuk & securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Personal	-	492,022	-	514,240	-	-
Corporate	40,845	778,239	13,353	103,626	11,571	314,854
Government	-	-	130,314	570,898	-	76,450
Total	40,845	1,270,261	143,667	1,188,764	11,571	391,304

39 Financial risk management *(continued)*

Credit risk *(continued)*

(c) Economic sector concentrations

	Assets			Liabilities		
	Due from banks and interbank Wakala	Gross financing	Investments in Sukuk and securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
2023	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Personal	-	522,383	-	525,959	-	-
Construction	-	112,715	-	8,180	-	57,802
Manufacturing	-	-	-	12,556	-	29,542
Financial services	24,492	-	-	-	55,803	-
Government	-	-	130,763	594,258	-	61,042
Other services	-	389,520	-	34,757	-	51,577
Others	-	391,502	14,151	84,784	-	181,677
	24,492	1,416,120	144,914	1,260,494	55,803	381,640

	Assets			Liabilities		
	Due from banks and interbank Wakala	Gross financing	Investments in Sukuk and securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
2022	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Personal	-	492,022	-	514,240	-	-
Construction	-	104,150	-	10,840	-	123,757
Manufacturing	-	110,313	-	2,093	-	-
Financial services	40,845	-	-	-	11,571	-
Government	-	-	130,314	570,898	-	76,450
Other services	-	317,759	-	21,623	-	95,755
Others	-	246,017	13,353	69,070	-	95,342
	40,845	1,270,261	143,667	1,188,764	11,571	391,304

(d) Gross credit exposure

	2023	2022
	RO'000	RO'000
Gross financing	1,416,120	1,270,261
Due from banks and interbank Wakala	24,492	40,845
Investments in Sukuk and securities	144,914	143,667
	1,585,526	1,454,773

(e) Geographical distribution of exposures:

	Sultanate of Oman	Other countries	Total
31 December 2023	RO'000	RO'000	RO'000
Gross Sales receivables and other receivables	314,708	-	314,708
Gross Ijarah Muntahia Bittamleek	229,457	-	229,457
Gross Musharaka financing	500,657	-	500,657
Gross Wakala Bil Istethmar	371,298	-	371,298
Investments in Sukuk and securities	110,744	34,170	144,914
Due from banks and interbank Wakala	2,067	22,425	24,492
	1,528,931	56,595	1,585,526

39 Financial risk management *(continued)*

Credit risk *(continued)*

	Sultanate of Oman	Other countries	Total
31 December 2022	RO'000	RO'000	RO'000
Gross Sales receivables and other receivables	309,838	-	309,838
Gross Ijarah Muntahia Bittamleek	251,562	-	251,562
Gross Musharaka financing	376,237	-	376,237
Gross Wakala Bil Istethmar	332,624	-	332,624
Investments in Sukuk and securities	106,661	37,006	143,667
Due from banks and interbank Wakala	25,000	15,845	40,845
	1,401,922	52,851	1,454,773

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

	Due from banks and interbank Wakala	Gross Sales receivables and other receivables	Gross Ijarah Muntahia Bittamleek	Gross Musharaka financing	Gross Wakala Bil Istethmar	Investment in Sukuk and securities	Total	Off balance sheet exposures
2023	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Construction	**-**	**22,066**	**794**	**40,895**	**48,960**	**-**	**112,715**	**57,802**
Electricity, gas and water	**-**	**10,559**	**87**	**32,067**	**55,572**	**-**	**98,285**	**-**
Financial institutions	**24,492**	**-**	**-**	**-**	**-**	**-**	**24,492**	**-**
Services	**-**	**12,575**	**2,532**	**84,271**	**191,857**	**-**	**291,235**	**51,577**
Personal financing	**-**	**171,144**	**196,067**	**155,172**	**-**	**-**	**522,383**	**-**
Government	**-**	**-**	**-**	**-**	**-**	**130,763**	**130,763**	**61,042**
Non-resident financing	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Others	**-**	**98,365**	**29,977**	**188,252**	**74,908**	**14,151**	**405,653**	**211,219**
Total	**24,492**	**314,708**	**229,457**	**500,657**	**371,298**	**144,914**	**1,585,526**	**381,640**

	Due from banks and interbank Wakala	Gross Sales receivables and other receivables	Gross Ijarah Muntahia Bittamleek	Gross Musharaka financing	Gross Wakala Bil Istethmar	Investment in Sukuk and securities	Total	Off balance sheet exposures
2022	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Construction	-	23,883	1,929	35,789	42,549	-	104,150	123,758
Electricity, gas and water	-	18,877	168	16,086	62,633	-	97,764	45,154
Financial institutions	40,845	-	-	-	-	-	40,845	-
Services	-	12,828	3,006	52,496	151,664	-	219,994	50,601
Personal financing	-	151,407	216,714	123,901	-	-	492,022	-
Government	-	-	-	-	-	130,314	130,314	76,450
Non-resident financing	-	-	-	-	-	-	-	-
Others	-	102,843	29,745	147,965	75,778	13,353	369,684	95,341
Total	40,845	309,838	251,562	376,237	332,624	143,667	1,454,773	391,304

39 Financial risk management *(continued)*

Credit risk *(continued)*

(g) Residual contractual maturities of the portfolio by major types of credit exposures:

2023	Gross due from banks and interbank Wakala RO'000	Gross sales receivables and other receivables RO'000	Gross Ijarah assets and Ijarah Muntahia Bittamleek RO'000	Gross Musharaka financing RO'000	Gross Wakala Bil Istethmar RO'000	Gross investment in Sukuk and securities RO'000	Total RO'000	Off balance sheet exposures RO'000
Upto 1 month	24,492	16,386	1,288	6,382	20,069	8,255	76,872	33,560
1 to 3 months	-	33,027	2,473	3,660	64,944	13,681	117,785	25,266
3 to 6 months	-	37,770	3,444	6,065	45,046	35,836	128,161	81,353
6 to 9 months	-	32,692	3,508	7,080	21,216	7,010	71,506	9,724
9 to 12 months	-	19,718	3,852	15,471	14,597	760	54,398	5,709
1 to 3 years	-	100,873	42,519	125,427	86,261	43,892	398,972	27,846
3 to 5 years	-	41,072	41,237	109,635	98,448	2,430	292,822	7,992
Over 5 years	-	33,171	131,136	226,937	20,716	33,050	445,010	190,190
	24,492	314,708	229,457	500,657	371,298	144,914	1,585,526	381,640

2022	Due from banks and interbank Wakala RO'000	Gross sales receivables and other receivables RO'000	Gross Ijarah assets and Ijarah Muntahia Bittamleek RO'000	Gross Musharaka financing RO'000	Gross Wakala Bil Istethmar RO'000	Investment in Sukuk and securities RO'000	Total RO'000	Off balance sheet exposures RO'000
Upto 1 month	40,845	17,474	1,187	1,520	17,226	6,236	84,488	14,404
1 to 3 months	-	39,230	2,640	4,239	86,629	19,858	152,596	25,876
3 to 6 months	-	39,680	3,674	4,663	23,837	1,943	73,797	86,773
6 to 9 months	-	26,948	3,809	5,683	5,978	1,660	44,078	8,711
9 to 12 months	-	22,140	4,015	16,185	15,173	6,885	64,398	228,555
1 to 3 years	-	102,709	44,499	103,055	106,289	35,406	391,958	17,471
3 to 5 years	-	35,009	42,125	79,793	42,197	44,308	243,432	8,094
Over 5 years	-	26,648	149,613	161,099	35,295	27,371	400,026	1,420
	40,845	309,838	251,562	376,237	332,624	143,667	1,454,773	391,304

(h) Distribution of impaired financing, past due and not past due financing by type of industry:

31 December 2023	Performing financing RO'000	Non-performing financing RO'000	Impairment losses under stage III held RO'000	Impairment losses under stage I and II Held RO'000
Personal financing	520,998	1,385	981	380
Resident corporate financing	862,861	30,876	17,953	20,689
	1,383,859	32,261	18,934	21,069

39 Financial risk management *(continued)*

Credit risk *(continued)*

31 December 2022	Performing financing RO'000	Non-performing financing RO'000	Impairment losses under stage III held RO'000	Impairment losses under stage I and II Held RO'000
Personal financing	491,100	922	611	210
Resident corporate financing	751,262	26,977	14,296	16,350
	1,242,362	27,899	14,907	16,560

(i) Distribution of impaired financing and past due financing by geographical distribution:

31 December 2023	**Performing financing RO'000**	**Non-performing financing RO'000**	**Impairment losses under stage III held RO'000**	**Impairment losses under stage I and II Held RO'000**
Sultanate of Oman	**1,383,859**	**32,261**	**18,934**	**21,069**
Total	**1,383,859**	**32,261**	**18,934**	**21,069**

31 December 2022	Performing financing RO'000	Non-performing financing RO'000	Impairment losses under stage III held RO'000	Impairment losses under stage I and II Held RO'000
Sultanate of Oman	1,242,362	27,899	14,907	16,560
Total	1,242,362	27,899	14,907	16,560

(j) Maximum exposure to credit risk without consideration of collateral held:

	2023 RO'000	2022 RO'000
Due from banks and interbank Wakala investments	**24,492**	40,845
Investment in Sukuk and securities	**144,914**	143,667
Gross Financing	**1,416,120**	1,270,261
	1,585,526	1,454,773
Off-balance sheet items		
Financial guarantee	**124,878**	118,216
Financial letter of credits	**109,881**	107,501
Acceptances	**5,706**	1,586
Bills for collection	**693**	1,057
Commitments	**140,482**	162,944
	381,640	391,304

39 Financial risk management *(continued)*

Credit risk *(continued)*

(k) Movement in ECL

31 December 2023	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Exposure subject to ECL (gross) 1 January 2023				
Gross financing, commitments and financial guarantees	1,223,177	378,515	31,702	1,633,394
Debt instruments measured though equity	135,770	3,645	-	139,415
Debt instruments measured at amortised cost	-	2,002	-	2,002
Interbank wakala investments	28,850	-	-	28,850
Due from banks, central banks and other financial assets	11,995	-	-	11,995
	1,399,792	384,162	31,702	1,815,656
Net transfer between stages				
Gross financing, commitments and financial guarantees	195,356	(64,384)	3,119	134,091
Debt instruments measured though equity	4,514	(3,645)	-	869
Debt instruments measured at amortised cost	-	(2,002)	-	(2,002)
Interbank wakala investments	(13,560)	-	-	(13,560)
Due from banks, central banks and other financial assets	(2,793)	-	-	(2,793)
	183,517	(70,031)	3,119	116,605
Exposure subject to ECL (gross) 31 December 2023				
Gross financing, commitments and financial guarantees	1,418,533	314,131	34,821	1,767,485
Debt instruments measured though equity	140,284	-	-	140,284
Debt instruments measured at amortised cost	-	-	-	-
Interbank wakala investments	15,290	-	-	15,290
Due from banks, central banks and other financial assets	9,202	-	-	9,202
	1,583,309	314,131	34,821	1,932,261
Expected Credit Loss as at 1 January 2023				
Gross financing, commitments and financial guarantees	(3,296)	(14,670)	(16,565)	(34,531)
Debt instruments measured though equity	(101)	(23)	-	(124)
Debt instruments measured at amortised cost	-	(6)	-	(6)
Interbank wakala investments	(32)	-	-	(32)
Due from banks, central banks and other financial assets	(66)	-	-	(66)
	(3,495)	(14,699)	(16,565)	(34,759)
Charge for the period (net)				
Gross financing, commitments and financial guarantees	(2,874)	(603)	(3,274)	(6,751)
Debt instruments measured though equity	(72)	23	-	(49)
Debt instruments measured at amortised cost	-	6	-	6
Interbank wakala investments	24	-	-	24
Due from banks, central banks and other financial assets	63	-	-	63
	(2,859)	(574)	(3,274)	(6,707)
Expected Credit Loss as at 31 December 2023				
Gross financing, commitments and financial guarantees	(6,170)	(15,273)	(19,839)	(41,282)
Debt instruments measured though equity	(173)	-	-	(173)
Debt instruments measured at amortised cost	-	-	-	-
Interbank wakala investments	(8)	-	-	(8)
Due from banks, central banks and other financial assets	(3)	-	-	(3)
	(6,354)	(15,273)	(19,839)	(41,466)
Net closing balance - as at 31 December 2023				
Gross financing, commitments and financial guarantees	1,412,363	298,857	14,982	1,726,202
Debt instruments measured though equity	140,112	-	-	140,112
Debt instruments measured at amortised cost	-	-	-	-
Interbank wakala investments	15,282	-	-	15,282
Due from banks, central banks and other financial assets	9,199	-	-	9,199
	1,576,956	298,857	14,982	1,890,795

39 Financial risk management *(continued)*

Credit risk *(continued)*

(k) Movement in ECL *(continued)*

	Stage 1	Stage 2	Stage 3	Total
31 December 2022	RO'000	RO'000	RO'000	RO'000
Exposure subject to ECL (gross) 1 January 2022				
Gross financing, commitments and financial guarantees	1,069,350	443,736	14,121	1,527,207
Debt instruments measured though equity	120,608	3,705	-	124,313
Debt instruments measured at amortised cost	-	2,002	-	2,002
Interbank wakala investments	27,000	-	-	27,000
Due from banks, central banks and other financial assets	5,906	-	-	5,906
	1,222,864	449,443	14,121	1,686,428
Net transfer between stages				
Gross financing, commitments and financial guarantees	153,827	(65,221)	17,581	106,187
Debt instruments measured though equity	15,162	(60)	-	15,102
Debt instruments measured at amortised cost	-	-	-	-
Interbank wakala investments	1,850	-	-	1,850
Due from banks, central banks and other financial assets	6,089	-	-	6,089
	176,928	(65,281)	17,581	129,228
Exposure subject to ECL (gross) 31 December 2022				
Gross financing, commitments and financial guarantees	1,223,177	378,515	31,702	1,633,394
Debt instruments measured though equity	135,770	3,645	-	139,415
Debt instruments measured at amortised cost	-	2,002	-	2,002
Interbank wakala investments	28,850	-	-	28,850
Due from banks, central banks and other financial assets	11,995	-	-	11,995
	1,399,792	384,162	31,702	1,815,656
Expected Credit Loss as at 1 January 2022				
Gross financing, commitments and financial guarantees	(2887)	(13789)	(7191)	(23867)
Debt instruments measured though equity	(638)	(58)	-	(696)
Debt instruments measured at amortised cost	-	(20)	-	(20)
Interbank wakala investments	(214)	-	-	(214)
Due from banks, central banks and other financial assets	(55)	-	-	(55)
	(3794)	(13867)	(7191)	(24852)
Charge for the period (net)				
Gross financing, commitments and financial guarantees	(409)	(881)	(9374)	(10664)
Debt instruments measured though equity	537	35	-	572
Debt instruments measured at amortised cost	-	14	-	14
Interbank wakala investments	182	-	-	182
Due from banks, central banks and other financial assets	(11)	-	-	(11)
	299	(832)	(9374)	(9907)
Expected Credit Loss as at 31 December 2022				
Gross financing, commitments and financial guarantees	(3,296)	(14,670)	(16,565)	(34,531)
Debt instruments measured though equity	(101)	(23)	-	(124)
Debt instruments measured at amortised cost	-	(6)	-	(6)
Interbank wakala investments	(32)	-	-	(32)
Due from banks, central banks and other financial assets	(66)	-	-	(66)
	(3,495)	(14,699)	(16,565)	(34,759)
Net closing balance - as at 31 December 2022				
Gross financing, commitments and financial guarantees	1,219,881	363,845	15,137	1,598,863
Debt instruments measured though equity	135,669	3,622	-	139,291
Debt instruments measured at amortised cost	-	1,996	-	1,996
Interbank wakala investments	28,818	-	-	28,818
Due from banks, central banks and other financial assets	11,929	-	-	11,929
	1,396,297	369,463	15,137	1,780,897

39 Financial risk management *(continued)*

Credit risk *(continued)*

Restructured financing

As of 31st December 2023, the restructured financing amounts to RO 231,999 million and the stage wise details are as follows:

	Restructured	ECL
Classification/Stage as per IFRS-9	**RO'000**	**RO'000**
Stage 1	82,573	1,742
Stage 2	140,821	12,798
Stage 3	8,605	4,714
Total	231,999	19,254

Post Model Adjustments

The Bank's models have been constructed and calibrated using historical trends and correlations as well as forward looking economic scenarios. The severity of the current macro-economic projections and the added complexity caused by the various support schemes and regulatory guidance across the main regions in which the Bank operates could not be reliably modelled for the time being. As a consequence, the existing models may generate results that are either overly conservative or overly optimistic depending on the specific portfolio / segment. As a result, post-model adjustments are needed. Given model changes take a significant amount of time to develop and test and the data limitation issues noted above, the Bank expects that post-model adjustments will be applied for the foreseeable future.

Post-model adjustments (including those required by CBO for restructured cases) and management overlays made in estimating the reported ECL as at 31 December 2023 are set out as follows:

As on the reporting date the collective provision held by the Bank through management overlays and post-model adjustment amounts to 21.4% (2022:19.3%) of total impairment based on latest available PD term structure and macro-economic forecasts. This is in addition to the existing ECL provision considered on a conservative practice to mitigate any unforeseen impacts in the portfolio. The Bank will continue to reassess and appropriately adjust such overlays on a regular basis throughout the affected period.

In determining above, the management has considered following assumptions:

- Oil price used by the Bank around $78.74 (31 December 2022: $88.55)

Scenario weightages used by the Bank

Scenario weightings of 50%, 30%, 20% for Base, Downside and Upside scenarios (31 December 2022: 50%, 30%, 20%).

The following table shows a comparison of the Bank's allowances for credit losses on non-impaired financial assets (Stages 1 and 2) under FAS 30 based on the probability weightings of three scenarios with allowances for credit losses resulting from simulations of each scenario weighted at 100%.

Sensitivity of impairment estimates	**ECL**	**ECL**
ECL on non-impaired financing	**Dec-23**	**Dec-22**
	RO'000	RO'000
Simulations		
Upside case - 100% weighted	**39,219**	33,424
Base case - 100% weighted	**41,702**	33,882
Downside scenario - 100% weighted	**42,573**	37,502

Impact on the Capital Adequacy

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 60 bps.

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

39 Financial risk management *(continued)*

Credit risk *(continued)*

(m) Exposure at default methodology

The exposure at default is used to measure the lifetime expected credit losses and 12-month expected credit losses. The Bank measures expected credit losses at a client level for wholesale banking and at pool level for retail. It also includes expected credit losses on the undrawn commitment component from those on the financing component. It recognizes expected credit losses for the undrawn commitment together with the loss allowance for the financing component in the statement of financial position. To the extent that the combined expected credit losses exceed the gross carrying amount of the financial asset, the expected credit losses is presented as a provision. For undrawn commitment, Credit Conversion Factor (CCF) to convert commitment to on-balance sheet where cancellable limits have 20% CCF and for uncancellable committed facility has 100%. For all off-balance sheet exposure, CCF is applied according to the type of facility.

(n) Credit quality

The credit quality of financial assets is managed by the Bank using internal and external credit risk ratings. The Bank follows an internal rating mechanism for grading relationship across its credit portfolio. The Bank utilizes a scale ranging from 1 to 10 for credit relationship with 1 to 7 denoting performing grades, 8, 9 and 10 denoting non-performing. All credits are assigned a rating in accordance with defined criteria.

The Bank endeavours continuously to improve upon internal credit risk rating methodologies and credit risk management policies and practices to reflect the true underlying credit risk of the portfolio and the credit culture in the Bank. All financing relationships are reviewed at least once in a year and more frequently in case of non-performing assets.

The following table provides the details for the credit quality financial assets subject to ECL:

	2023			
31 December 2023 (RO'000)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Performing grades (Grade 1 to 7)				
Gross financing amount including off-balance sheet	1,418,534	314,130	-	1,732,664
ECL on Financing	(6,171)	(15,273)		(21,444)
Gross Investments	140,284	-	-	140,284
ECL on Investments	(172)	-	-	(172)
Gross Interbank	15,290	-	-	15,290
ECL on Interbank	(8)	-	-	(8)
Due from Banks, Central Banks and Other Financial Assets	9,202	-	-	9,202
ECL on Due from Banks, Central Banks and Other Financial Assets	(3)	-	-	(3)
Carrying amount	1,576,956	298,857	-	1,875,813
Non-performing grades (Grade 8 - 10)				
Gross financing amount including off-balance sheet	-	-	34,821	34,821
ECL on Financing	-	-	(19,839)	(19,839)
Gross Investments	-	-	-	-
ECL on Investments	-	-	-	-
Gross Interbank	-	-	-	-
ECL on Interbank	-	-	-	-
Due from Banks, Central Banks and Other Financial Assets	-	-	-	-
ECL on Due from Banks, Central Banks and Other Financial Assets	-	-	-	-
Carrying amount	-	-	14,982	14,982
Total of performing and Non-performing grades (Grade 1 - 10)				
Total gross financing amount including off-balance sheet	1,418,534	314,130	34,821	1,767,485
Total ECL on Financing	(6,171)	(15,273)	(19,839)	(41,283)
Total Gross Investments	140,284	-	-	140,284
Total ECL on Investments	(172)	-	-	(172)
Total Gross Interbank	15,290	-	-	15,290
Total ECL on Interbank	(8)	-	-	(8)
Due from Banks, Central Banks and other financial assets	9,202	-	-	9,202
ECL on Due from Banks, Central Banks and other financial assets	(3)	-	-	(3)
Carrying amount	1,576,956	298,857	14,982	1,890,795

39 Financial risk management *(continued)*

Credit risk *(continued)*

(n) Credit quality *(continued)*

	2022			
31 December 2022 (RO'000)	Stage 1	Stage 2	Stage 3	Total
Performing grades (Grade 1 to 7)				
Gross financing amount including off-balance sheet	1,223,177	378,515	-	1,601,692
ECL on Financing	(3,296)	(14,670)		(17,966)
Gross Investments	135,770	5,647	-	141,417
ECL on Investments	(101)	(29)	-	(130)
Gross Interbank	28,850	-	-	28,850
ECL on Interbank	(32)	-	-	(32)
Due from Banks, Central Banks and Other Financial Assets	11,995	-	-	11,995
ECL on Due from Banks, Central Banks and Other Financial Assets	(66)	-	-	(66)
Carrying amount	1,396,297	369,463	-	1,765,760
Non-performing grades (Grade 8 - 10)				
Gross financing amount including off-balance sheet	-	-	31,702	31,702
ECL on Financing	-	-	(16,565)	(16,565)
Gross Investments	-	-	-	-
ECL on Investments	-	-	-	-
Gross Interbank	-	-	-	-
ECL on Interbank	-	-	-	-
Carrying amount	-	-	15,137	15,137
Total of performing and Non-performing grades (Grade 1 - 10)				
Total gross financing amount including off-balance sheet	1,223,177	378,515	31,702	1,633,394
Total ECL on Financing	(3,296)	(14,670)	(16,565)	(34,531)
Total Gross Investments	135,770	5,647	-	141,417
Total ECL on Investments	(101)	(29)	-	(130)
Total Gross Interbank	28,850	-	-	28,850
Total ECL on Interbank	(32)	-	-	(32)
Due from Banks, Central Banks and other financial assets	11,995	-	-	11,995
ECL on Due from Banks, Central Banks and other financial assets	(66)	-	-	(66)
Carrying amount	1,396,297	369,463	15,137	1,780,897

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios

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

The most significant period-end assumptions used for the ECL estimate as at Dec 31, 2023 were Oil Price $78.74 (2022: $88.55); GDP 4.83% (GDP 2022: 4.3%) and Unemployment 3.24% (2022: 3.18%)

Liquidity risk

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

Bank's liquidity risk management is governed by the Liquidity Risk Management Policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management. The Liquidity risk policy also incorporates contingency plans and measures so as the Bank is always in a position to meet all maturing liabilities as well as to fund asset growth and business operations. The Contingency Funding Plan includes effective monitoring of the cash flows on a day to day basis, holding of tradable high-quality liquid assets, which may be readily liquidated in sizeable amount etc.

The Bank also has in place adequate lines of credit from both local and international Banks to meet any unforeseen liquidity requirements.

39 Financial risk management *(continued)*

Liquidity risk *(continued)*

The Bank monitors its liquidity risk through cash flow approach and stock approach. Under cash flow approach Bank generates Maturity of Assets and Liabilities (MAL) report which captures all the maturing assets and liabilities into various pre-set time buckets ranging from one month to five years. The mismatches in various time buckets indicate liquidity gap and Bank strictly adheres to the limit set with respect to various time buckets as set out in Bank's Risk Appetite and Strategy Statement. Under stock approach, Bank monitors the liquidity risk through liquidity ratios, which portrays the liquidity available at the reporting date. In addition to this, the Bank also monitors and report liquidity in line with Basel III ratios that includes Liquidity Coverage Ratio (LCR) and Net-Stable Funding Ratio (NSFR).

The NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. This ratio should be equal to at least 100% on an ongoing basis. "Available stable funding" is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The amount of such stable funding required ("Required stable funding") of a bank is a function of the liquidity characteristics and residual maturities of the various assets held by the Bank as well as those of its off-balance sheet (OBS) exposures.

Treasury department of the Bank and Asset Liability Committee (ALCO) controls and monitors the liquidity and ensures that the Bank is not exposed to undue liquidity risk and at the same time makes optimum use of its funds.

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

Maturity profile of assets and liabilities

	Due on demand and up to 30 days	More than 1month to 6 months	More than 6 months to 12 months	More than 1 year to 5 years	Over 5 years	Total
31 December 2023	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Cash and balances with Central Bank of Oman	11,100	7,327	5,520	17,434	9,919	51,300
Inter-bank Wakala and Due from banks	18,739	5,775	-	-	-	24,514
Financing to customers - net	44,258	193,437	122,324	634,832	365,331	1,360,182
Investment securities	8,255	49,517	7,770	46,322	32,878	144,742
Investment in real estate	-	-	-	-	-	-
Intangible assets	-	-	-	-	3,527	3,527
Property and equipment	-	-	-	-	5,239	5,239
Other assets	260	1,866	1,991	286	14,388	18,791
Total assets	122,312	257,922	132,085	698,874	431,282	1,608,295
Customer accounts, Wakala and unrestricted accountholders	108,950	244,380	164,510	517,464	280,950	1,316,254
Other liabilities	-	4,432	14,439	12,002	8,124	38,997
Investment risk and profit equalization reserve	-	-	-	-	-	-
Owners' equity	-	-	-	-	253,044	253,044
Total liabilities, equity of unrestricted investment accountholders and owners' equity	108,950	248,812	178,949	529,466	542,118	1,608,295
Net gap	13,362	1,783	(46,864)	151,974	(120,255)	-
Cumulative net gap	13,362	15,145	(31,719)	120,255	-	-

39 Financial risk management *(continued)*

Liquidity risk *(continued)*

Maturity profile of assets and liabilities *(continued)*

	Due on demand and up to 30 days	More than 1month to 6 months	More than 6 months to 12 months	More than 1 year to 5 years	Over 5 years	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
31 December 2022						
Cash and balances with Central Bank of Oman	9,710	8,257	8,023	16,223	10,365	52,578
Inter-bank Wakala and Due from banks	12,132	28,850	-	-	-	40,982
Financing to customers - net	37,056	203,163	103,492	548,235	334,814	1,226,760
Investment securities	6,236	21,801	8,545	79,714	27,241	143,537
Investment in real estate	-	-	-	-	-	-
Intangible assets	-	-	-	-	3,144	3,144
Property and equipment	-	-	-	-	5,261	5,261
Other assets	337	1,415	589	4,627	6,893	13,861
Total assets	65,471	263,486	120,649	648,799	387,718	1,486,123
Customer accounts, Wakala and unrestricted accountholders	85,767	220,315	209,801	425,322	259,270	1,200,475
Other liabilities	-	3,360	15,788	7,870	12,574	39,592
Investment risk and profit equalization reserve	-	-	-	-	-	-
Owners' equity	-	-	-	-	246,056	246,056
Total liabilities, equity of unrestricted investment accountholders and owners' equity	85,767	223,675	225,589	433,192	517,900	1,486,123
Net gap	(20,296)	39,811	(104,940)	215,607	(130,182)	-
Cumulative net gap	(20,296)	19,515	(85,425)	130,182	-	-

Market risk

Market risk is the risk of loss due to unfavourable movements in market factors such as rates of return, exchange rates, commodities and equity prices. The Bank's Market risks arise generally due to open positions in foreign currencies, holding common equity, and fixed return products. All such instruments and transactions are exposed to general and specific market movements. For purpose of Capital Charge, the Bank uses Basel II standardized Approach.

The Bank seeks to mitigate market risk by employing strategies that correlate rate and price movements of its earning asset and liabilities. The Bank has Assets and Liability Committee (ALCO) which monitors Market and Liquidity Risk on regular basis. The details of market risk faced by the bank are discussed in the following notes.

39 Financial risk management *(continued)*

Market risk *(continued)*

(a) Currency risk

Currency risk is the risk of loss resulting from fluctuations in foreign exchange rates. Changes in currency rates affect the value of assets and liabilities denominated in foreign currencies and may affect revenues from foreign exchange dealings.

The Bank undertakes currency risk mostly to support its trade finance services and cross-border FX exposures. It maintains overall foreign exchange risk position to the extent of statutory Net Open Position limit prescribed by CBO. The major foreign currency to which the Bank is exposed is the US Dollar which is effectively pegged to Omani Rial. The Bank finances a significant portion of its financial assets in the same currencies as the relevant measurement currencies to mitigate its foreign currency risk. Foreign Exchange Risk exposures are managed as per Bank's Risk Management policies.

Exposure limits such as counterparty and currency limits are also in place in accordance with the Bank's approved policies to limit risk and concentration to the acceptable levels.

The foreign currency exposures are given below:

Foreign currency exposures

	2023	2022
	RO'000	RO'000
Net assets denominated in US Dollars	**51,482**	24,453
Net assets denominated in other foreign currencies	**12,766**	7,161

Rate of Return Risk

Rate of Return Risk is the risk of deviations in earnings or economic value due to adverse movement of the yield curve. It is inherent primarily to the banking book mainly through advances and deposits portfolio.

The profit rate exposure of the Bank arises due to mismatches between contractual maturities or re-pricing of on and off-balance sheet assets and liabilities. It is addressed by an Asset and Liability Committee (ALCO) that reviews the profit rate dynamics at regular intervals and decides re-pricing of assets and liabilities ensuring that the spread of the Bank remains at an acceptable level.

The sensitivity of the statement of income is the effect of the assumed changes in profit rates on the earning for one year, based on the variable profit rate non-trading financial assets and financial liabilities held at reporting date.

The following table demonstrates the sensitivity to a reasonable possible change in profit rates, with all other variables held constant.

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

	2023	2022
	RO'000	RO'000
+200 bps	**5,629**	6,313
+100 bps	**2,814**	3,157
-200 bps	**(5,629)**	(6,313)
-100 bps	**(2,814)**	(3,157)

39 Financial risk management *(continued)*

Market risk *(continued)*

Rate of Return Risk *(continued)*

Profit rate sensitivity gap

31 December 2023	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 6 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non-profit bearing RO'000	Total RO'000
Cash and balances with Central Bank of Oman	-	-	-	-	-	51,300	51,300
Inter-bank Wakala and Due from banks	9,069	-	-	5,775	-	9,670	24,514
Financing to customers – net	277,598	178,876	57,895	431,081	414,732	-	1,360,182
Investment Securities	8,255	50,833	6,454	46,322	32,878	-	144,742
Investment in real estate	-	-	-	-	-	-	-
Intangible asset	-	-	-	-	-	3,527	3,527
Property and equipment	-	-	-	-	-	5,239	5,239
Other assets	-	-	-	-	-	18,791	18,791
Total assets	294,922	229,709	64,349	483,178	447,610	88,527	1,608,295
Customer accounts, Wakala and unrestricted accountholders	34,043	142,502	89,648	553,647	221,825	274,589	1,316,254
Other liabilities	-	-	-	-	-	38,997	38,997
Investment risk and profit equalisation reserve	-	-	-	-	-	-	-
Shareholders' equity	-	-	-	-	-	253,044	253,044
Total liabilities and shareholders' equity	34,043	142,502	89,648	553,647	221,825	566,630	1,608,295
On-balance sheet gap	260,879	87,207	(25,299)	(70,469)	225,785	(478,103)	-
Cumulative profit sensitivity gap	260,879	348,086	322,787	252,318	478,103	-	-

Sensitivity to profit rates arises from mismatches in the period to re-pricing of assets and that of the corresponding liability. The Bank manages these mismatches by risk policy guidelines and reduces risk by matching the re-pricing of assets and liabilities

39 Financial risk management *(continued)*

Market risk *(continued)*

Rate of Return Risk *(continued)*

Profit rate sensitivity gap *(continued)*

31 December 2022	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 6 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non-profit bearing RO'000	Total RO'000
Cash and balances with Central Bank of Oman	-	-	-	-	-	52,578	52,578
Inter-bank Wakala and Due from banks	11,603	25,000	3,850	-	-	529	40,982
Financing to customers – net	292,014	188,330	82,449	430,481	233,486	-	1,226,760
Investment Securities	6,050	21,801	7,286	79,714	27,241	1,445	143,537
Investment in real estate	-	-	-	-	-	-	-
Intangible asset	-	-	-	-	-	3,144	3,144
Property and equipment	-	-	-	-	-	5,261	5,261
Other assets	-	-	-	-	-	13,861	13,861
Total assets	309,667	235,131	93,585	510,195	260,727	76,818	1,486,123
Customer accounts, Wakala and unrestricted accountholders	35,364	145,360	114,571	484,050	204,210	216,920	1,200,475
Other liabilities	-	-	-	-	-	39,592	39,592
Investment risk and profit equalisation reserve	-	-	-	-	-	-	-
Shareholders' equity	-	-	-	-	-	246,056	246,056
Total liabilities and shareholders' equity	35,364	145,360	114,571	484,050	204,210	502,568	1,486,123
On-balance sheet gap	274,303	89,771	(20,986)	26,145	56,517	(425,750)	-
Cumulative profit sensitivity gap	274,303	364,074	343,088	369,233	425,750	-	-

39 Financial risk management *(continued)*

Market risk *(continued)*

Rate of Return Risk *(continued)*

(a) Equity risk

Bank is exposed to the volatility in the prices of the securities (i.e. Sukuk and Shares) held under equity portfolio. Equity investments held are for strategic/long term rather than for trading purposes and hence, Bank does not hold trading positions in equity investments. Hence the exposure in listed and unlisted equity exposure as of date is taken in banking book and capital is calculated accordingly.

Since there is nil exposure in trading book therefore no stress testing and sensitivity analysis is carried out.

Operational risk

Operational risk is the risk of direct or indirect losses resulting from inadequate or failed internal processes or systems, human factors, or from external events. The Bank's businesses are dependent on the ability to process a large number of transactions efficiently and accurately. Operational risks and losses originate from business/operational process failure, IT security failure, natural disasters, dependence on key suppliers, fraud, service quality compromised, regulatory non-compliance, loss of key staff, and social and environmental impacts.

The Bank has developed operational risk management policy and all the critical controls are implemented at all levels for curtailing operational risk. Each division has processes and systems in place to address operational risks within their area.

For the purpose of measuring capital charge, the Bank has adopted the Basic Indicator Approach under Basel II for Operational Risk. The approach requires the Bank to provide 15% of the average three years gross annual income as capital charge for operational risk.

Capital risk management

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders within acceptable risk return framework. The Bank's overall strategy remains unchanged from prior year.

The Bank's regulatory capital is divided into two tiers:

a) Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings; and

b) Tier 2 capital: general provision and unrealized gains arising on the fair valuation of equity instruments at fair value through equity.

Book value of other intangible assets including software is deducted from Tier 1 capital to arrive at the regulatory capital.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and operational risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of potential future exposure.

The Bank will continue to maintain the required regulatory capital either through its risk management strategies or by increasing the capital requirements in line with the business and capital needs.

39 Financial risk management *(continued)*

Market risk *(continued)*

Capital adequacy

The ratio of equity to risk weighted assets, as formulated by the Basel II and Basel III, for the year ended 31 December 2023 and 2022 as follows:

Capital structure	2023	2022
	RO'000	RO'000
TIER I CAPITAL		
Paid up capital	220,011	220,011
Share premium	2,091	2,091
Legal reserve	7,727	6,025
Retained earnings (Excluding cash dividend)	18,179	8,005
Fair value gains or losses on financial assets at fair value through equity	(1,047)	(442)
Less: Intangible assets	(3,527)	(3,144)
Less: Deferred tax asset	-	(2,047)
Total Tier I capital	243,434	230,499
TIER II CAPITAL		
Fair value gains on financial assets at fair value through equity	335	596
Impairment losses	10,014	8,640
Total Tier II capital	10,349	9,236
Total eligible capital	253,783	239,735
Risk weighted assets		
Credit risk	1,375,883	1,254,721
Market risk	77,926	97,247
Operational risk	95,126	85,063
Total	1,548,935	1,437,031
Tier I capital	243,434	230,499
Tier II capital	10,349	9,236
Total regulatory capital	253,783	239,735
Tier I capital ratio	15.72%	16.04%
Total capital ratio	16.38%	16.68%
Common Equity Tier 1 (CET1)	243,434	230,499
Common Equity Tier 1 ratio	15.72%	16.04%

Liquidity coverage ratio (LCR) and Net-Stable Funding Ratio (NSFR)

The Basel Committee on Banking Supervision published the Basel III guidelines in June 2011. Central Bank of Oman has issued final guidelines on implementation of the new capital and liquidity norms to banks in the Country. The new regulations require banks to calculate Liquidity Coverage Ratio (LCR) and Net-Stable Funding Ratio (NSFR) on period basis. The Bank current LCR ratio as of Dec 31, 2023 stands at 109.47% (Dec 31, 2022: 233.94%) and NSFR stands at 132.20% (Dec 31, 2022: 136.09%).

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

(a) Standard, special mention and non-performing Financing accounts (31 December 2023)

Asset Classification as per CBO norms	Asset Classification as per IFRS 9	Gross amount	Provision required as per CBO norms	Provision held as per IFRS 9	Difference between CBO provision required, and provision held	Net amount as per CBO norms	Net amount as per IFRS 9	Reserve Profit as Per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7) =(3)-(4)	(8) = (3)-(5)	(9)
Standard	Stage 1	1,061,225	9,540	4,136	5,404	1,051,685	1,057,089	-
	Stage 2	81,536	793	3,515	(2,722)	80,743	78,021	-
	Stage 3	-	-	-	-	-	-	-
Subtotal		1,142,761	10,333	7,651	2,682	1,132,428	1,135,110	-
Special Mention	Stage 1	70,016	695	1,834	(1,139)	69,321	68,182	-
	Stage 2	140,807	1,364	11,584	(10,220)	139,443	129,223	-
	Stage 3	-	-	-	-	-	-	-
Subtotal		210,823	2,059	13,418	(11,359)	208,764	197,405	-
Substandard	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	3,583	896	2,119	(1,223)	2,687	1,464	378
Subtotal		3,583	896	2,119	(1,223)	2,687	1,464	378
Doubtful	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	4,910	2,716	2,322	394	2,194	2,588	51
Subtotal		4,910	2,716	2,322	394	2,194	2,588	51
Loss	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	23,768	22,432	14,493	7,939	1,336	9,275	530
Subtotal		23,768	22,432	14,493	7,939	1,336	9,275	530
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	452,068	-	384	(384)	452,068	451,684	-
	Stage 2	91,788	-	174	(174)	91,788	91,614	-
	Stage 3	2,560	-	905	(905)	2,560	1,655	-
Subtotal		546,416	-	1,463	(1,463)	546,416	544,953	-
Total All	Stage 1	1,583,309	10,235	6,354	3,881	1,573,074	1,576,955	-
	Stage 2	314,131	2,157	15,273	(13,116)	311,974	298,858	-
	Stage 3	34,821	26,044	19,839	6,205	8,777	14,982	959
Total		1,932,261	38,436	41,466	(3,030)	1,893,825	1,890,795	959

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

(a) Standard, special mention and non-performing Financing accounts (31 December 2022) *(continued)*

Asset Classification as per CBO norms	Asset Classification as per IFRS 9	Gross amount	Provision required as per CBO norms	Provision held as per IFRS 9	Difference between CBO provision required, and provision held	Net amount as per CBO norms	Net amount as per IFRS 9	Reserve Profit as Per CBO norms
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7) =(3)-(4)	(8) = (3)-(5)	(9)
	Stage 1	916,503	10,365	2,247	8,118	906,138	914,256	-
Standard	Stage 2	121,394	1,183	3,576	(2,393)	120,211	117,818	-
	Stage 3	-	-	-	-	-	-	-
Subtotal		1,037,897	11,548	5,823	5,725	1,026,349	1,032,074	-
	Stage 1	32,241	329	454	(125)	31,912	31,787	-
Special Mention	Stage 2	144,053	1,392	10,284	(8,892)	142,661	133,769	-
	Stage 3	-	-	-	-	-	-	-
Subtotal		176,294	1,721	10,738	(9,017)	174,573	165,556	-
	Stage 1	-	-	-	-	-	-	-
Substandard	Stage 2	-	-	-	-	-	-	-
	Stage 3	15,423	3,856	7,085	(3,229)	11,567	8,338	114
Subtotal		15,423	3,856	7,085	(3,229)	11,567	8,338	114
	Stage 1	-	-	-	-	-	-	-
Doubtful	Stage 2	-	-	-	-	-	-	-
	Stage 3	3,872	1,936	2,408	(472)	1,936	1,464	11
Subtotal		3,872	1,936	2,408	(472)	1,936	1,464	11
	Stage 1	-	-	-	-	-	-	-
Loss	Stage 2	-	-	-	-	-	-	-
	Stage 3	8,604	5,231	5,414	(183)	3,373	3,190	330
Subtotal		8,604	5,231	5,414	(183)	3,373	3,190	330
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	451,048	-	794	(794)	451,048	450,254	-
	Stage 2	118,715	-	839	(839)	118,715	117,876	-
	Stage 3	3,803	-	1,658	(1,658)	3,803	2,145	-
Subtotal		573,566	-	3,291	(3,291)	573,566	570,275	-
	Stage 1	1,399,792	10,694	3,495	7,199	1,389,098	1,396,297	-
Total All	Stage 2	384,162	2,575	14,699	(12,124)	381,587	369,463	-
	Stage 3	31,702	11,023	16,565	(5,542)	20,679	15,137	455
Total		1,815,656	24,292	34,759	(10,467)	1,791,364	1,780,897	455

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

(b) Restructured accounts

31 December 2023								
Assets classification as per CBO norms	**Asset Classification as per IFRS 9**	**Gross amount**	**Provision required as per CBO norms**	**Provision held as per IFRS 9**	**Difference between CBO provision required, and provision held**	**Net amount as per CBO norms***	**Net amount as per IFRS 9**	**Reserve profit as per CBO norms**
(1)	(2)	(3)	(4)	(5)	(6)=(4)-(5)	(7) =(3)-(4	(8) =(3)-(5)	(9)
Classified as performing	**Stage 1**	**82,573**	**687**	**1,742**	**(1,055)**	**81,886**	**80,831**	**-**
	Stage 2	**140,821**	**1,235**	**12,798**	**(11,563)**	**139,586**	**128,023**	**-**
	Stage 3	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Sub Total		**223,394**	**1,922**	**14,540**	**(12,618)**	**221,472**	**208,854**	**-**
Classified as non-performing	**Stage 1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 2	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 3	**8,605**	**6,113**	**4,714**	**1,399**	**2,492**	**3,891**	**-**
Sub Total		**8,605**	**6,113**	**4,714**	**1,399**	**2,492**	**3,891**	**-**
Total	**Stage 1**	**82,573**	**687**	**1,742**	**(1,055)**	**81,886**	**80,831**	**-**
	Stage 2	**140,821**	**1,235**	**12,798**	**(11,563)**	**139,586**	**128,023**	**-**
	Stage 3	**8,605**	**6,113**	**4,714**	**1,399**	**2,492**	**3,891**	**-**
		231,999	**8,035**	**19,254**	**(11,219)**	**223,964**	**212,745**	**-**

31 December 2022								
Assets classification as per CBO norms	Asset Classification as per IFRS 9	Gross amount	Provision required as per CBO norms	Provision held as per IFRS 9	Difference between CBO provision required, and provision held	Net amount as per CBO norms*	Assets classification as per CBO norms	Reserve profit as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6)=(4)-(5)	(7) =(3)-(4)	(1)	(9)
Classified as performing	Stage 1	60,352	502	761	(259)	59,850	59,591	-
	Stage 2	126,004	1,203	8,107	(6,904)	124,801	117,897	-
	Stage 3	-	-	-	-	-	-	-
Sub Total		186,356	1,705	8,868	(7,163)	184,651	177,488	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	7,949	2,745	4,382	(1,637)	5,204	3,567	-
Sub Total		7,949	2,745	4,382	(1,637)	5,204	3,567	-
Total	Stage 1	60,352	502	761	(259)	59,850	59,591	-
	Stage 2	126,004	1,203	8,107	(6,904)	124,801	117,897	-
	Stage 3	7,949	2,745	4,382	(1,637)	5,204	3,567	-
		194,305	4,450	13,250	(8,800)	189,855	181,055	-

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

(c) Non-performing financing ratio

	31 December 2023 (RO '000)		
	As per CBO Norms	**As per IFRS 9**	**Difference**
Impairment loss charged to profit and loss account	**14,145**	**6,707**	**7,438**
Provisions required as per CBO norms/held as per IFRS 9	**38,436**	**41,466**	**(3,030)**
Gross NPA ratio %	**1.99**	**1.99**	**-**
Net NPA ratio %	**0.51**	**0.88**	**(0.36)**

	31 December 2022 (RO '000)		
	As per CBO Norms	As per IFRS 9	Difference
Impairment loss charged to profit and loss account	5,320	9,907	(4,587)
Provisions required as per CBO norms/held as per IFRS 9	24,291	34,759	(10,468)
Gross NPA ratio %	1.94	1.94	-
Net NPA ratio %	1.29	0.95	0.34

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Private and confidential
Our ref.: aud/km/zu/14809/24

Agreed-Upon Procedures Report on Bank Nizwa SAOG Basel II - Pillar III and Basel III Disclosures

To the Board of Directors of Bank Nizwa SAOG

Purpose of this Agreed-Upon Procedures Report

Our report is solely for the purpose of assisting Bank Nizwa SAOG ("the Bank") for evaluating the Bank's compliance with the disclosure requirements set out in the Central Bank of Oman's ("the CBO") Circular No. IB 1 dated 18 December 2012 and BM 1114 dated 17 November 2013 and may not be suitable for another purpose.

Responsibilities of the Bank

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

The Bank (also the Responsible Party) is responsible for the subject matter on which the agreed-upon procedures are performed.

Practitioners' Responsibilities

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

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

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

CR No. 1358131
Tax Card No. 8063052

Practitioners' Responsibilities (continued)

Professional Ethics and Quality Control

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

Our firm applies International Standard on Quality Management 1, *which requires the firm to design, implement and operate a system of quality management* including policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Procedures and Findings

We have performed the procedures described below, which were agreed upon with the Bank in the terms of engagement dated 1 February 2021, on the Bank's Basel II – Pillar III and Basel III Disclosures ("Disclosures"):

S. No	Procedures	Findings
1	We have performed the procedures prescribed in the CBO circular No. IB 1 dated 18 December 2012 and BM 1114 dated 17 November 2013 with respect to the Disclosures of the Bank as at and for the year ended 31 December 2023.	No exceptions found.

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

KPMG

KPMG LLC
11 March 2024

KPMG
KPMG LLC
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P O Box 641, PC 112
Sultanate of Oman
CR.No: 1358131

Enclosures:
Bank Nizwa SAOG Basel II – Pillar III and Basel III Disclosures

1. Overview and Introduction

In compliance with the Central Bank of Oman ("CBO") guidelines on implementing Basel II Capital Accord for all banks operating in Oman as of September 2006, and in light of Islamic Banking Regulatory Framework (IBRF), Bank Nizwa has developed its risk management techniques to assure adequate monitoring and managing its risks.

The Basel II Accord is based on three pillars as follows:

- **Pillar I** - defines the regulatory minimum capital requirements by providing rules and regulations for measurement of credit risk, market risk and operational risk.
- **Pillar II** - addresses a bank's internal processes for assessing overall capital adequacy in relation to risks ("ICAAP"). Pillar II also introduces the Supervisory Review and Evaluation Process ("SREP"), which can be used as a tool to assess the internal capital adequacy of any organization.
- **Pillar III** - complements the other two pillars and focuses on enhanced transparency in information disclosure, covering risk and capital management, including capital adequacy. The aim of these disclosures is to encourage market discipline by developing a set of disclosure requirements which allow market participants to assess certain specified information on the scope of application of Basel II, capital, particular risk exposures and risk assessment processes, and hence the capital adequacy of the institution.

Pillar III disclosures include information about Bank Nizwa relating to our governance structure, capital structure, capital adequacy and requirements, risk management objectives and policies, and various supporting quantitative and qualitative disclosures along with a comparison with Dec 2022 financials.

2. Scope of Application

2.1 Qualitative Disclosure

- The Bank was registered in the Sultanate of Oman as a public joint stock company on 15 August 2012.
- The Bank's shares are listed on the Muscat Stock Exchange "MSX" and its principle place of business is in Muscat, Sultanate of Oman.
- The Bank is not a part of any holding company or group and has no subsidiary.
- The authorized share capital of the Bank is RO 300,000,000 and the issued and paid up capital is RO 220,010,538 divided into 2,236,953,032 shares (31 December 2022: RO 220,010,538 divided into 2,236,953,032 shares).
- M/S Aflag Financial Investment LLC is the only shareholder who owns 10% or more of the Bank's shares. On 31 December 2023 shareholding of Aflag Financial Investment LLC was 782,933,561 shares equivalent to 35.00% (31 December 2022: shareholding of Aflag Financial Investment LLC was 782,933,561 shares equivalent to 35%).
- Financial and regulatory reporting is being done on standalone basis hence no associated disclosures related to consolidation is required.

2.2 Quantitative Disclosure

(a) Total interest in Takaful Entities: The Bank holds 0.48% of Oman Takaful and does not have any control in the Takaful entities and accordingly it is not consolidated in any form.

3. Capital Structure

3.1 Qualitative Disclosure

- The authorized share capital of the Bank is RO 300,000,000 and the issued and paid-up capital is RO 220,010,538 divided into 2,236,953,032 shares (31 December 2022: RO 220,010,538 divided into 2,236,953,032 shares).
- The Bank has no other capital instruments or equity related instruments that are considered as part of its regulatory capital.
- Unrestricted Investment Accounts are defined under section Unrestricted Investment Accounts. These are not considered as part of the equity and will only affect Capital Adequacy Ratio calculation to reduce Risk-Weighted Assets. However, the Bank is following conservative approach by not reducing Risk-Weighted Assets.
- There is no minority interest, surplus capital from Takaful companies and the Bank has no shareholdings equal or exceeding 5% of total paid-up capital.

3.2 Quantitative Disclosure

The detailed breakdown of the capital structure of the Bank is as follows:

	2023	2022
	RO '000	RO '000
(a) Tier I Capital		
Paid up capital	220,011	220,011
Share premium	2,091	2,091
Legal Reserve	7,727	6,025
Retained Earnings	18,179	8,005
Net Fair value losses on financial assets at fair value through equity	(1,047)	(442)
Less: Intangible Assets, Including Losses, Cumulative Unrealized Losses Recognized Directly In Equity	(3,527)	(3,144)
Less: Deferred Tax Assets	-	(2,047)
Add: Mandatory Convertible Additional Tier 1 Sukuk (refer note below)	-	-
Total Tier I capital	243,434	230,499

Note: Mandatory Convertible Additional Tier 1 sukuk is under process of approvals. If gets approved, it will be fully paid from Retained earnings. As such, this will not have any impact on the CET1 and Total CAR

	2023	2022
(b) Tier II Capital		
Fair value gains on financial assets at fair value through equity	335	596
Impairment Losses/General provision	10,014	8,640
Total Tier II capital	10,349	9,236
Total eligible capital	253,783	239,735

(c) Unrestricted Investment Account and Related Reserves	2023	2022
	RO'000	RO'000
Amount of unrestricted Investment Accountholder (IAH) Funds	368,060	368,516
Investment fair value reserve	(43)	140
Profit Equalization Reserve (PER)	-	-
Investment Risk Reserve (IRR)	-	-

4. Capital Adequacy

4.1 Qualitative Disclosure

- The primary objective of the Bank's capital management is to ensure that the Bank complies with regulatory capital requirements and maintains healthy capital ratios in order to support its business and to optimize shareholders' value.
- The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return on capital to shareholders or issue Sukuk etc.
- The capital structure is primarily made up of its paid-up capital and including reserves. From a regulatory perspective, the significant amount of the capital is in Tier 1 form as defined by the CBO, i.e., most of the capital is of permanent nature.
- The Bank's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of financing facilities growth expectations for each business group, expected growth in off-balance sheet facilities, future sources and uses of funds.
- To assess its capital adequacy requirements in accordance with CBO requirements, the Bank adopts the Standardized Approach for its Credit and Market Risk and the Basic Indicator Approach for its Operational Risk. In a normal course of business, all assets are funded by the common pool unless otherwise approved by ALCO in advance. The Bank's Asset Liability Committee (ALCO) decides on the participation ratio in advance for funding the common pool of assets. On a quarterly basis, based on the financials, the assessment of Risk-Weighted Assets is according to the utilization of Unrestricted Investment Accountholder and shareholders' fund in funding assets through the common pool.

4.2 Quantitative Disclosure

The ratio of equity to risk-weighted assets, as formulated by the Basel II and Basel III, for the year ended 31 December, 2023 is 16.68% (31 December, 2022:16.68%). Please refer the note below for a material information in this regard.

	2023		2022	
(a) Capital Requirements		RO'000		RO'000
	Risk-Weighted Assets (RWA)	**Capital Requirement at 12.25%**	Risk-Weighted Assets (RWA)	Capital Requirement at 12.25%
Credit Risk	**1,375,883**	**168,546**	1,254,721	153,703
Market Risk	**77,926**	**9,546**	97,247	11,913
Operational Risk	**95,126**	**11,653**	85,063	10,420
Total	**1,548,935**	**189,745**	1,437,031	176,036

(b) Capital Requirements Details	**2023**	2022
	RO'000	RO'000
Tier I Capital (after supervisory deductions)	**243,434**	230,499
Tier II capital (after supervisory deductions & up to eligible limits)	**10,349**	9,236
Risk-Weighted Assets – Banking Book	**1,453,809**	1,351,968
Risk-Weighted Assets – Operational Risk	**95,126**	85,063
Total Risk-Weighted Assets – Banking Book + Operational Risk	**1,548,936**	1,437,031
Minimum required capital to support RWAs of banking book & operational risk	**189,745**	176,036
i) Minimum required Tier I Capital for banking book & operational risk	**179,396**	166,800
ii) Tier II Capital required for banking book & operational risk	**10,349**	9,236
Tier I capital available for supporting Trading Book	**64,038**	63,699
Tier II capital available for supporting Trading book	**-**	-
Risk-Weighted Assets – Trading Book	**-**	-
Total capital required to support Trading Book	**-**	-
Minimum Tier I capital required for supporting Trading Book	**-**	-
Total Regulatory Capital	**253,783**	239,735
Total Risk-Weighted Assets – Whole bank	**1,548,935**	1,437,031
Common Equity Tier 1 (as a percentage of Risk-Weighted assets)	**15.72%**	16.04%
Tier 1 (as a percentage of Risk-Weighted assets)	**15.72%**	16.04%
Total capital (as a percentage of Risk-Weighted assets)	**16.38%**	16.68%

(c) Capital Adequacy Ratio	**2023**	2022
	RO'000	RO'000
Total Risk-Weighted Assets (RWA)	**1,548,935**	1,437,031
Total Eligible Capital	**253,783**	239,735
Capital Adequacy Ratio	**16.38%**	16.68%
(d) Ratio of Total and Tier 1 Capital to Total RWA		
Tier 1 Capital	**243,434**	230,499
Total Capital	**253,783**	239,735
Total RWA	**1,548,935**	1,437,031
Ratio of Total Capital	**16.38%**	16.68%
Ratio of Tier 1 Capital	**15.72%**	16.04%
Ratio of CET 1 Capital	**15.72%**	16.04%
(e) Ratio of Total Capital to Total Assets		
Total Capital	**253,783**	239,735
Total Assets	**1,608,295**	1,486,123
Total Capital to Total Assets	**15.78%**	16.13%

(f) Disclosure of Capital Requirements according to different risk categories for each shari'a compliant financing contract:

	2023			2022		
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
	Credit risk	Market risk	Risk-Weighted Assets	Credit risk	Market risk	Risk-Weighted Assets
Ijara Muntahia Bittamleek	19,493	-	159,130	13,599	-	111,014
Sales Receivable and Other Receivables	33,598	-	274,266	32,476	-	265,111
Wakala Bil Istethmar	58,497	-	477,523	53,978	-	440,638
Musharaka Financing	42,183	-	344,347	35,904	-	293,093
Letter of Guarantees	3,060	-	24,976	7,240	-	59,101
Letter of Credit	6,730	-	54,942	844	-	6,886
Acceptance and Bills for Collection (Wakala)	784	-	6,398	193	-	1,574
Total	164,445		1,341,582	144,234		1,177,417

(g) Disclosure of Displaced Commercial Risk

The Bank is exposed to displaced commercial risk in the event of having equity of IAH profit rates that are lower than market rates. The Bank has mitigated this risk through the setting up of reserves that will be used in case of a drop in IAH profit rates. The related disclosure on Displaced Commercial Risk is given in Section 17.

5. Disclosures for Investment Accountholders (IAH)

5.1 Qualitative Disclosure

- The Bank offers Unrestricted Investment Accounts based on fully sharia compliant concept of Mudaraba and Wakala.
- In Mudaraba, the Bank (Mudarib) manages Investment Account Funds (IAH) along with its own share of investment, to an unrestricted joint investment pool. Funds from this unrestricted joint investment pool are utilized to provide financing to customers under Islamic modes and to invest in other Shari'a compliant investments opportunities. Such information is available for all customers at Bank's website, branches, and call center.
- Under Wakala arrangement, Bank accepts funds from investors as Wakeel and invests in Shari'a compliant assets. Wakeel is entitled to a fixed fee as a lump sum or percentage of fund provided. Expected profit payout is mentioned to investors upfront while any return generated in excess of expected profit is retained by the Bank as Wakeel. Wakeel should bear the loss in case of Wakeel's default, negligence or violation of any terms and conditions of the Wakala agreement, otherwise the loss would be borne by the investor or Muwakil.
- The Bank maintains necessary reserves as required by CBO.
- Any profits accrued out of the investment are shared between the two parties on a pre-agreed basis, while loss (if any) is borne by the Investor (Rab-ul-Maal). Operating expenses incurred by the Bank are not charged to investment account. In case of the loss resulting from the transactions in a jointly financed investment, such loss shall first be deducted from undistributed profits, if any. Any excess of such loss shall be deducted from Investment Risk Reserve (IRR). Any remaining of such loss shall be deducted from the total balance of fund available in the pool, as at that date, in the respective ratio of the Bank's and IAH's respective contribution to the fund.
- The investment profits are distributed between owners' equity and unrestricted investment accountholders as follows:

	2023	2022
	Percentage	Percentage
Unrestricted investment accounts share	50%	50%
Mudarib share	50%	50%

The investment risk reserve at Zero percent (2022: Zero percent) is deducted from customer's share after allocating the Mudarib share of profit as per the approved policy in order to cater against future losses of equity of unrestricted investment accountholders. Investment risk reserve will revert to the investment accountholders as per terms and conditions of Mudaraba contract.

The profit equalization reserve is the amount the bank appropriates in excess of the profit to be distributed to equity of unrestricted accountholders before allocating the Mudarib share of income to maintain a certain level of return. Profit equalization reserve will revert to owner equity and unrestricted investment accountholders.

Unrestricted investment accountholders are commingled with Bank funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits. The administration expenses are only charged on the Bank expenses.

- IAH funds are managed according to Bank's approved policy and accordingly the Bank monitors the performance of the portfolio in order to achieve expected results. The prudential reserves have been established according to CBO and Shari'a guidelines.

5.2 Quantitative Disclosure

The related disclosure of Unrestricted Investment Account is given below:

a) Profit Equalization Reserve (PER) to Profit Sharing Investment Account holder (PSIA) Ratio

	2023	2022
	RO'000	**RO'000**
Amount of Total PER	**NIL**	NIL
Amount of PSIA by IAH	**368,060**	368,516
PER to PSIA Ratio	**0%**	0%

b) Investment Risk Reserve (IRR) to Profit Sharing Investment Account holder (PSIA) Ratio

	2023	2022
	RO'000	**RO'000**
Amount of Total IRR	**-**	-
Amount of PSIA by IAH	**368,060**	368,516
IRR to PSIA Ratio	**0.00%**	0%

c) Return on Assets (ROA)

	2023	2022
	RO'000	**RO'000**
Amount of Total Net Income (before distribution of profit to unrestricted IAH)	**80,362**	72,803
Total Amount of Assets	**1,608,295**	1,486,123
Return on Assets (ROA)	**5.00%**	4.9%

d) Return on Equity (ROE)

	2023	2022
	RO'000	**RO'000**
Amount of total net income (after distribution of profit to IAH)	**43,920**	42,194
Amount of shareholders' equity	**253,044**	246,056
Return on Equity (ROE)	**17.36%**	17.15%

e) Ratios of profit distributed to PSIA by type of IAH

As of reporting date the Bank has return on Unrestricted Investment Accountholder and distributed profit amounting RO 6,169 thousands (FY-2022: RO 6,180 thousands) during the period to Investment Accountholders

f) Ratios of financing to PSIA by type of IAH

As of reporting date, all jointly financing is funded by comingled pool which includes funds from Unrestricted Investment Accountholder (including Mudaraba and Wakala) and Shareholders.

Gross Financing by type of contract	2023		2022	
	RO'000	%	RO'000	%
Sales Receivables and Other Receivables	314,708	22.22%	309,838	24.39%
Ijarah Muntahia Bittamleek	229,457	16.20%	251,562	19.80%
Musharaka financing	500,657	35.35%	376,237	29.62%
Wakala Bil Isthimaar	371,298	26.22%	332,624	26.19%
Total Financing	1,416,120	100.00%	1,270,261	100.00%

6. Unrestricted Mudaraba Investment Accounts

6.1 Qualitative Disclosure

- There is no major change in the investment strategies that affect the investment accounts to the reporting date.
- The Bank has a single pool of comingled assets where the funds of investment accountholders are invested and income is allocated to such accounts.

  The investment profits distributed between equity shareholders and unrestricted investment accountholders is as follows:

	2023	2022
	Percentage	Percentage
Unrestricted investment accounts share	50%	50%
Mudarib share	50%	50%

- The investment risk reserve at Zero percent (2022: ZERO percent) is deducted from customer's share after allocating the Mudarib share of profit. The profit equalization reserve is deducted from total revenue before allocating the Mudarib share based on ALCO decisions.
- The Bank does not charge Investment Accountholders for operating expenses incurred.

6.2 Quantitative Disclosure

a) Total amount of unrestricted IAH funds with respect category

Account type	2023	2022
	RO'000	RO'000
Saving account	298,446	278,247
Investment accounts:		
One month	19	92
Three months	348	441
Six months	997	1,249
Nine months	180	112
One year	33,523	34,263
One year and a half	2,318	2,755
Two years	24,332	41,379
Three years	709	667
Four years	255	211
Five years	1,818	1,766
More than five years	5,115	7,334
Total	368,060	368,516

b) Share of profits earned by unrestricted IAH, before transfers to or from reserves (amount and as a percentage of funds invested)

	2023	2022
	RO'000	RO'000
Share of profits	6,169	6,180
funds invested	368,060	368,516
Ratio	1.68%	1.68%

c) Share of profits paid out to unrestricted IAH, after transfers to or from reserves (amount and as a percentage of funds invested)

	2023	2022
	RO'000	RO'000
Share of profits	6,169	6,180
funds invested	368,060	368,516
Ratio	1.68%	1.68%

d) Movements on PER and IRR during the year

During the year, no PER was utilized by the Bank. However, the total amount apportioned from the income distributable to equity of unrestricted investment accountholders amounted to RO Zero (Dec 2022: RO Zero).

During the year RO Zero (2022: 89 thousands) was utilized in IRR.

Following is the movement of IRR and PER:

	2023		2022	
	RO'000		RO'000	
	PER	IRR	PER	IRR
Beginning Balance at the beginning of the year	-	-	-	89
Additions	-	-	-	-
Transferred	-	-	-	(89)
Balance at the end of the year	-	-	-	-

e) Disclosure of the utilization of PER and/or IRR during the period

During the year no PER and RO Zero in IRR (2022: 89 thousand) utilized.

f) Profits earned and profits paid out over the past three to five years (amounts and as a percentage of funds invested)

	2023	2022	2021	2020	2019
	RO'000	RO'000	RO'000	RO'000	RO'000
Profit Earned	80,362	72,803	64,727	54,752	47,379
Profit Distributed	6,169	6,180	6,814	7,603	7,359
Funds Invested	368,060	368,516	346,665	365,738	310,071
Return as % of Funds Invested	1.68%	1.68%	1.97%	2.08%	2.37%

g) Amount of total administrative expenses charged to unrestricted IAH

As per Bank's policy, the administration expenses are only charged on the Bank expenses.

h) **Average declared rate of return or profit rate on unrestricted PSIA by maturity (1-month, 3-month, 6-month, 9-month, 12-months, 18-months and 24 months)**

Account type	Participation factor		2023 average rate of return	2022 average rate of return
	RO	USD	RO	RO
Saving account	10% - 70%	15% - 30%	1.00%	0.91%
One-month tenure	46% - 50%	23%-25%	1.70%	1.38%
Three months tenure	51% - 55%	25.5% - 27.5%	1.91%	1.51%
Six months tenure	61% - 68%	30.5% - 34%	2.37%	1.88%
Nine months tenure	66% - 73%	33% - 36.5%	2.58%	2.02%
One-year tenure	71% - 78%	35.5% - 39%	2.75%	2.73%
One year and a half tenure	78.5% - 85%	-	2.96%	3.21%
Two years tenure and above	79.5% - 87%	-	3.04%	3.77%

i) **Changes in asset allocation in the last six months**

There are no significant changes in the last six months of reporting date.

j) **Off-balance sheet exposures arising from investment decisions, such as commitments and contingencies**

	2023	2022
Off-balance sheet items	**RO'000**	**RO'000**
Financial guarantee	124,878	118,216
Financial letter of credits	109,881	107,501
Acceptances	5,706	1,586
Bills for collection	693	1,057
Commitments	140,482	162,944
Total	381,640	391,304

k) **Disclosure of limits imposed on the amount that can be invested in any one type of asset**

The Bank does not have any restricted Investment Account as of reporting date, as such there are no limits imposed to be invested in any type of asset other than limits set in Bank's policy and CBO regulations.

7. Unrestricted Wakala Investment Accounts

7.1 Qualitative Disclosure

- There is no major change in the investment strategies that affect the investment accounts to the reporting date.
- The Bank has a single pool of comingled assets where the funds of investment accountholders are invested and income from which is allocated to such accounts according to the nature of the agreement.

7.2 Quantitative Disclosure

a) **Computation of Pool income is as follows:**

Item RO '000	2023	2022
Pool Income from Financing	70,791	65,752
Income from Investments	9,571	7,051
Total Pool Income	80,362	72,803
	-	-
Profit Equalization Reserve	-	-
Investment risk reserve	-	-
	-	-
Pool Income	80,362	72,803
Mudarib fee	6,226	(5,943)
Movement to or from PER/IRR	-	-
Total amount paid to IAH Mudaraba	6,169	(6,180)
Total amount attributable to shareholders pool including Wakala	92,757	60,680

8. Restricted Investment Accounts

The Bank does not have Restricted Investment Accounts product as of reporting date.

9. Retail Investor-Oriented Disclosures for Investment Accounts

The Bank offers Unrestricted Investment Accounts in OMR and USD only and maturity periods ranging from 1 month, 3 months, 6 months, 9 months, 12 months, 18 months and 24 months based on fully Sharia-compliant concept of Mudaraba. Profit is paid with a payout frequency of Monthly or Quarterly.

Following is the Product Structure of the Unrestricted Mudaraba Investment Account

9.1 Product Structure

Key Definitions and Concepts

Mudaraba – is a form of partnership where one party provides capital and the second party provides expertise and management skills. First party is referred to as Rab-ul-Maal (Investor) and the second party is referred to as the Mudarib (Investment Manager). Any profits accrued out of the joint business are shared between the two parties on a pre-agreed basis, while loss (if any) is borne by the Rab-ul-Maal (Investor) except for losses arising from the negligence of Mudarib.

Mudarib – is the entrepreneur or investment manager in a Mudaraba, the Mudarib manages the investor's funds through a common pool of investments called Mudaraba Pool in return for a share of profits through Sharia compliant investments.

Rab-ul-Maal – is the provider of the capital or investor in an Islamic contract such as Mudaraba.

Structure of the Mudaraba Investment Account Product

The Bank's Mudaraba Investment Account product will be based on the Islamic contract of Mudaraba.

In case of Mudaraba Investment Account under Mudaraba arrangement, the customer becomes an Investor (Rab-ul-Maal), and the Bank becomes the Manager (Mudarib) of the funds invested by the customers. Besides acting as Mudarib, the Bank can also invest a share of its equity and other funds that the Bank did not receive on Mudaraba basis in the Mudaraba Pool.

For the Bank's funds invested in the joint Mudaraba pool, the Bank will become a partner of the customer. The Bank will accept funds from Mudaraba Investment Accountholders under a Mudaraba agreement and allocate the funds received from the customers, along with its own share of investment, to an unrestricted joint investment pool. Funds from this unrestricted joint investment pool are utilized to provide financing to customers under Islamic modes and to invest in other Sharia compliant investments opportunities.

The profit earned from the investment and financing activities, using funds from the unrestricted joint investment pool shall be distributed between the Depositors (Investors) and the Bank based on the Profit Distribution Methodology as approved by the Sharia Supervisory Board (SSB). There is no sharing of profits from the Bank's fee-based banking.

The Bank does not guarantee the Investment amount to the Mudaraba Investment Accountholders, and in case of a loss from the investment and financing activities; the loss shall be borne by the customers in proportion of their respective share in the investment pool. Customer's share of loss shall be deducted from the customer's investment amount except for losses arising from the negligence of Mudarib (the Bank)

All Mudaraba Investment Accounts shall be assigned weightages, based on the features of the Mudaraba Investment Account such as amount, currency, period of investment, profit payment options and other applicable features for the purpose of the profit calculation, in accordance with the Sharia rulings issued by the Sharia Supervisory Board (SSB)

The pooled funds will be subjected to deductions for all direct expenses and fees incurred to generate the assets in the specific pool.

The Bank will deduct its Mudarib Share from net profit after deducting its share as fund provider "Rab-ul-Mal".

The Bank may change the Mudarib Share and weightages for calculation of profit from time to time.

In case of loss, Mudaraba Investment Accountholders will suffer the loss exactly according to the ratio of their investment; and in case of profit, the profit will be distributed on the basis of the share of investment in the investment pool on pre agreed terms

The minimum balance criterion for Mudaraba Investment Account is essential as a balance requirement to participate in the Mudaraba pool. Once the Investment Amount has been invested, Profit is calculated on monthly basis on the Investment amount of the customer and is payable as per the selected profit payout option by the customer (monthly or quarterly). The Mudarib share ratio is disclosed on Bank's website for information to the customers.

In the event the Rab-ul-Mal wishes to terminate the Investment prior to the agreed Investment Maturity Date, the Rab-ul-Mal shall notify in writing to the Mudarib. Mudarib would be entitled to apply the declared profit rates of the nearest corresponding period for the actual investment period completed, provided a minimum one month of investment has been completed to be eligible for profit payment. Deduction from Principal amount is allowed in case profit amount already paid to the customer (in case of profit payout option other than on maturity) is higher than the applicable declared profit rates for the actual completed investment period.

The Bank has set up prudential reserve account to minimize the adverse impact of income smoothing for PSIA on its shareholders' returns and to meet potential but unexpected losses that would be borne by the IAH on investments financed by PSIA, namely:

Profit Equalization Reserve (PER)

This is to secure suitable and competitive return to the investors in case there are certain extra ordinary circumstances, depressing the return, which were un-anticipated by the investors. The disposition of the reserve amount will take place with the prior approval of the Shari'a Board. In case the balance in the reserve account is not sufficient to face the competition, the shareholders may grant part of their share of profit to the investors with the approval of Shari'a Board. This reserve only applies to Mudaraba accounts. In case the rate of return to the investors in a certain profit distribution period is substantially higher than the market rates, the Bank's Management may decide to deduct, after taking approval from ALCO, after deducting the profit share of the investment manager as Mudarib and Rab Al Maal, a portion of the common pool share of profit and transfer the same to the Profit Equalization Reserve (PER) up to a maximum limit of 60% of the increased value. In addition, transfer amount from/to PER and IRR subject to Asset Liability Committee (ALCO) approval.

Investment Risk Reserve (IRR)

This reserve is created from the investors' share of profit out of the Net Profit as per relevant guidelines (AAOIFI and/or CBO), post distribution of Mudarib share to ensure certain level of cushion for the investment portfolio. The available balance in the reserve account shall be invested in the Common Pool and the profit earned by investing such balance will be added to the reserve account. IRR provides funds for unexpected and uncertain events takes place resulting in a decline in the value of the investments. This decline in value may be as a result of losses on financing or/and general reserves of the bank (as required by regulation). The disposition of the reserve amount will take place with the prior approval of the Shari'a Board. In case the balance in the reserve account is not sufficient to face the competition, the shareholders may grant part of their share of profit to the investors with the approval of Shari'a Board.

The Bank's ALCO decides in advance on the investment and asset allocation for IAH funds, including, with particular reference to unrestricted IAHs, the commingling of their funds with other funds managed by the Bank, the balance between shareholders' and IAH interests in terms of allocating investment funds and the risk-return characteristics of investments.

The Bank calculates the profit of the Mudaraba pool every month. Net Profit of the pool (after deduction of the direct costs/expenses attributable to the common pool) will be distributed amongst the investors and the shareholders, according to the following formula:

- o (Average Investment amount x Aggregate weightages given to the shareholders and investors) for each category of investors.
- o This aggregate weightage depends on: Amount and Profit Payout Frequency.

Then the Mudarib's fee is deducted from each category of the investors' share of profit, giving them the Net Profit.

Losses arising from receivables, financing and investment assets that started and ended in the same year will be compensated as follows:

- Will be covered from the profits of the same year.
- If losses exceeded profits in the same year, they will be covered from Investment Risk Reserve.
- If there is no sufficient fund available in Investment Risk Reserve, the losses will be covered directly from investor funds "Rab ul Mal share".

Losses arising from receivables, financing and investment assets that initiated and continued from preceding years will be compensated as follows:

- Will be covered from the Investment Risk Reserve.
- If there is no sufficient fund available in Investment Risk Reserve, they will be covered from current revenues.
- If the current revenues are not sufficient, the losses will be covered directly from investors' funds "Rabb ul Mal share".

In addition to the above, in all cases the shareholders may forego their share of profit or part of their equity in favor of the investors to cover such losses.

10. Risk Management, Risk Exposures and Risk Mitigation

10.1 Qualitative Disclosure

- The Bank like all other major financial service organizations is facing increasing demands to better understand its risks, both from management and from external stakeholders. Factors such as the global pace of change, resource constraints, product complexity and a growing demand for transparency, present a compelling case for stronger management of risk.
- The Bank's Risk Management Framework enables the Bank to manage bank-wide risks with the objective of maximizing returns while adhering to the risk appetite. The Bank uses a three lines of defense model to support its approach to risk management by clarifying responsibility, encouraging collaboration, and enabling efficient coordination of risk and control activities.
- The three lines of defense are summarized below:
  - Business units: required to ensure the effective management of risks within the scope of their direct organizational responsibilities. All employees within the business units are sufficiently trained and have access to appropriate tools to ensure risk-taking is controlled. Each business unit primarily owns the risk that it underwrites and is equally responsible for designing and implementing necessary controls to mitigate risks emanating from its activities.
  - Risk control units: responsible for implementing policies and procedures, monitoring risks taken to ensure all risks are within the Bank's risk appetite. Appropriate controls are designed and implemented with adequate reporting in place to anticipate future risks and improve the level of preparedness across the management chain.
  - Internal Audit: provides independent assurance and reports its findings to all relevant management and governance bodies, accountable line managers, relevant oversight function and committee(s) of the Board.
- The Bank's risk management and control principles are further supported by qualitative elements such as policies and authorities, and quantitative components including risk measurement methodologies and risk limits. In addition, the framework is dynamic and continuously adapted as Bank's businesses and the market environment evolve. It is based on:
  1. Strong managerial involvement throughout the entire organization, from the CEO down to operational field management teams;
  2. A firm structure of internal procedures and guidelines;
  3. Permanent supervision by an independent bodies to monitor risks and to enforce rules and procedures; and
  4. Continuous training that helps to foster a disciplined and constructive culture of risk management and control.

  The overall objective of the Risk Management Framework is to improve shareholder value by optimizing risk and return. Specifically, Risk Management framework will:
  1. Establish clear accountability or ownership of risk
  2. Enable management to make decisions on a well-informed, risk-adjusted, and aggregated basis
  3. Enable Bank to manage negative "what-if" scenarios
  4. Improve understanding of interactions and inter-relationships between risks
  5. Establish an "in control" status of significant risks
- Bank's Risk Management program is geared towards helping the organization to manage risk. A common risk framework and supporting processes aid in the comprehensive and consistent understanding and decision-making for risk. Through an integrated framework, the Bank intends to ingrain a strong and consistent risk culture across the organization.
- The Risk Management framework structure is summarized below:

The Risk Management framework has seven components: four that comprise the risk management decision phases and three that are support components.

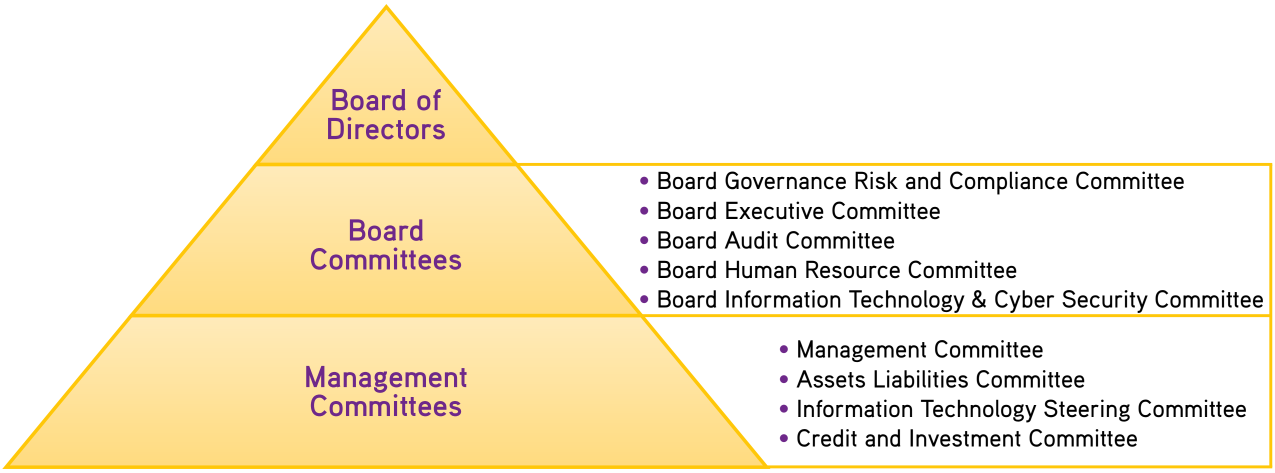
The four risk management decision phases are:

Policy	Top down direction providing definition for risk appetite, governance and risk management principles.
Plan	Setting of risk strategy and objectives for business areas.
Execute	The core risk process of risk identification, assessment, mitigation and measurement and reporting.
Evaluate	Monitoring the program and evaluation of performance.

The three support components represent the tools and environment. They are:

Infrastructure	The tools, technology, staffing and policy to support the risk management process.
Internal Environment	The internal culture of the Bank and the tools to create and reinforce it.
External Environment	Factors outside the Bank that may create risk that need to be monitored or against which the Bank's Business plan may need to be evaluated.

- The Bank's primary responsibility of managing Risk lies with Board of Directors (BOD) who has formed independent dedicated Board level committee, Board Governance Risk and Compliance Committee (BGRCC). The BGRCC is supported by independent Risk Management Group (RMG) that reports to BOD through BGRCC.
- Part of the risk governance, Senior Management Committees were established in the Bank to manage the overall level of each risk type. This includes: Assets and Liability Committee (ALCO), Credit and Investment Committee (CIC) and IT Steering Committee (ITSC).



- To Bank has policies for each risk type and accordingly risk is identified, assessed, monitored and reported to the Board and Senior Management. For this, a comprehensive integrated risk management report covering is generated on regular basis that highlights risk and performance of portfolio and is reported to Senior Management and Board with analysis for their review.
- The Bank has comprehensive Risk Management Policies approved by the Board for all the major risk types. These are also supported by appropriate limit structures. These policies provide an enterprise-wide integrated risk management framework in the Bank.
- The risk appetite statement identifies risk objectives, policies, strategies and risk governance both at the Board and the management level. The capital management policy is aimed at ensuring financial stability by allocating enough capital to cover unexpected losses.
- Limit structures serve as key components in articulating risk strategy in quantifiable risk appetite. They are further supported by a comprehensive framework for various risk silos with its own policies and methodology documents. In addition, the Bank is in the process of implementing various risk systems to help quantify the regulatory capital allocated to various portfolios.
- The Bank is exposed to various types of risk, such as market, credit, profit rate, liquidity and operational, all of which require the comprehensive controls and ongoing oversight. The risk management framework summarizes the spirit behind Basel II and III which includes 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.
- For the purpose of Capital Adequacy calculation, the exposure funded by IAH are taken completely in RWA and required capital as per CBO is allocated.

10.2 Quantitative Disclosure

(a) Disclosure of the range and measures of risks facing each restricted IAH fund, based on its specific investment policies

As of reporting date, the Bank does not have restricted IAH funds.

(b) Disclosure of the treatment of assets financed by restricted IAH in the calculation of RWA for capital adequacy purposes

As of reporting date, the Bank does not have restricted IAH funds.

(c) Disclosure of the treatment of assets financed by unrestricted IAH in the calculation of RWA for capital adequacy purposes.

As per the Islamic Banking Regulatory Framework (IBRF), 30% (alpha ratio) of assets financed by IAH are required to be deducted from Total Risk-Weighted Assets (RWA). However, the Bank has not taken into the consideration this and following conservative approach by not deducting the same from RWA.

(d) Composition of financing by type of contract as a percentage of total financing.

Financing (gross) by type of contract	2023		2022	
	RO'000	%	RO'000	%
Sales Receivable and Other Receivables	**314,708**	**22.22%**	281,964	22.70%
Ijarah Muntahia Bittamleek	**229,457**	**16.20%**	251,562	20.25%
Musharaka financing	**500,657**	**35.35%**	375,957	30.27%
Wakala Bil Isthimaar	**371,298**	**26.22%**	332,607	26.78%
Total Gross Financing	**1,416,120**	**100.00%**	1,242,090	100.00%

(e) Percentage of financing for each category of counterparty to total financing

	2023 Gross Financing		2022 Gross Financing	
	RO'000	%	RO'000	%
Personal	**522,383**	**36.89%**	470,570	37.89%
Small Medium Enterprises	**47,104**	**3.33%**	32,454	2.61%
Corporate	**846,633**	**59.79%**	739,066	59.50%
Government	**-**	**0.00%**	-	-
Total	**1,416,120**	**100.00%**	1,242,090	100.00%

(f) Disclosure of the carrying amount of any assets pledged as collateral (excluding amounts pledged to the Central Bank) and the terms and conditions relating to each pledge.

As of reporting date, the Bank does not have any secured borrowing where Bank has pledge collateral to counterparty.

(g) The amount of any guarantees or pledges given by the Licensee and the conditions attached to those guarantees or pledges.

The Bank issued Performance, Advance Payment and Shipping Guarantee amounting RO 118,216 thousands (Dec 2022: RO 118,216 thousands) as of reporting date.

11. Credit Risk

- Credit risk is the risk that a customer or counterparty may not settle an obligation for full value, either when due or at any time thereafter. This risk arises from potential that a customer or counterparty's willingness to meet an obligation or its ability to meet such an obligation is impaired, resulting in an economic loss to the Bank.
- Credit risk is primarily managed as per BOD approved Credit risk policy where proper assessment of inherent risks is carried out in credit proposals to ensure a balanced portfolio of customers meeting the risk appetite of the Bank. The Bank also ensures dealing with customers of good credit standing, a thorough and professional credit assessment process, obtaining collaterals to mitigate risks and continuous monitoring of the accounts.
- Credit risk management, administration and control are carried out by risk management teams, which report to the Board Governance, Risk and Compliance Committee. The Bank has well defined credit structures under which credit committees, comprising of senior officers with requisite banking background, critically scrutinize and sanction financing up to the delegated authority. The Bank's exposure to credit is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. All credit decisions are taken as per the Bank's risk policies and CBO regulations and are monitored accordingly.
- The Bank uses internal ratings for credit assessment and relies on external ratings of rated corporate customers and counterparties for benchmarking. The Bank accepts ratings of counterparties from CBO approved External Credit Assessment Institutions. For credit assessment on sovereigns, bank also considers OECD ratings.
- A financing that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail financing exposure that is overdue for 90 days or more is considered impaired.

- The adoption of AAOIFI FAS 30 has fundamentally changed the Bank's financing loss impairment method by replacing incurred loss approach with a forward-looking ECL approach. The Bank has been recording the allowance for expected credit losses for all financing exposure and other debt financial assets not held at FVPL, together with financing commitments and financial guarantee contracts. Equity instruments are not subject to impairment under FAS 30.
- The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss (LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12 month ECL).
- The 12 month ECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.
- Both LTECLs and 12m ECLs 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.
- For all Past Due receivables and Impaired Financial assets, Expected Credit Loss (ECL) impairment is created and for Performing Financing Assets, ECL is created on forward looking approach in accordance with FAS 30 standards. To assess requirements of ECL, financial assets are divided into three staging criteria i.e. Stage 1, Stage 2 and Stage 3. Where Stage 1 is for 'performing', Stage 2 is for 'under-performing' where credit risk has increased significantly since inception; and Stage 3 is for 'non-performing'.
- The Bank uses automated solution for ECL/impairment assessment for its Retail and non-retail (wholesale) banking portfolios.

11.1 Quantitative Disclosure

(a) Total Gross Credit and Average Gross Credit

	2023		2022	
	Total Gross Credit	**Average Gross Credit**	Total Gross Credit	Average Gross Credit
	RO'000	RO'000	RO'000	RO'000
Sales Receivables and Other Receivables	**314,708**	**312,273**	309,838	287,793
Ijarah Muntahia Bittamleek	**229,457**	**240,510**	251,562	272,369
Musharaka financing	**500,657**	**438,447**	376,237	322,155
Wakala Bil Istethmar	**371,298**	**373,768**	332,624	332,068
Investments in Sukuk & securities	**144,914**	**144,291**	143,667	136,354
Interbank Wakala Placements	**24,492**	**32,669**	40,845	36,876
Total	**1,585,526**	**1,541,958**	1,454,773	1,387,615

The breakup of Investment in Sukuk & securities and Interbank Wakala placements with respect to external ratings are given below:

	2023		2022	
External Ratings	**Investment in Sukuk and Securities**	**Interbank Wakala Placements and Due from Banks**	Investment in Sukuk and Securities	Interbank Wakala Placements and Due from Banks
	RO'000	RO'000	RO'000	RO'000
AAA	**13,467**	**6**	13,265	-
AA+,AA-AA	**-**	**1,409**	-	3,778
A+, A, A-	**3,211**	**10,767**	7,596	7,862
BBB+, BBB, BBB-	**7,975**	**-**	2,039	94
BB+, BB, BB-	**105,001**	**2,820**	100,130	10,027
B+, B, B-	**10,629**	**9,490**	12,739	249
Unrated	**-**	**-**	5,648	18,835
Total	**140,283**	**24,492**	141,417	40,845

(b) Exposure in terms of geographical area

	Assets			Liabilities		
	Gross due from banks and Interbank Wakala investment	Gross financing	Gross investments in Sukuk and securities	Customer account, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
2023	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Sultanate of Oman	2,067	1,416,120	110,744	1,260,494	50,000	347,153
Other GCC countries	10,609	-	17,505	-	5,775	21,914
Europe and North America	9,469	-	3,197	-	-	3,280
Africa and Asia	2,347	-	13,468	-	28	9,293
	24,492	1,416,120	144,914	1,260,494	55,803	381,640

	Assets			Liabilities		
	Gross due from banks and Interbank Wakala investment	Gross financing	Gross investments in Sukuk and securities	Customer account, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
2022	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Sultanate of Oman	25,000	1,270,261	106,661	1,188,764	-	355,580
Other GCC countries	1,407	-	21,039	-	11,550	22,855
Europe and North America	13,215	-	2,703	-	-	5,634
Africa and Asia	1,223	-	13,264	-	21	7,235
Total	40,845	1,270,261	143,667	1,188,764	11,571	391,304

(c) Customer concentrations

	Assets			Liabilities		
2023	Due from banks and Interbank Wakala investment	Gross Financing	Investments in Sukuk and securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Personal	-	522,383	-	525,959	-	-
Corporate	24,492	893,737	14,151	140,277	55,803	320,598
Government	-	-	130,763	594,258	-	61,042
Total	24,492	1,416,120	144,914	1,260,494	55,803	381,640

	Assets			Liabilities		
2022	Due from banks and Interbank Wakala investment	Gross Financing	Investments in Sukuk and securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Personal	-	492,022	-	514,240	-	-
Corporate	40,845	778,239	13,353	103,626	11,571	314,854
Government	-	-	130,314	570,898	-	76,450
Total	40,845	1,270,261	143,667	1,188,764	11,571	391,304

(d) Industry concentrations

	Assets			Liabilities		
	Due from banks and interbank Wakala	Gross financing	Investments in Sukuk and securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
2023	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Personal	-	522,383	-	525,959	-	-
Construction	-	112,715	-	18,179	-	57,801
Manufacturing	-	-	-	12,556	-	29,543
Financial services	24,492	-	-	-	55,803	-
Government	-	-	130,763	594,258	-	61,042
Other services	-	389,520	-	34,757	-	51,577
Others	-	391,502	14,151	84,784	-	181,677
	24,492	1,416,120	144,914	1,260,494	55,803	381,640

	Assets			Liabilities		
	Due from banks and interbank Wakala	Gross financing	Investments in Sukuk and securities	Current, unrestricted IAH and customer Wakala	Interbank Wakala	Contingent liabilities and commitments
2022	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Personal	-	492,022	-	514,240	-	-
Construction	-	104,150	-	10,840	-	123,757
Manufacturing	-	110,313	-	2,093	-	-
Financial services	40,845	-	-	-	11,571	-
Government	-	-	130,314	570,898	-	76,450
Other services	-	317,759	-	21,623	-	95,755
Others	-	246,017	13,353	69,070	-	95,342
	40,845	1,270,261	143,667	1,188,764	11,571	391,304

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

	Due from banks and interbank Wakala	Gross Sales receivables and other receivables	Gross Ijarah Muntahia Bittamleek	Gross Musharaka financing	Gross Wakala Bil Istethmar	Investment in Sukuk & securities	Total	Off balance sheet exposures
2023	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Construction	-	22,066	794	40,895	48,960	-	112,715	57,802
Electricity, gas and water	-	10,559	87	32,067	55,572	-	98,285	-
Financial institutions	24,492	-	-	-	-	-	24,492	-
Services	-	12,575	2,532	84,271	191,857	-	291,235	51,577
Personal financing	-	171,144	196,067	155,172	-	-	522,383	-
Government	-	-	-	-	-	130,763	130,763	61,042
Non-resident financing	-	-	-	-	-	-	-	-
Others	-	98,365	29,977	188,252	74,908	14,151	405,653	211,219
Total	24,492	314,709	229,457	500,657	371,297	144,914	1,585,526	381,640

2022	Due from banks and interbank Wakala RO'000	Gross Sales receivables and other receivables RO'000	Gross Ijarah Muntahia Bittamleek RO'000	Gross Musharaka financing RO'000	Gross Wakala Bil Istethmar RO'000	Investment in Sukuk & securities RO'000	Total RO'000	Off balance sheet exposures RO'000
Construction	-	23,883	1,929	35,789	42,549	-	104,150	123,758
Electricity, gas and water	-	18,877	168	16,086	62,633	-	97,764	45,154
Financial institutions	40,845	-	-	-	-	-	40,845	-
Services	-	12,828	3,006	52,496	151,664	-	219,994	50,601
Personal financing	-	151,407	216,714	123,901	-	-	492,022	-
Government	-	-	-	-	-	130,314	133,620	76,450
Non-resident financing	-	-	-	-	-	-	-	-
Others	-	102,843	29,745	147,965	75,778	13,353	366,378	95,342
Total	40,845	309,838	251,562	376,237	332,624	143,667	1,454,773	391,304

(f) Residual contractual maturities of the portfolio by major types of Islamic financing assets:

2023	Gross due from banks and interbank Wakala RO'000	Gross sales receivables and other receivables RO'000	Gross Ijarah assets and Ijarah Muntahia Bittamleek RO'000	Gross Musharaka financing RO'000	Gross Wakala Bil Istethmar RO'000	Gross investment in Sukuk & securities RO'000	Total RO'000	Off balance sheet exposures RO'000
Up to 1 month	24,492	16,386	1,288	6,382	20,069	8,255	76,872	33,560
1 to 3 months	-	33,027	2,473	3,660	64,944	13,681	117,785	25,266
3 to 6 months	-	37,770	3,444	6,065	45,046	35,836	128,161	81,353
6 to 9 months	-	32,692	3,508	7,080	21,216	7,010	71,506	9,724
9 to 12 months	-	19,718	3,852	15,471	14,597	760	54,398	5,709
1 to 3 years	-	100,873	42,519	125,427	86,261	43,892	398,972	27,846
3 to 5 years	-	41,072	41,237	109,635	98,448	2,430	292,822	7,992
Over 5 years	-	33,171	131,136	226,937	20,716	33,050	445,010	190,190
	24,492	314,709	229,457	500,657	371,297	144,914	1,585,526	381,640

2022	Gross due from banks and interbank Wakala RO'000	Gross sales receivables and other receivables RO'000	Gross Ijarah assets and Ijarah Muntahia Bittamleek RO'000	Gross Musharaka financing RO'000	Gross Wakala Bil Istethmar RO'000	Gross investment in Sukuk & securities RO'000	Total RO'000	Off balance sheet exposures RO'000
Up to 1 month	40,845	17,474	1,187	1,520	17,226	6,236	84,488	14,404
1 to 3 months	-	39,230	2,640	4,239	86,629	19,858	152,596	25,876
3 to 6 months	-	39,680	3,674	4,663	23,837	1,943	73,797	86,773
6 to 9 months	-	26,948	3,809	5,683	5,978	1,660	44,078	8,711
9 to 12 months	-	22,140	4,015	16,185	15,173	6,885	64,398	228,555
1 to 3 years	-	102,709	44,499	103,055	106,289	35,406	391,958	17,471
3 to 5 years	-	35,009	42,125	79,793	42,197	44,308	243,432	8,094
Over 5 years	-	26,648	149,613	161,099	35,295	27,371	400,026	1,420
	40,845	309,838	251,562	376,237	332,624	143,667	1,454,773	391,304

(g) Total gross exposure and average gross exposure to equity-based financing structures by type of financing contract during the previous year and over the period.

As of reporting date, the Bank does not have any equity-based financing.

(h) Distribution of impaired financing, past due and not past due financing by type of industry:

A) 2023	Performing financing RO'000	Non-performing financing RO'000	Impairment losses under stage III held RO'000	Impairment losses under stage I and II Held RO'000
Personal financing	520,998	1,385	981	380
Non-resident corporate financing	-	-	-	-
Resident corporate financing	862,861	30,876	17,953	20,689
	1,383,859	32,261	18,934	21,069

B) 2022	Performing financing RO'000	Non-performing financing RO'000	Impairment losses under stage III held RO'000	Impairment losses under stage I and II Held RO'000
Personal financing	491,100	922	611	210
Non-resident corporate financing	-	-	-	-
Resident corporate financing	751,262	26,977	14,296	16,350
	1,242,362	27,899	14,907	16,560

A) 2023	Performing financing RO'000	Non-performing financing RO'000	Impairment losses under stage III held RO'000	Impairment losses under stage I and II Held RO'000
Construction	94,475	9,675	5,262	7,498
Electricity, gas and water	97,764	-	-	28
Financial institutions	950	-	-	1
Services	219,994	-	-	1,509
Personal financing	491,100	1,385	981	380
Government	-	-	-	-
Non-resident financing	-	-	-	-
Others	338,079	21,201	12,691	11,653
	1,242,362	32,261	18,934	21,069

B) 2022	Performing financing RO'000	Non-performing financing RO'000	Impairment losses under stage III held RO'000	Impairment losses under stage I and II Held RO'000
Construction	94,475	9,675	4,319	3,908
Electricity, gas and water	97,764	-	-	2,236
Financial institutions	-	-	-	-
Services	219,994	-	-	240
Personal financing	491,100	922	611	210
Government	-	-	-	-
Non-resident financing	-	-	-	-
Others	339,029	17,302	9,977	9,966
	1,242,362	27,899	14,907	16,560

(i) Distribution of impaired financing and past due financing by geographical distribution:

2023	Performing financing RO'000	Non-performing financing RO'000	Impairment losses under stage III held RO'000	Impairment losses under stage I and II Held RO'000
Sultanate of Oman	1,383,859	32,261	18,934	21,069
Other countries	-	-	-	-
Total	1,383,859	32,261	18,934	21,069

2022	Performing financing RO'000	Non-performing financing RO'000	Impairment losses under stage III held RO'000	Impairment losses under stage I and II Held RO'000
Sultanate of Oman	1,242,362	27,899	14,907	16,560
Other countries	-	-	-	-
Total	1,242,362	27,899	14,907	16,560

(j) Distribution of provision with type of Islamic financing asset:

	2023			
	Stage 1	Stage 2	Stage 3	Total
Total of performing and Non-performing financial assets				
Total gross financing amount including off-balance sheet	1,418,534	314,130	34,821	1,767,485
Total ECL on Financing	(6,171)	(15,273)	(19,839)	(41,283)
Total Gross Investments	140,284	-	-	140,284
Total ECL on Investments	(172)	-	-	(172)
Total Gross Interbank	15,290	-	-	15,290
Total ECL on Interbank	(8)	-	-	(8)
Due from Banks, Central Banks and other financial assets	9,202	-	-	9,202
ECL on Due from Banks, Central Banks and other financial assets	(3)	-	-	(3)
Carrying amount	1,576,956	298,857	14,982	1,890,795

	2022			
	Stage 1	Stage 2	Stage 3	Total
Total of performing and Non-performing financial assets				
Total gross financing amount including off-balance sheet	1,223,177	378,515	31,702	1,633,394
Total ECL on Financing	(3,296)	(14,670)	(16,565)	(34,531)
Total Gross Investments	135,770	5,647	-	141,417
Total ECL on Investments	(101)	(29)	-	(130)
Total Gross Interbank	28,850	-	-	28,850
Total ECL on Interbank	(32)	-	-	(32)
Due from Banks, Central Banks and other financial assets	11,995	-	-	11,995
ECL on Due from Banks, Central Banks and other financial assets	(66)	-	-	(66)
Carrying amount	1,396,297	369,463	15,137	1,780,897

(k) Change in loss provisions during the financial year

	2023	2022
	RO'000	RO'000
Balance at 1 January	34,759	24,852
Impairment losses / (reversals) during the year for:		
Sales and other receivables	144	3,993
Ijara Muntahia Bittamleek	134	(551)
Wakala Bil Istethmar	4,160	2,027
Musharaka financing	4,098	3,427
Investments	42	(586)
Due from banks	(63)	11
Inter-bank Wakala investments	(24)	(182)
Non-funded facilities	(1,784)	1,768
Total impairment losses	6,707	9,907
Balance at 31 December	41,466	34,759

(l) Penalty imposed on customers for default, and the disposition of any monies received as penalty

During the year, RO 90 thousands (Dec 2022: RO 45 thousands) penalty is imposed to customer for delayed payment and RO 90 thousands (2022: RO 45 thousands) has been transferred to organizations which are registered with the Ministry of Awqaf and Religious affairs, namely Zakat Seeb Committee, Oman Charitable Organization and Oman Association of the Care of Holy Quran.

12. Credit Risk Mitigation

- Credit risk mitigation refers to the use of a number of techniques, like collaterals and guarantees to mitigate credit risks that the Bank is exposed to. Credit risk mitigants reduces the credit risk by allowing the Bank to protect against counterparty non-performance of credit contracts through collaterals, netting agreements and guarantees.

12.1 Qualitative Disclosure

- The Bank only considers Shari'a approved collaterals and guarantees to mitigate credit risk. Assets offered by customer must meet the following criteria to be acceptable as collateral:
  - Assets must be maintaining their value, at the level prevalent at inception, until maturity of the facility approved;
  - Such assets should be easily convertible into cash, if required;
  - There should be a reasonable market for the assets; and
  - The Bank should be able to enforce its right over the assets if necessary

  For assets financed under Ijarah Muntahiya Bittamleek, the underlying asset is used to mitigate the default risk (Loss Given Default).
- The Bank accepts Hamish Jiddiyyah, Urbun, Profit Sharing Investment Accounts, pledged assets, Sukuk (rated/unrated), third party guarantees (by sovereigns, banks, corporate entities and High net-worth Individuals) as risk mitigant.
- Where eligible collaterals are available against facilities, the Bank takes independent valuation by approved valuators only and ensures that the assets held as collateral meet the criteria mentioned above. The Bank as per the CBO and Basel guidelines takes the value of collateral after applying appropriate haircut before assigning provisions. In cases, whenever the bank acquires/disposes assets as a last resort on fair market value, the decision is on case-to-case basis to acquire or not for its operations.
- The Bank considers guarantees and if the risk profile/weight of the guarantor is better than the counterparty then risk weight is applied based on the rating of guarantor.
- Due to the nature of Islamic banking in which underlying asset must be tangible and acceptable for purpose of transaction structure which has resulted in increased concentration on specific asset/sector type i.e. Real Estate. However, the Bank has adopted a sound and prudent portfolio management and control practices that involve the minimization of concentration risk by developing and implementing policies and procedures to ensure the diversification of the portfolio.

12.2 Quantitative Disclosure

(a) Disclosure of the total carrying amounts by type of collateral of any assets held as collateral by the Licensee (including any haircuts) and the terms and conditions relating to the pledges

	2023	2022
	RO'000	RO'000
Real Estate	714,875	589,265
Movable Assets	77,044	76,604
Total	791,919	665,869

The value of the collateral is adjusted by relevant haircut as mandated by IBRF. The bank has considered collaterals for the purpose of Expected Credit Loss reserve computation after applying relevant haircut, however for the purpose for calculation of Risk-Weighted assets no collateral is considered except cash.

(b) Disclosure of the carrying amount of assets owned and leased under Ijara Muntahia Bittamleek

	2023	2022
	RO'000	RO'000
Ijarah Muntahia Bittamleek	229,457	251,562

13. Liquidity risk

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

13.1 Qualitative Disclosure

- Bank's Liquidity Risk Management is governed by the Liquidity Risk Management Policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management. The Liquidity risk policy incorporates contingency funding plans and measures so as the Bank is always in a position to meet all maturing liabilities as well as to fund asset growth and business operations.
- The Bank monitors its liquidity risk of funding related to current account, saving accounts, investment accountholder on individual basis as well as on aggregate basis through cash flow approach and stock approach.
- Treasury department of the Bank and Asset Liability Committee (ALCO) controls and monitors the liquidity and ensures that the Bank is not exposed to undue liquidity risk and at the same time makes optimum use of its funds through Shari'a compliant financing and investment activities.
- The Bank has already implemented Basel III standards for liquidity that includes Liquidity Coverage Ratio and Net Stable Funding Ratio. These ratios are used as an indicator to show the Bank's liquidity position to honor its short-term and long-term commitments.
- "Basel III" is a comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision, and risk management of the banking sector.
- These measures aim to:
  - o improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source
  - o improve risk management and governance
  - o strengthen banks' transparency and disclosures

13.2 Quantitative Disclosure

The related disclosure on Liquidity Risk is given below:

(a) Indicators of exposure to liquidity risk - short-term assets to short-term liabilities

	2023	2022
	RO'000	RO'000
Short-term Assets	727,701	449,606
Short-term Liabilities	802,660	535,031
Short-term Assets to Liabilities	90.66%	84.03%

(b) Indicators of exposure to liquidity risk - liquid assets ratio

	2023	2022
	RO'000	RO'000
Liquid Assets	141,864	128,893
Short-term Liabilities	802,660	535,031
Total Liabilities	1,355,251	1,240,068
Liquid Asset to Short-term Liabilities	17.67%	24.09%
Liquid Asset to Total Liabilities	10.47%	10.39%

(c) Maturity profile of assets and liabilities

	Due on demand and up to 30 days	More than 1month to 6 months	More than 6 months to 12 months	More than 1 year to 5 years	Over 5 years	Total
31 December 2023	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Bank of Oman	50,800	-	-	-	500	51,300
Inter-bank Wakala and Due from banks	18,739	5,775	-	-	-	24,514
Financing to customers - net	44,258	193,437	122,324	634,832	365,331	1,360,182
Investment securities	8,255	49,517	7,770	46,322	32,878	144,742
Investment in real estate	-	-	-	-	-	-
Intangible assets	-	-	-	-	3,527	3,527
Property and equipment	-	-	-	-	5,239	5,239
Other assets	260	1,866	1,991	286	14,388	18,791
Total assets	122,312	250,595	132,085	681,440	421,863	1,608,295
Customer accounts, Wakala and unrestricted accountholders	108,950	244,380	164,510	517,464	280,950	1,316,254
Other liabilities	-	4,432	14,439	12,002	8,124	38,997
Investment risk and profit equalization reserve	-	-	-	-	-	-
Owners' equity	-	-	-	-	253,044	253,044
Total liabilities, equity of unrestricted investment accountholders and owners' equity	108,950	248,812	178,949	529,466	542,118	1,608,295
Net gap	13,362	1,783	(46,864)	151,974	(120,255)	-
Cumulative net gap	13,362	15,145	(31,719)	120,255	-	-

31 December 2022	Due on demand and up to 30 days RO'000	More than 1month to 6 months RO'000	More than 6 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
Cash and balances with Central Bank of Oman	9,710	8,257	8,023	16,223	10,365	52,578
Inter-bank Wakala and Due from banks	12,132	28,850	-	-	-	40,982
Financing to customers - net	37,056	203,163	103,492	548,235	334,814	1,226,760
Investment securities	6,236	21,801	8,545	79,714	27,241	143,537
Investment in real estate	-	-	-	-	-	-
Intangible assets	-	-	-	-	3,144	3,144
Property and equipment	-	-	-	-	5,261	5,261
Other assets	337	1,415	589	4,627	6,893	13,861
Total assets	65,471	263,486	120,649	648,799	387,718	1,486,123
Customer accounts, Wakala and unrestricted accountholders	85,767	220,315	209,801	425,322	259,270	1,200,475
Other liabilities	-	3,360	15,788	7,870	12,574	39,592
Investment risk and profit equalization reserve	-	-	-	-	-	-
Owners' equity	-	-	-	-	246,056	246,056
Total liabilities, equity of unrestricted investment accountholders and owners' equity	85,767	223,675	225,589	433,192	517,900	1,486,123
Net gap	(20,296)	39,811	(104,940)	215,607	(130,182)	-
Cumulative net gap	(20,296)	19,515	(85,425)	130,182	-	-

14. Market Risk

Market risk is the risk of loss due to unfavorable movements in market factors such as profit rates, exchange rates, and commodity and equity prices. The Bank's Market risks arise generally due to open positions in currency, holding common equity, and other products. All such instruments and transactions are exposed to general and specific market movements.

14.1 Qualitative Disclosure

- The Bank seeks to mitigate market risk by employing strategies that correlate rate and price movements of its earning asset and liabilities. The Bank has Assets and Liability Committee (ALCO) which monitors Market and Liquidity Risk on regular basis. The details of market risk faced by the bank are discussed in the following notes.

The principal categories of market risk faced by the Bank are set out below:

Profit Rate Risk

Profit rate risk is the risk that the Bank will incur a financial loss as a result of mismatch in the profit rate on the assets and balances from fund providers. The profit distribution is based on profit sharing agreements instead of guaranteed return to investment account holders. Therefore, the Bank is not subject to any significant profit rate risk.

However, the profit-sharing arrangements will result in displaced commercial risk when the Bank's results do not allow the Bank to distribute profits in line with the market rates. In respect of monitoring the impact of profit rate changes on the earnings and economic value of the Bank, the Bank has developed suitable risk management tool that identify gaps based on the repricing of the assets and liabilities. The result of this sensitivity analysis is presented to Assets and Liability Committee to that necessary decision, if required can be taken for protect the interest of the Bank.

Foreign Exchange Risk

Forex risk is the risk that a bank may suffer losses as a result of adverse exchange rate movements during a period in which it has an open position in an individual foreign currency.

The Bank has exposure in foreign currency. However, significant portion of the foreign currency exposure is in USD and GCC pegged currencies. In addition to this, the Bank has internal limits and mechanism for controlling foreign currency risk for unpegged currencies.

Commodity Price Risk

Commodity price risk is defined as the risk of losses in on- or off-balance sheet position arising from movements in market prices i.e. fluctuations in value in tradable or marketable commodities. The risk related to the current and future volatility of market values of specific assets (for example, the commodity price of Salam asset or the market value of Murabaha assets purchased to be delivered over a specific period).

The Bank however is not exposed to commodity market as the Bank whenever enter into any transaction or specific agreement, the commodity price risk is either hedged or the transaction is performed on spot basis so there is no fluctuation of market price from the moment bank takes an asset in possession and sells an asset to the buyer/customer.

Price Risk

Price Risk or Equity Investment Risk is risk to earnings or capital that results from adverse changes in the value of equity related portfolios of the Bank.

The Bank has investments in Sukuks and Securities. All the investments are marked-to-market on regular basis. All the investment is made after a careful due diligence after taking necessary approvals including from Shari'a to ensure that investments are made as per Shari'a standards. The day-to-day monitoring and management of investments is done by Treasury, Risk Management and Asset Liability Committee of the Bank. All strategic investments are regularly reviewed by Risk Management and Credit and Investment Committee of the Bank.

14.2 Quantitative Disclosure

(a) Breakdown of Market RWA	2023	2022
	RO'000	RO'000
Equity Position	-	-
Foreign Exchange Risk	64,248	31,614
Commodity Risk	-	-
Total	64,248	31,614

(b) Foreign Exchange Net Open Position to Capital

	2023	2022
Foreign Exchange Net Open Position to Capital	26.78%	13.51%

As of reporting date, the bank does not have any trading book instruments. Most of the exposure is in USD and OMR is pegged with USD therefore the sensitivity analyses are immaterial to be reported.

(a) Commodity Net Open Position to Capital

The Bank does not have any commodity available for sale as of reporting date.

(b) Equity Net Open Position to Capital

The Bank does not have any equity in its trading book as of reporting date.

(c) Total Amounts of assets subject to market risk by type of assets

The Bank does not have any investments/assets in Trading Book. Market Risk-Weighted assets only comprise Foreign Exchange position which is mentioned above in item (a).

(d) Measure of Value-at-risk or other sensitivity analyses for different types of market risk

As of reporting date, the bank does not have any trading book instruments. Majority of the exposure is in USD and other pegged currencies i.e. Saudi Riyal (SAR), Arab Emirates Dirham (AED), Bahrain Dinar (BHD). Since OMR is pegged with USD, therefore the sensitivity analyses are immaterial to be reported.

15. Operational risk

15.1 Qualitative Disclosure

Operational Risk is the risk of direct or indirect losses resulting from inadequate or failed internal processes or systems, human factors, or from external events. The Bank's businesses are dependent on the ability to process a large number of transactions efficiently and accurately. Operational risks and losses originate from business/operational process failure, IT security failure, natural disasters, dependence on key suppliers, fraud, service quality compromised, regulatory non-compliance, loss of key staff, and social and environmental impacts. It also includes the risk that arises from the bank's failure to comply with the Sharia rules and principles. Being an Islamic Bank, sharia non-compliance risk is managed by an independent function that ensures bank's adherence to the Sharia standards and rules.

- The Bank has developed operational risk management policy and all the critical controls are implemented at all levels for curtailing operational risk. Each division has processes and systems in place to address operational risks within their area are accordingly performance of the department is reviewed on regular basis. The Risk Appetite statement also sets a target for the Management related to Operational Risk and accordingly business plans, product programs are designed to minimize potential operational risk.

- The Bank has defined process for reporting and escalation of operational incidents that stores in the master database for tracking in future. Also, on an annual basis the potential high-risk exposures are identified by each business and support function and accordingly controls are discussed/implemented to minimize risk exposures. The Bank's Sharia Compliance department checks independently the processes on regular basis to ensure there is no sharia related issue that could trigger operational loss to the Bank.
- As per the Bank's policy, operational risk is responsibility of all the staff members and all line managers are responsible for management of operational risk within their unit. Process and Control Improvement is a business as usual for the Bank, accordingly all the line managers are required to perform process and control improvement on regular/need basis to ensure the Bank is not taking any unnecessary risk in carrying out business activities.
- The Bank has well-defined Business Continuity Management policy which is approved by Board of Directors. During the year the Bank also conducted a drill at Head Office to see the Bank's readiness to attend to any major event that could result in major disruption to the Business. The Bank also conducted testing of critical functions at the temporary site established for this purpose, to continue critical transaction in case of any unforeseen events.
- During the reporting period, the Bank ensured continuity of business, and enhanced its IT infrastructure to support the Bank Business Continuity Plan and to address any contingency requirements. The Bank has also improved its e-channels capabilities by giving more features and options to customer, thereby encouraging customer to access banking facilities without visiting branches. To promote such activities, also waived transaction fees for certain period to benefit customers.
- Health and safety was ensured during the period by the Bank for both customers and staff; and necessary guidelines in this regard were issued on regular basis during the reporting period.

15.2 Quantitative Disclosure

(a) RWA Equivalent for Quantitative Operational Risk

- For the purpose of measuring capital charge, the Bank has adopted the Basic Indicator Approach under Basel II for Operational Risk. The approach requires the Bank to provide 15% of the average three years' gross annual income as capital charge for operational risk.

	2023	2022
	RO'000	RO'000
Net income from financing activities	70,791	66,194
Add: Net income from investment activities	9,571	7,182
Add: Fee income	9,431	7,580
Less: Investment Accountholders share of income	36,442	30,609
Add : Other Income	2,005	2,150
Total Revenues	55,356	52,497
Less: Exceptional and extraordinary income	-	-
Gross Income	55,356	52,497
Gross Income times of Alpha (15%)	8,303	7,875
Operational Risk-Weighted Assets 12.5x	103,793	98,432
Operational Risk-Weighted Assets (Average of last 3 Years)	95,126	85,063

b) Indicators for Operational risk exposures

	2023	2022
	RO'000	RO'000
Gross Income taken in RWA calculation	55,356	52,497

- There is no Shari'a non-compliance income recognized during the year and whenever such incident happens, the Bank's policy is to transfer such funds to charity.

16. Rate of Return Risk

Rate of Return Risk is the risk of deviations in earnings or economic value due to adverse movement of the yield curve. It is inherent primarily to the banking book mainly through financing and deposits portfolio.

16.1 Qualitative Disclosure

- The profit rate exposure of the Bank arises due to mismatches between contractual maturities or re-pricing of on- and off-balance sheet assets and liabilities. It is addressed by an Asset and Liability Management Committee (ALCO) that reviews the profit rate dynamics at regular intervals and decides re-pricing of assets and liabilities ensuring that the spread of the Bank remains at an acceptable level.
- The sensitivity of the income statement is the effect of the assumed changes in profit rates on the earning for one year, based on the variable profit rate non-trading financial assets and financial liabilities held at 31 December, 2023.

16.2 Quantitative

- Indicators Of Exposures To Rate Of Return Risk – Expected Payments/Receipts On Financing And Funding At Different Maturity

	Due on demand and within 30 days	Due within 1 to 6 months	Due within 6 to 12 months	Due within 1 to 5 years	Due after 5 years	Non-profit bearing	Total
31 December 2023	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Bank of Oman	-	-	-	-	-	51,300	51,300
Inter-bank Wakala and Due from banks	9,069	-	-	5,775	-	9,670	24,514
Financing to customers – net	277,598	178,876	57,895	431,081	414,732	-	1,360,182
Investment Securities	8,255	50,833	6,454	46,322	32,878	-	144,742
Intangible asset	-	-	-	-	-	3,527	3,527
Property and equipment	-	-	-	-	-	5,239	5,239
Other assets	-	-	-	-	-	18,791	18,791
Total assets	294,922	229,709	64,349	483,178	447,610	88,527	1,608,295
Customer accounts, Wakala and unrestricted accountholders	34,043	142,502	89,648	553,647	221,825	274,589	1,316,254
Other liabilities	-	-	-	-	-	38,997	38,997
Investment risk and profit equalisation reserve	-	-	-	-	-	-	-
Shareholders' equity	-	-	-	-	-	253,044	253,044
Total liabilities and shareholders' equity	34,043	142,502	89,648	553,647	221,825	566,630	1,608,295
On-balance sheet gap	260,879	87,207	(25,299)	(70,469)	225,785	(478,103)	-
Cumulative profit sensitivity gap	260,879	348,086	322,787	252,318	478,103	-	-

31 December 2022	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 6 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non-profit bearing RO'000	Total RO'000
Cash and balances with Central Bank of Oman	-	-	-	-	-	52,578	52,578
Inter-bank Wakala and Due from banks	11,603	25,000	3,850	-	-	529	40,982
Financing to customers – net	292,014	188,330	82,449	430,481	233,486	-	1,226,760
Investment Securities	6,050	21,801	7,286	79,714	27,241	1,445	143,537
Intangible asset	-	-	-	-	-	3,144	3,144
Property and equipment	-	-	-	-	-	5,261	5,261
Other assets	-	-	-	-	-	13,861	13,861
Total assets	309,667	235,131	93,585	510,195	260,727	76,818	1,486,123
Customer accounts, Wakala and unrestricted accountholders	35,364	145,360	114,571	484,050	204,210	216,920	1,200,475
Other liabilities	-	-	-	-	-	39,592	39,592
Investment risk and profit equalisation reserve	-	-	-	-	-	-	-
Shareholders' equity	-	-	-	-	-	246,056	246,056
Total liabilities and shareholders' equity	35,364	145,360	114,571	484,050	204,210	502,568	1,486,123
On-balance sheet gap	274,303	89,771	(20,986)	26,145	56,517	(425,750)	-
Cumulative profit sensitivity gap	274,303	364,074	343,088	369,233	425,750	-	-

- Sensitivity Analysis of the Bank's Profits and The Rate of Return To Price Or Profit Rate Movements In The Market

Impact on earnings due to rate of return risk in the banking book

	2023 RO'000	2022 RO'000
+200 bps	**5,629**	6,313
+100 bps	**2,814**	3,157
-200 bps	**(5,629)**	(6,313)
-100 bps	**(2,814)**	(3,157)

17. Displaced Commercial Risk

Displaced Commercial Risk (DCR) refers to the magnitude of risks that are transferred to shareholders in order to cushion the Profit Sharing Investment Account (PSIA) from bearing some or all of the risks to which they are contractually exposed in Mudaraba funding contracts. Under a Mudaraba (profit sharing and loss-bearing) contract, in principle, unrestricted PSIA are exposed to the aggregate impact of risks arising from the assets in which their funds are invested, but they benefit from the DCR assumed by the Bank. This risk-sharing is achieved by constituting and using various reserves such as Profit Equalization Reserve (PER), and by adjusting the Mudarib's (Bank as fund manager) 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.

17.1 Qualitative Disclosure

- The Bank has set up prudential reserve account to minimize the adverse impact of income smoothing for PSIA on its shareholders' returns and to meet potential but unexpected losses that would be borne by the IAH on investments financed by PSIA, namely:

- Profit Equalization Reserve (PER)

  PER comprises amounts appropriated out of the gross income from the Mudaraba to be available for smoothing returns paid to the IAH and the shareholders, and consists of a PSIA portion and a shareholders' portion;

- Investment Risk Reserve (IRR)

  IRR comprises amounts appropriated out of the income of IAH after deduction of the Mudarib share of income, to meet any future losses on the investments financed by the PSIA.

The analysis of distribution of Mudaraba profit during the period is as follows:

	2023	2022
Items	RO'000	RO'000
Total distributable profits	**80,362**	72,803
Bank Share As " Mudarib and Rab ul Maal"	**43,920**	42,194
Depositors Share of profits	**36,442**	30,609
Bank Share As " Mudarib"	**6,226**	5,943
Net profit to be distributed to the depositors before IRR & PER	**6,169**	6,180
Investment Risk Reserve "IRR"	**0**	-
Profit Equalization Reserve "PER"	**-**	-
Net profit to be distributed to the depositors after IRR & PER	**6,169**	6,180

During the period the Bank did not utilize from PER (2022: Zero) for the purpose of enhancing the returns to depositors

- The Bank is taking all the Risk-Weighted Assets funded by IAH for the purpose of arriving at Total Risk-Weighted Assets and capital requirement is calculated accordingly.

17.2 Quantitative Disclosures

Historical Rate of Return of unrestricted Investment Accountholder:

	2023	2022	2021	2020	2019
	RO'000	RO'000	RO'000	RO'000	RO'000
Profit Earned	**80,362**	72,803	64,727	54,752	47,379
Profit Distributed	**6,169**	6,180	6,814	7,603	7,359
Funds Invested	**368,060**	368,516	346,665	365,738	310,071
Return as % of Funds Invested	**1.68%**	1.68%	1.97%	2.08%	2.37%

18. Contract-Specific Risk

In each type of Islamic Financing asset is exposed to a varying mix of credit and market risk. This mix can also vary according to the stage of the contract. However, the product structure does not change the nature of risk at the stage of contract. Further policy restricts undue exposure of any risk at any given time and all the contracts are in line with Shari'a and regulatory guidelines. Accordingly, capital is required to be allocated for such risk exposures in line with IBRF.

18.1 Qualitative Disclosure

- 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.

18.2 Quantitative Disclosure

Disclosure of Capital Requirements according to different risk categories for each Shari'a compliant financing contract

			2023			2022
	Credit risk	Market risk	Risk-Weighted Assets	Credit risk	Market risk	Risk-Weighted Assets
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Ijarah Muntahia Bittamleek	**229,457**	-	**159,130**	251,562	-	111,014
Sales Receivable and Other Receivables	**314,708**	-	**274,266**	281,667	-	265,111
Wakala Bil Istethmar	**371,298**	-	**477,523**	332,624	-	440,638
Musharaka Financing	**500,657**		**344,347**	376,236		293,093
Letter of Guarantees	**124,878**	-	**24,976**	108,585	-	21,717
Letter of Credit	**109,881**	-	**54,942**	118,201	-	59,101
Acceptance and Bills for Collection (Wakala)	**6,399**	-	**6,398**	1,574	-	1,574
Total	**1,657,278**	-	**1,341,582**	1,470,449	-	1,192,248

19. General Disclosure from Corporate Governance

19.1 Qualitative Disclosure

- An important objective of these disclosures is to ensure transparency regarding Shari'a compliance by the Bank and applicable reporting standard. As such all-material information are published as soon as practicable while meeting the deadlines set by the disclosure requirements of the CBO and the Bank is compliant with the applicable financial reporting standards.
- Corporate Governance is the system of rules, practices, and processes by which the Bank is directed and controlled. Corporate governance essentially involves balancing the interests of the many stakeholders in the Bank. These include its shareholders, management, customers, suppliers, financiers, government, and the community. Since corporate governance also provides the framework for attaining the Bank's objectives, it encompasses practically every sphere of management, from action plans, internal controls, performance measurement and corporate disclosure.
- The Capital Market Authority (CMA) Code of Corporate Governance for Public Listed Companies and the CBO guidelines as per the IBRF Corporate Governance of Banking and Financial Institutions are the principal codes and drivers of Corporate Governance practices in the Sultanate of Oman. Bank Nizwa complies with all their provisions. The CMA Code of Corporate Governance can be found at the www.cma.gov.om. Corporate Governance has also been defined more narrowly as the relationship of an entity to its shareholders or more broadly as its relationship to society.

The following disclosure summarizes disclosure of related party:

2023	**Principal shareholders**	**Sharia'a Board**	**Senior management**	**Total**
	RO'000	**RO'000**	**RO'000**	**RO'000**
Sales receivables and other receivables	150	-	105	255
Ijara Muntahia Bittamleek	327	-	1,133	1,460
Wakala Bil Istethmar	-	-	-	-
Musharaka Financing	4,684	-	328	5,012
Customers' accounts	560	-	151	711
Unrestricted investment accountholders / Customers' wakala	3,839	-	201	4,040

2022	Principal shareholders	Sharia'a Board	Senior management	Total
	RO'000	**RO'000**	**RO'000**	**RO'000**
Sales receivables and other receivables	153	42	128	323
Ijara Muntahia Bittamleek	362	65	1,275	1,702
Wakala Bil Istethmar	2,980	-	-	2,980
Musharaka Financing	4,701	107	238	5,046
Customers' accounts	1,519	2	192	1,713
Unrestricted investment accountholders / Customers' wakala	73,568	-	333	73,901

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

31 December 2023	Principal shareholders	Sharia Board	Senior management	Total
	RO'000	RO'000	RO'000	RO'000
Profit account	270	-	62	332
Profit Expense	(4,147)	-	-	(4,147)
Operating expenses				
Staff expense	-	-	2,393	2,393
Other expenses	313	59	-	372

31 December 2022	Principal shareholders	Sharia Board	Senior management	Total
	RO'000	RO'000	RO'000	RO'000
Profit account	323	11	49	383
Profit Expense	(2,260)	-	-	(2,260)
Operating expenses				
Staff expense	-	-	2,236	2,236
Other expenses	88	59	-	147

- During the year the Bank organized awareness programs through workshops, trainings on Islamic Banking and the Bank's products and services reaching a wide audience through virtual and physical platforms. The bank aims to bring Islamic finance awareness to communities across the Sultanate while providing in-depth information on all its products and services. The bank also used its social media platforms to reach a wider audience through campaigns focused on Islamic finance awareness and educational content. Participation in various conferences locally and regionally also provided an opportunity to share knowledge. Information related to Islamic Banking products that are currently being offered by the Bank is available on the website.
- The Bank maintains formal procedure on handling of customer complaints. The Bank has set up a call center equipped with the required resources to respond to customer calls in a professional manner. There is a form for registration of complaints on Bank's website along with the contact details for customer to register their complaints. A dedicated team for management of customer complaints and feedbacks on the Bank's products and services is already operational. The customer care and quality services team of the Bank takes active part in resolution of customers' complaint and considers customers' feedback on products and services. All complaints are logged in dedicated system acquired for customer complaints handling and investigated by persons not directly related to the subject matter of the complaint. The Bank endeavors to address all complaints in minimum timeframe. Whenever this is not possible, the customer is contacted directly and timeframe for rectification of complaint is advised. A periodical report on status of complaints is also submitted to CEO, Senior Management and Board of Directors. To provide our customers with easy access to financial services, fair terms, and pricing and at the same time to ensure that we are remain committed to being at the heart of customers we serve, an independent customer feedback collection is being carried. This will help us to follow our passion to go above and beyond the expectation of our customers in providing enhanced value in the diversity of our products and services.

20. Sharia Governance Disclosures

20.1 Qualitative Disclosure

Compliance to Shari'a principles and requirements are inherently built into the Bank's end-to-end activities and transactions including products & services by following a comprehensive Sharia Governance Framework which comprised of several key elements listed below that sets the standards and implementation that ensure holistic Sharia compliance:

1) Islamic Banking Regulatory Framework (IBRF)

A 'rule book' issued by the Central Bank of Oman on Islamic banking that sets guidelines on Shari'a Governance and its relevant Sharia functions, Risk Management and Accounting concepts and general product features which are permitted in Oman for Islamic banks in tandem with Oman Banking Law.

2) AAOIFI Standards

Shari'a, Accounting and Governance Standards are published by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) [and being referred to by CBO in IBRF]; represent a major reference especially for Shari'a compliance in the Islamic banking sector. Shari'a resolutions which are not readily available in the AAOIFI Shari'a standards are covered by resolutions from SSB.

3) Shari'a Supervisory Board (SSB)

SSB members are well-respected Omani and International Shari'a scholars who review and provide Shari'a resolutions and Fatwas on all products and related processes. The SSB is the ultimate responsible body within the Bank for all Shari'a related matters and is responsible for overall Shari'a supervision and oversight activities to ensure that the Bank's transactions and operations are Shari'a compliant at all times. The SSB, which meets on a quarterly basis, consists of Sheikh Dr. Majid Bin Muhammad Bin Salim Al Kindi (Chairman), Sheikh Dr. Aznan bin Hasan (Deputy Chairman) and Sheikh Dr. Ali bin Suliman Aljahdami (member).The SSB has established a Shari'a Executive Committee ("Shari'a ExCom"), comprising of Sheikh Dr. Majid Bin Muhammad Bin Salim Al Kindi, and Sheikh Dr. Ali bin Suliman Aljahdami, which meets on a monthly basis to review the Bank's business from a Shari'a perspective and consider current business requirements. Shari'a ExCom resolutions are based on previous SSB Shari'a guidelines and Fatwas.

4) Internal Sharia Reviewer (ISR) / Head of Sharia:

The ISR assumes the responsibilities of Head of Shari'a Department. Under the IBRF, the ISR is also responsible for heading the Shari'a Compliance Unit and the Shari'a Audit Unit. The major technical role of ISR is to execute Shari'a review financing proposals in coordination with the Head of Shari'a Structuring. Review of proposals within current approved product programs and Shari'a Supervisory Board guidelines are presented to the respective business units as part of the required documents for execution. This function is the pre-execution Shari'a review activity.

In addition to these daily functions, the ISR with assistance from the assigned team member acts as the coordinator for the SSB and prepares the meeting file and the minutes of meetings. Shari'a resolutions and guidelines are then communicated to the respective business unit heads for adherence. Any approval required from business units before the next meeting of the SSB is communicated by the ISR to SSB members by email for review and approval by Shari'a resolution. The SSB has also delegated specific authorities to the Shari'a Ex-Com whereby its members are entitled to issue Shari'a resolutions. The ISR also prepares the agenda and documents, and minutes of meetings for Shari'a Ex-Com and communicates its Shari'a resolutions to relevant business unit heads.

5) Shari'a Structuring & Compliance

Under the IRBF, the Shari'a Compliance Unit is responsible for facilitating the Bank's management to ensure compliance with Shari'a (as manifested by the guidelines and Fatwa issued by the SSB) and is extensively involved before a new product or transaction is approved. This function provides Shari'a review and supervision for business transactions and support function activities before execution (ex-ante) to confirm that structuring has been concluded based on IBRF, AAOIFI, and SSB Shari'a guidelines and controls. Consequently, Shari'a Review Reports (SRR) are prepared to document this supervision activity and presented to Shari'a Ex-Com and the SSB in the monthly and quarterly meetings. This function forms the core of Shari'a activity in the department and is also responsible for advising on any new product development activity as well for reviewing product programmes and its ancillary documentations. To support the Shari'a compliance activity, Shari'a non-compliance risks are continuously scrutinized, and specific mitigation controls are set to minimize the risks that occur due to unintentional human errors. Any income of Shari'a non-compliant transactions is donated to charity as per SSB guidelines.

6) Shari'a Audit Function

Under the IRBF, the Shari'a Audit Unit is responsible for assisting an "Internal Shari'a Reviewer" and the SSB to form and express an opinion on the extent of the Shari'a compliance of the Bank's operations. This is a dedicated function within the Bank that reports directly to the SSB and the ISR, staffed with experienced professionals who conduct Shari'a audit after execution of transactions to confirm adherence to Shari'a guidelines as issued by the SSB and as per Shari'a reviews (ex-post). The function is also responsible for ensuring the Profit Distribution Mechanism on Mudaraba accounts is properly executed and for ensuring all incomes generated from banking transactions and services are not tainted, which may render it Shari'a non-compliant (in which case such income must be donated to charity). Any Shari'a non-compliance event is immediately reported to Shari'a Ex-Com for review and decision and further reported to the SSB for next course of action / Shari'a rule.

7) External Shari'a Audit

As required by IBRF, the Bank appoints an independent and qualified external Shari'a Auditor to audit the activities of the Bank on an annual basis.

8) Shari'a Training

To ensure that all members of management and staff have sufficient working knowledge of Islamic banking principles and guidelines, Shari'a compliance department staff continues to exert major focus on Shari'a training so that these principles are understood and practiced. Shari'a training also encompasses external parties based on an awareness campaign on Islamic banking for all constituents of society such as school teachers and students, university students, employees in ministries and public sector institutions.

9) Sharia Non-Sharia Compliance Risk:

Based on the Sharia guidelines in the IBRF concerning Sharia Non-Sharia Compliance Risk function, the Manager of Sharia Non-Compliance Risk Unit (SNCRU) identify, measure, monitor, control, and manage Sharia non-compliance risks in the bank arising from failure to comply with Sharia rules and principles as set by IBRF issued by CBO, and Sharia standards issued by AAOIFI, and the Sharia rulings and guidelines issued by SSB. The Manager also assist the ISR in identifying the Sharia non-compliance risk parameters for each department or function.

- SNCRU Measure quantitatively the volume of the identified parameters and detect any Sharia non-compliance events for each parameters.
- SNCRU Monitor the development of the Sharia non-compliance parameters during the year periodically as presented in its monthly/quarterly SNCR Reports.
- SNCRU Provide reasonable control measures to establish assurance of the soundness of operations which prevent violations to Sharia compliance measures and guidelines.

20.2 Quantitative Disclosure

Disclosure of the nature, size and number of violations of Sharia compliance during the year

- Sharia Audit Unit conducts ongoing Sharia audit on all business transactions of the bank. Wholesale banking transactions are subject to 35% as per Sharia audit plan, while retail transactions are subject to Sharia audit based on sample basis as approved by SSB in the annual Sharia Audit Plan. Sharia audit findings and observations in these transactions are directly reported to Sharia Ex-Com who gives immediate instructions and Sharia ruling regarding any violations. In case the violation is confirmed, Sharia Ex-com diverts the profit of such transaction to charity account, and the same cases are reported to SSB in the quarterly SSB Sharia Audit Report.
- During the period, the Bank did not recognize any Shari'a non-compliant income as revenue and any identified non sharia compliant income has been appropriately transferred to charity.
- All immaterial non-compliances with Shari'ah principles and rules if any have been satisfactorily resolved and matters have been concluded in light of the approvals and guidelines of the Shari'ah supervisory board.
- any amounts determined to be payable / transferable to charity fund have been transferred to the charity fund within reasonable time of identification and as of the date of the financial statements, there is no amount of charity pending transfer to the charity fund. We further confirm that all amounts allocated to charity fund were spent in accordance with the approved charity policy as approved by the Shari'ah Supervisory Board

Disclosure of annual Zakat contributions of the Licensee, where relevant, according to constitution, general assembly or national requirements or as required by the respective SSB

- SSB issues its Sharia compliance certificate where it identifies that Sharia compliance has been observed in the bank's transactions and contracts, and in case of any violation, the observation is listed in the report. In addition, and as per Management decision, SSB certificate also stipulates that Zakat payment is the responsibility of the shareholders.

Remuneration of Sharia board members

- SSB members are compensated for their contribution in the business supervision by an agreed remuneration, in addition to SSB meeting attendance fees. SSB members who participate from outside Oman are also entitled to travel and hotel accommodation expenses.
- During the year, the Bank paid RO59 thousands (Dec 2022: RO 59 thousands) on account of remuneration to the SSB which includes accommodation, travelling expenses, meeting and annual fees.

21. Disclosures on Remuneration

- In line with the CBO guidelines on remuneration disclosures as part of Pillar III, the Bank has outlined the relevant qualitative and quantitative disclosures in this report.
- The Bank is committed to fair, balanced, performance-oriented compensation practices that align long-term employee and shareholder interests. The policy is aimed to attract, retain and motivate the best people in the industry as it believes that human capital is fundamental to the bank's success.
- The Bank has a Board appointed Human Resource Committee whose primary objectives are – setting the principles, parameters and governance framework for the Bank's compensation policy; and ensuring the Bank is equipped to meet standards of international best practice.

Material Risk Takers

- The Bank has identified the members as material risk takers as their activities have a significant influence on the risk profile of the Bank.
- The main factors that have been used to identify the material risk-takers in the bank are:

- o the level of the job position in the management hierarchy as defined by grade (arrived at by objective Job Evaluation)
- o responsibilities of the job that expose it to risk

Remuneration policy

- The scope of the Bank's remuneration policy extends to all employees of the bank and is an integral part of Bank's Human Resource policy.
- Remuneration of employees of control functions like Risk Management, Internal Audit and Compliance is independent of the business performance they oversee, and the policy is designed to attract, retain and motivate the best talent in the industry.
- The remuneration for Senior Management of these functions is directly designed and approved by the Board Human Resource Committee.

Performance awards

- Performance awards are based on the achievement of both financial and non-financial objectives. The Performance Management System is aimed at achieving the Bank's business plans and objective through continuous and focused performance of the employees. It uses Key Result Areas/ performance factors and competencies to measure and enhance the performance of employees.
- The policy and payment of reward is in line with CBO guidelines on Sound Compensation Principles and Standards.
- The Bank is committed to follow fair compensation practices where reward will be based on performance. The compensation is designed to contribute to the Bank's objectives and encourages prudent risk taking and adherence to applicable laws, guidelines, and regulations.

Quantitative Disclosures

- The Board Human Resource Committee held four meetings in 2023 (2022: Five meetings) and RO 5,500 (2022: RO 10,100) was paid to the members in lieu of sitting fees.
- The key management comprises of 14 members (2022: 14 members) of the management executive committee. The below table provides details of key management members' compensation:

	2023	2022
	RO'000	RO'000
Salaries and Benefits	**1,305**	1,226
Deferred Bonus	**90**	69
End of Service Benefits	**-**	-
Total	**1,395**	1,295

22. Liquidity coverage ratio (LCR)

- The Basel Committee on Banking Supervision published the Basel III guidelines in June 2011. Central Bank of Oman has issued final guidelines on implementation of the new capital and liquidity norms to banks in the Country. The new regulations require banks to calculate Liquidity Coverage Ratio (LCR) and Net-Stable Funding Ratio (NSFR) on period basis. This standard aims to ensure that a bank has an adequate stock of unencumbered High Quality Liquid Assets (HQLA) that consists of cash or assets that can be converted into cash at little or no loss of value in private markets, to meet its liquidity needs for a 30 calendar day liquidity stress scenario. At a minimum, the stock of unencumbered HQLA should enable the bank to survive until day 30 of the stress scenario, by which time it is assumed that appropriate corrective actions can be taken by management and supervisors, or that the bank can be resolved in an orderly way. Furthermore, it gives the Central Bank additional time to take appropriate measures, should they be regarded as necessary.

2023 Liquidity Coverage Ratio (LCR)	Factor	Book Balance	Adjusted amount
Level 1 assets		RO '000	RO '000
Coins and bank notes	100%	8,523	8,523
Qualifying central bank reserves	100%	13,158	13,158
Qualifying marketable securities from sovereigns, central banks, PSEs and multilateral development banks	100%	103,403	103,403
Domestic sovereign or Central Bank debt for non-0% Risk-Weighted sovereigns	100%	-	-
Total Level 1 assets		125,084	125,084
Level 2A			
Sovereign, Central Bank, Public Sector Entity (PSE), multilateral development banks assets (qualifying for 20% risk weighing)	85%	13,467	13,467
Qualifying Corporate Debt securities AA- or higher	85%	-	-
Qualifying Corporate Bonds AA- or higher	85%	-	-
Total Level 2A		13,467	13,467
Level 2B			
Qualifying RMBS	75%	-	-
Qualifying Corporate Debt securities, related between A+ and BBB-	50%		
Qualifying common equity shares	50%	3313	1657
Total Level 2B (maximum 15% of HQLA)		3313	1657
Total level 2 assets (Maximum 40% of HQLA)		16,780	13,103
Total Stock of high quality liquid assets		141,864	138,187
Cash outflows			
Stable Deposits	5%	207,182	10,359
Less stable deposits- Retail	10%	318,653	31,865
Term Deposits with residual maturity of more than 30 days	0%	-	-
Less stable deposits- Wholesale Funding	10%	570,584	57,058
Non-financial corporates, sovereigns, central banks and PSE	40%	3,665	1,466
Other legal entity customers	100%	30,028	30,028
Currently undrawn portion of credit lines			
Retail and small business	5%	236	12
Other Legal entity customers, credit and liquidity facilities	100%	9,169	9,169
Other contingent funding liabilities (Letters of credit, guarantee)	5%	234,759	11,738
Total cash outflows		1,374,276	151,696
Cash inflows			
All other assets	100%	727	727
Amounts to be received from retail counterparties	50%	8,465	4,233
Amounts to be received from non-financial wholesale counterparties from transactions other than those listed.	50%	10,431	5,216
Amounts to be received from financial institutions and central banks from transactions other than those listed	100%	15,290	15,290
Operational deposits held at other financial institutions	0%	9236	-
Total cash inflows		44,149	25,465
75% of outflows			113,772
Inflows restricted to 75% of outflows			25,465
Net cash outflows			126,231
LCR (%)			109.47

2022 Liquidity Coverage Ratio (LCR)	Factor	Book Balance	Adjusted amount
Level 1 assets		**RO '000**	**RO '000**
Coins and bank notes	100%	9,705	9,705
Qualifying central bank reserves	100%	5,228	5,228
Qualifying marketable securities from sovereigns, central banks, PSEs and multilateral development banks	100%	-	-
Domestic sovereign or Central Bank debt for non-0% Risk-Weighted sovereigns	100%	99,641	99,641
Total Level 1 assets		114,574	114,574
Level 2A			
Sovereign, Central Bank, Public Sector Entity (PSE), multilateral development banks assets (qualifying for 20% risk weighing)	85%	13,265	11,275
Total Level 2A		13,265	11,275
Level 2B			
Qualifying corporate debt securities, rated between A+ and BBB-	50%	-	-
Qualifying common equity shares	50%	884	442
Total Level 2B (maximum 15% of HQLA)		884	442
Total level 2 assets (Maximum 40% of HQLA)		11,717	14,149
Total Stock of high quality liquid assets		126,291	128,723
Cash outflows			
Stable Deposits	5%	227,398	11,370
Less stable deposits- Retail	10%	288,519	28,852
Term Deposits with residual maturity of more than 30 days	0%	-	-
Less stable deposits- Wholesale Funding	10%	339,137	33,914
Non-financial corporates, sovereigns, central banks and PSE	40%	7,000	2,800
Other legal entity customers	100%	7,721	7,721
Currently undrawn portion of credit lines			
Retail and small business	5%	1,202	60
Other Legal entity customers, credit and liquidity facilities	100%	7,017	7,017
Other contingent funding liabilities (Letters of credit, guarantee)	5%	225,717	11,286
Total cash outflows		1,103,711	103,019
Cash inflows			
All other assets	100%	463	463
Amounts to be received from retail counterparties	50%	7,607	3,804
Amounts to be received from non-financial wholesale counterparties from transactions other than those listed.	50%	31,835	15,918
Amounts to be received from financial institutions and central banks from transactions other than those listed	100%	28,850	28,850
Operational deposits held at other financial institutions	0%	11,995	-
Total cash inflows		80,750	49,034
75% of outflows			77,265
Inflows restricted to 75% of outflows			49,034
Net cash outflows			53,985
LCR (%)			233.94

23. Net Stable Funding Ratio (NSFR)

The Basel Committee on Banking Supervision published the Basel III guidelines in June 2011. Central Bank of Oman has issued final guidelines on implementation of the new capital and liquidity norms to banks in the Country. The new regulations require banks to calculate Liquidity Coverage Ratio (LCR) and Net-Stable Funding Ratio (NSFR) on period basis. The Net Stable Funding Ratio (NSFR) promotes resilience over a longer-term time horizon by requiring banks to fund their activities with more stable sources of funding on an ongoing basis. As per the CBO regulations, banks are required to have NSFR more than 100%.

2023	Associated factor	Unweighted amount	Weighted amount
Available stable funding		RO'000	RO'000
Tier 1 capital	100%	248,579	248,579
Tier 2 capital (excluding Tier 2 instruments with residual maturity of less than one year)	100%	10,349	10,349
Other liabilities with effective residual maturities of one year or more	100%	20,430	20,430
Less stable non-maturity deposits and term deposits with residual maturity of less than one year provided by retail and small business customers	90%	205,327	184,794.3
Funding with residual maturity of less than one year provided by non-financial corporate customers, Funding with residual maturity of less than one year from sovereigns, PSEs, and multilateral and national development banks	50%	300,376	150,188
All other liabilities and equity not included in the above categories, including liabilities without a stated maturity (with a specific treatment for deferred tax liabilities and minority interests)	0%	74,291	-
Total Available Stable Funding			614,340.3
Required stable funding			
Coins, bank notes and reserves with CBO	0%	59,991	-
Financing to financial institutions and central banks with residual maturities between six months and less than one year	50%	-	-
All other assets not included in the above categories with residual maturity of less than one year, including financing to non-financial corporate clients, financing to retail and small business customers, and financing to sovereigns and PSEs	50%	445,875	222,937.5
Unencumbered residential mortgages with a residual maturity of one year or more and with a risk weight of less than or equal to 35% under the Standardised Approach	65%	282,883	183,873.95
All other assets not included in the above categories, including non-performing financing, financing to financial institutions with a residual maturity of one year or more, non-exchange-traded equities, fixed assets, items deducted from regulatory capital, retained interest, insurance assets, subsidiary interests and defaulted securities.	100%	41,851	41,851
Sub total (A)			448,662.45
Off balance sheet exposures			
Other contingent funding obligations, including products and instruments such as guarantees, letters of credit, Unconditionally revocable credit and liquidity facilities	5%	9,405	470.25
Non contractual obligations such as potential requests for debt repurchases of the bank's own debt or that of related conduits, securities investment vehicles and other such financing facilities, structured products where customers anticipate ready marketability, managed funds that are marketed with the objective of maintaining a stable value	5%	234,759	11,737.95
Sub total (B)		-	12,208.2
Total Required Stable Funding (A+B)		-	460,870.65
NSFR (%)		-	133.30

2022	Associated factor	Unweighted amount	Weighted amount
Available stable funding		RO'000	RO'000
Tier 1 capital	100%	228,347	228,347
Tier 2 capital (excluding Tier 2 instruments with residual maturity of less than one year)	100%	9,236	9,236
Other liabilities with effective residual maturities of one year or more	100%	17,165	17,165
Less stable non-maturity deposits and term deposits with residual maturity of less than one year provided by retail and small business customers	90%	243,796	219,416
Funding with residual maturity of less than one year provided by non-financial corporate customers, Funding with residual maturity of less than one year from sovereigns, PSEs, and multilateral and national development banks	50%	293,189	146,595
All other liabilities and equity not included in the above categories, including liabilities without a stated maturity (with a specific treatment for deferred tax liabilities and minority interests)	0%	32,509	-
Total Available Stable Funding			620,759
Required stable funding			
Coins, bank notes and reserves with CBO	0%	64,007	-
Financing to financial institutions and central banks with residual maturities between six months and less than one year	50%	-	-
All other assets not included in the above categories with residual maturity of less than one year, including financing to non-financial corporate clients, financing to retail and small business customers, and financing to sovereigns and PSEs	50%	395,502	197,751
Unencumbered residential mortgages with a residual maturity of one year or more and with a risk weight of less than or equal to 35% under the Standardised Approach	65%	324,801	211,121
All other assets not included in the above categories, including non-performing financing, financing to financial institutions with a residual maturity of one year or more, non-exchange-traded equities, fixed assets, items deducted from regulatory capital, retained interest, insurance assets, subsidiary interests and defaulted securities.	100%	37,148	37,148
Sub total (A)		821,458	446,020
Off balance sheet exposures			
Other contingent funding obligations, including products and instruments such as guarantees, letters of credit, Unconditionally revocable credit and liquidity facilities	5%	8,219	411
Non contractual obligations such as potential requests for debt repurchases of the bank's own debt or that of related conduits, securities investment vehicles and other such financing facilities, structured products where customers anticipate ready marketability, managed funds that are marketed with the objective of maintaining a stable value	5%	225,717	11,286
Sub total (B)		-	11,697
Total Required Stable Funding (A+B)		-	457,717
NSFR (%)		-	135.62

Basel III common disclosure (as per the template to be used during the transition of regulatory adjustments i.e. from 1 January 2013 to 1 January 2018)

		Dec-23	Dec-22
		RO'000	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	**222,102**	222,102
2	Retained earnings	**7,727**	6,025
3	Accumulated other comprehensive income (and other reserves)	**18,179**	8,005
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	**-**	-
5	Public sector capital injections grandfathered until 1 January 2018		
6	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	**-**	-
7	**Common Equity Tier 1 capital before regulatory adjustments**	**238,009**	236,132
8	**Common Equity Tier 1 capital: regulatory adjustments**		
9	Prudential valuation adjustments	**(1,047)**	(442)
10	Unrealized losses		
11	Goodwill (net of related tax liability)	**-**	-
12	Other intangibles other than mortgage-servicing rights (net of related tax liability)	**(3,527)**	(3,144)
13	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	**-**	(2,047)
14	Mortgage Servicing rights (amount above 10% threshold)		
15	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)		
16	Amount exceeding the 15% threshold		
17	of which: significant investments in the common stock of financials		
18	of which: mortgage servicing rights		
19	of which: deferred tax assets arising from temporary differences		
20	National specific regulatory adjustments		
21	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions		
22	**Total regulatory adjustments to Common equity Tier 1**	**248,579**	230,499
23	**Common Equity Tier 1 capital (CET1**	**248,579**	230,499
24	**Additional Tier 1 capital: instruments**		
25	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	**-**	-
26	of which: classified as equity under applicable accounting standards	**-**	-
27	of which: classified as liabilities under applicable accounting standards 6	**-**	-
28	Directly issued capital instruments subject to phase out from Additional Tier 1	**-**	-
29	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)	**-**	-
30	of which: instruments issued by subsidiaries subject to phase out	**-**	-
31	**Additional Tier 1 capital before regulatory adjustments**	**-**	-
32	**Additional Tier 1 capital: regulatory adjustments**		
33	Investments in own Additional Tier 1 instruments		
34	Reciprocal cross-holdings in Additional Tier 1 instruments	**-**	-

		Dec-23	Dec-22
		RO'000	RO'000
35	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)	-	-
36	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)		
37	National specific regulatory adjustments	-	-
38	**REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT**	-	-
39	of which: Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-
40	of which: Other intangibles other than mortgage-servicing rights (net of related tax liability)	-	-
41	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-
42	Total regulatory adjustments to Additional Tier 1 capital	-	-
43	Additional Tier 1 capital (AT1)	-	-
44	**Tier 1 capital (T1 = CET1 + AT1)**	**248,579**	230,499
45	**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)	-	-
49	Fair value gains on financial assets at fair value through equity	**335**	596
50	Provisions	**10,014**	8,640
51	**Tier 2 capital before regulatory adjustments**	**10,349**	9,236
52	**Tier 2 capital: regulatory adjustments**		
53	Investments in own Tier 2 instruments	-	-
54	Reciprocal cross-holdings in Tier 2 instruments	-	-
55	Total regulatory adjustments to Tier 2 capital	-	-
56	Tier 2 capital (T2)	**10,349**	9,236
57	Total capital (TC = T1 + T2)	**253,783**	239,735
58	**RISK-WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT**		
59	OF WHICH: [INSERT NAME OF AJUSTMENT]	-	-
60	OF WHICH.....	-	-
61	Total Risk-Weighted assets (61+62+63)	**1,548,935**	1,437,031
62	Of which: Credit Risk-Weighted assets	**1,375,883**	1,254,721
63	Of which: Market Risk-Weighted assets	**77,926**	97,247
64	Of which: Operational Risk-Weighted assets	**95,126**	85,063
65	**Capital Ratios**		
66	Common Equity Tier 1 (as a percentage of Risk-Weighted assets)	**15.72%**	16.04%
67	Tier 1 (as a percentage of Risk-Weighted assets)	**15.72%**	16.04%
68	Total capital (as a percentage of Risk-Weighted assets)	**16.38%**	16.68%

Table 2 (A)	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Balance sheet as in published financial statements	Under regulatory scope of consolidation
	RO'000	RO'000	RO'000	RO'000
Assets	Dec-23	Dec-23	Dec-22	Dec-22
Cash and balances with Central Bank of Oman	51,300	51,300	52,578	52,578
Certificates of deposit	-	-	-	-
Due from banks	24,514	24,514	40,982	40,982
Islamic Financing	1,360,182	1,360,182	1,226,760	1,226,760
Investments in Sukuk and Securities	144,742	144,742	143,537	143,537
Financing to banks	-	-	-	-
Investment in Assets generated revenue	-	-	-	-
Property and equipment	5,239	5,239	5,261	5,261
Deferred tax assets	-	-	2,047	2,047
Other assets	22,318	22,318	14,958	14,958
Total assets	**1,608,295**	**1,608,295**	**1,486,123**	**1,486,123**
Liabilities				
Due to banks	55,803	55,803	11,571	11,571
Customer deposits	1,260,494	1,260,494	1,188,904	1,188,904
Current and deferred tax liabilities	-	-	-	-
Other liabilities	38,954	38,954	39,592	39,592
Subordinated Sukuk	-	-	-	-
Total liabilities	**1,355,251**	**1,355,251**	**1,240,067**	**1,240,067**
Shareholders' Equity				
Paid-up share capital	220,011	220,011	220,011	220,011
Share premium	2,091	2,091	2,091	2,091
Legal reserve	7,727	7,727	6,025	6,025
Impairment Reserve	150	150	150	150
Retained earnings	23,324	23,324	17,038	17,038
Cumulative changes in fair value of investments	(259)	(259)	741	741
Subordinated debt reserve	-	-	-	-
Total shareholders' equity	**253,044**	**253,044**	**246,056**	**246,056**
Total liability and shareholders' funds	**1,608,295**	**1,608,295**	**1,486,123**	**1,486,123**

Table 2 (B)	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Balance sheet as in published financial statements	Under regulatory scope of consolidation
	Dec-23	Dec-23	Dec-22	Dec-22
Assets				
Cash and balances with CBO	51,300	51,300	52,578	52,578
Balance with banks and money at call and short notice	24,514	24,514	40,982	40,982
Investments				-
Of which Held to Maturity	-	-	1,996	1,996
Out of investments in Held to Maturity:		-		-
Investments in subsidiaries	-	-	-	-
Investments in Associates and Joint Ventures	-	-	-	-
Available for Sale		-		-
Of which: Investments in Sukuks and Securities	144,742	144,742	141,541	141,541
Held for Trading		-		-
Investments in Real Estate	-	-	-	-
Islamic Financing Of which :		-		-

Table 2 (B)	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Balance sheet as in published financial statements	Under regulatory scope of consolidation
	Dec-23	Dec-23	Dec-22	Dec-22
Islamic Financing to domestic banks		-		-
Islamic Financing to non-resident banks		-		-
Islamic Financing to domestic customers	1,313,078	1,313,078	1,196,368	1,196,368
Islamic Financing to non-resident Customers for domestic operations		-		-
Islamic Financing to non-resident Customers for operations abroad	-	-	-	-
Islamic Financing to SMEs	47,104	47,104	30,392	30,392
Islamic Financing from Islamic banking window		-		-
Fixed assets	5,239	5,239	5,261	5,261
Other assets of which:		-		-
Profit Receivable	10,379	10,379	10,080	10,080
Prepaid Expense	593	593	624	624
Refundable Deposits	89	89	89	89
Goodwill		-		-
Other intangibles	3,527	3,527	3,144	3,144
Deferred tax assets			2,046	2,046
Others	7,730	7,730	1,022	1,022
Debit balance in Profit & Loss account				
Total Assets	**1,608,295**	**1,608,295**	1,486,123	1,486,123
Paid-up Capital	220,011	220,011	220,011	220,011
Of which:		-		-
Amount eligible for CET1	253,303	253,303	245,315	245,315
Amount eligible for AT1	-	-	-	-
Reserves & Surplus	(259)	(259)	741	741
Total Capital	253,044	253,044	246,056	246,056
Deposits Of which:		-		-
Deposits from banks		-		-
Customer deposits	1,260,494	1,260,494	1,188,904	1,188,904
Deposits of Islamic Banking window		-		-
Other deposits (please specify)		-		-
Borrowings Of which: From CBO		-		-
From banks	55,803	55,803	11,571	11,571
From other institutions & agencies	-	-	-	-
Borrowings in the form of bonds, Debentures and Sukuk	-	-	-	-
Others (Please specify)		-		-
Other liabilities & provisions Of which:		-		-
Creditors and Accrual	18,561	18,561	13,854	13,854
Payment Order	5,662	5,662	5,823	5,823
Profit Payables	8,825	8,825	10,022	10,022
Others	5,906	5,906	9,893	9,893
Total Equity and Liabilities	**1,608,295**	**1,608,295**	1,486,123	1,486,123

Table 3

Disclosure template for main features of regulatory capital instruments

Common equity comprises of 2,236,953,032 equity shares of Bz. 98 each fully paid up, issued and governed under the law of Sultanate of Oman.

1	Issuer	Bank Nizwa
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for Private placement)	BKNZ:OM
3	Governing law (s) of the instrument Regulatory treatment	Sultanate of Oman
4	Transitional Basel III rules	Tier 1
5	Post-transitional Basel III rules	Eligible
6	Eligible at solo/group/group & solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Paid-up Capital
8	Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date)	RO 233.838 Millions
9	Par value of instrument	98 Bz
10	Accounting classification	Paid-up Capital
11	Original date of issuance	23-Apr-12
12	Perpetual or dated	N/A
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	subsequent call dates, if applicable	N/A
	Coupons/dividends	
17	Fixed or floating dividend/coupon	N/A
18	Coupon rate and any related index	N/A
19	Existence of dividend stopper	N/A
20	Fully discretionary, partially discretionary or mandatory	N/A
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	if convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	N/A
31	If write-down, write-down trigger (s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A

Basel III leverage ratio framework and disclosure requirements - Reports for the year ended 31-Dec-23

(All amounts in RO'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	Dec - 2023	Dec - 2022
1	Total consolidated assets as per published financial statements	**1,608,295**	1,486,123
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 recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure		
4	Adjustments for derivative financial instruments		
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)	**107,847**	74,156
7	Other adjustments		
8	Leverage ratio exposure	**1,716,142**	1,560,279

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	Dec - 2023	Dec - 2022
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	**1,608,295**	1,486,123
2	(Asset amounts deducted in determining Basel III Tier 1 capital)		
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	**1,608,295**	1,486,123
	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		
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)		
14	CCR exposure for SFT assets		
15	Agent transaction exposures		
16	Total securities financing transaction exposures (sum of lines 12 to 15)	**-**	-
	Other Off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	**381,641**	391,304
18	(Adjustments for conversion to credit equivalent amounts)	**(273,794)**	(317,148)
19	Off-balance sheet items (sum of lines 17 and 18)	**107,847**	74,156
	Capital and total exposures		
20	Tier 1 capital	**243,434**	228,347
21	Total exposures (sum of lines 3, 11, 16 and 19)	**1,716,142**	1,560,279
	Leverage Ratio		
22	Basel III leverage ratio (%)	**14.18**	14.6

End of Basel II Pillar 3 Disclosures

Appendix - Sharia Supervisory Board Resolutions (Fatwas)

Fatwa on the "Salam Sale" Product

Fatwa Number: 1/85//2023

Date of Approval: 29/5/2023

Praise be to Allah, and blessings and peace be upon the Messenger of Allah.

The Shari'a Supervisory Board at Bank Nizwa has reviewed the "Salam Sale" product, the product development document, and the terms and conditions contained therein. After reviewing and making necessary modifications, it has approved it according to the following guidelines:

Firstly: The pillars of the Salam Contract:

The contracting parties: The buyer ("Creditor") and the seller ("Recipient").

The subject matter: The price ("capital") and the commodity ("Goods subject to sale").

The formula: Offer and acceptance.

Secondly: Conditions of the Salam Sale:

Conditions of the contracting parties:

Eligibility of the contracting parties to engage in contracts of donations and exchanges requires each of them to be sane, mature, and not legally restricted.

Conditions of the commodity (the Goods subject to sale):

It must have considerable value in Sharia, meaning it can be used and enjoyed in conditions of ease and choice. Prohibited items are not considered valid commodities and cannot be the subject of a Salam sale.

It should be clear and unambiguous, covering all aspects relevant to the price such as the origin country, size, quality, and color.

It should not be specific but rather described in general terms in the contract.

The commodity and the capital should not be combined under a single usurious cause; therefore, both items cannot be of the same category or type.

The delivery of the commodity should be deferred to a known date, feasible for delivery at that time, with the default being delivery at the place of the contract unless otherwise agreed upon by the contracting parties.

Conditions for Deferred Payment:

It should be limited to a known date or based on a reasonably expected event, such as the harvest season.

Conditions for Capital:

The capital in a Salam contract can be in the form of cash, goods, or benefits. Cash is the primary form, such as gold, silver, or currency. Goods can include food items like wheat or other agricultural grains, animals, or benefits like the use of a house or the lease of an airplane or a ship for a specified period. Here, the delivery of goods represents the benefit and is considered immediate receipt of the capital.

The capital in a Salam contract should be known to both parties, removing ignorance and dispute regarding its type, quantity, and description.

It should be immediate at the time of contracting in the council of the contract. However, for necessity, a delay of two or three days is permitted, even if conditional, provided that the delay period is not equal to or exceeds the specified term of the Salam contract.

It should not involve debts such as loans or outstanding transaction debts owed by the client to the bank, to avoid it being considered as selling debt for debt.

Third: General Provisions

There is no Sharia objection to the buyer (Creditor) providing collateral or a guarantor from the seller's (Recipient) side.

The buyer (Creditor) is permitted to exchange the commodity with another item other than cash upon maturity, whether the exchanged items are of the same type or different, provided that each of them is suitable to be made the subject of a Salam contract.

If the seller (Recipient) fails to deliver the commodity upon maturity, the buyer (Creditor) has the option to wait until it becomes available, or to terminate the contract and retrieve their capital. If the seller's failure is due to inability rather than insolvency, leniency should be shown.

Selling the goods in Salam before their possession or receipt is not permissible. However, a new parallel Salam contract unrelated to the initial one may be concluded.

The buyer (Creditor) is allowed to exchange the commodity with something else - other than cash - after maturity without stipulating it in the contract, whether the exchange is for the same type of item or not, provided that the replacement is suitable to be made the subject of a Salam contract, and that the market value of the replacement does not exceed the market value of the commodity at the time of delivery.

The seller may offer delivery with better specifications, and the buyer must accept it provided that the seller does not oblige the buyer to pay extra for the improved specifications, which falls under the principle of fair dealing. The seller may also offer delivery with specifications below the agreed-upon standards, in which case the buyer may accept or reject it as is, and it would be considered good practice. Both parties can negotiate acceptance with a reduction in the price. Delivery of a different type, even if of the same kind as the commodity, is not permissible except on the basis of substitution according to its conditions.

Imposing a penalty for delayed delivery of the commodity is not permissible.

If the seller (Recipient) fails to deliver the commodity due to insolvency, leniency should be shown.

If the entire or part of the commodity is not available in the market, and the seller (Recipient) cannot obtain it by the due date, then the buyer (Creditor) has the option to either wait until the commodity becomes available in the market, or terminate the contract and retrieve their capital, or agree with the seller to substitute another commodity for the unavailable one.

To avoid a situation where the client, acting as an agent, is unable to sell the Salam goods to a third party, resulting in the goods remaining in the bank's or agent's warehouses, the client, acting as an agent for sales, unilaterally commits to purchasing the Salam goods if they remain unsold for a specified period agreed upon by both parties. For this purchase to be valid, a specific period of at least 3 months must elapse from the date of the original sale or purchase, i.e., when the bank disbursed the Salam capital. The selling price to the client cannot exceed the cost, except in cases where the nature or value of the assets or goods changes at the time of resale to the seller (customer).

The commodity shall be documented a Mortgage or a security/ guarantee or other legitimate means of documentation.

Fourth: Forms of Transaction in Salam

First Form: Original Salam and Parallel Salam

Parallel Salam is a Salam contract in which the seller (Recipient) relies on what he deserves and expects to receive as a buyer (Creditor) in a previous Salam contract without being tied to the first Salam contract.

For the validity of parallel Salam, there should be no connection between the two contracts. The contracting party first enters into a purchase agreement through Salam, then enters into another sale agreement through Salam. The execution of the second transaction is from what they receive from the first transaction. For instance, a farmer comes to a financing institution to sell their olive crop and delivers it at harvest time. The financing institution pays the price to the farmer, then contracts with another party to sell the quantity of olives at a later agreed-upon date. The two contracts are separate, so if one party breaches the first Salam contract, the other party (the affected party) cannot hold accountable the party with whom they entered into the parallel Salam, whether by termination or delayed execution.

In this scenario, the bank may sell goods from the same category without linking the two contracts. The contracting party first enters into a purchase agreement through Salam, then enters into another sale agreement through Salam without linking them. The intention is to execute the second transaction from what they receive from the first transaction. The duration of the Salam in the second (parallel) transaction should be shorter, and the price slightly higher than the first transaction. The difference between the two prices represents the profit earned by the bank. The shorter the duration of the Salam, the higher the price and profit. This allows the bank to manage the Salam financing product according to the nature of the commodity financing, such as short-term financing portfolios.

Second Form: Salam Sale with a Promise from a Third Party to Purchase the Salam Goods

If the parallel Salam contract is not feasible for any reason, one can obtain a promise to purchase from an independent third party, provided that this promise is unilateral (from the expected buyer) without any commitment from the other party.

Third Form: Bank Delegation to Another Party for Merchandise Disposal

The bank buys goods through a Salam contract, then delegates another party, which may be the seller itself or another, to handle the disposal of the goods on its behalf at a price determined by the bank. This is called "Salam with Delegation by Third Party for Merchandise Sale." Here, the bank uses its funds to finance the purchase of goods through Salam at relatively low prices, then sells them after acquisition at higher prices. The bank assumes full responsibility for the consequences of this sale to the new buyer, and the delegation may be compensated (with fees) or uncompensated (without fees).

Fifth: Steps of Salam Sale

1. The client submits a request for financing through a Salam contract, specifying the goods they will sell to the bank, the sale price, and the delivery time.
2. Evaluation of the client's request according to the applicable criteria.
3. Informing the client of the details of the approval of their request by the bank.
4. Signing the contract after both parties agree on the details of the transaction.
5. Delivering the agreed-upon price to the client upon contract signing.
6. The bank receives the commodity at the specified time and disposes of it.

Sheikh Dr. Majid Muhammad Al-Kindi
Chairman of the Shariah Board

Sheikh Dr. Azzan Hassan
Deputy Chairman of the Shariah Board

Sheikh Dr. Ali Sulaiman Al-Jahdhami
Member of the Shariah Board

Fatwa regarding the request of the Companies Division to issue a quarterly market report and send it to clients and collect fees for this service.
Decision No. (7 (Z) /50/22062023)

Fatwa Number: 04/50/2023

Date of Approval: 3/12/1444 AH

22/6/2023 AD

Praise be to Allah, and peace and blessings be upon the Messenger of Allah.

The Shari'a Committee was presented with a request from the Companies Division for a Shari'a ruling regarding issuing a quarterly market report and sending it to clients in exchange for fees charged by the bank. The details provided about the report are as follows:

- The report is an additional service provided by the bank, requested by the clients, containing data and information beyond what is included in the client's annual renewal study report. It is a quarterly report that evolves its content over time based on specific client needs.
- The report provides clients with benefits including:

1. Understanding current market trends and available opportunities to make better business decisions.
2. Creating offers that fill gaps or provide better value than those already available, by weighing potential products and services against current market offerings, as well as testing them before launching them widely in the market.
3. Managing their valuable resources, saving time and money for more suitable offers that achieve better results.

The report incurs expenses and efforts by the bank from its various departments such as Business Units (e.g., Project Finance/Large Corporates/Mid-Market/Small and Medium Enterprises), Global Markets (Treasury Department), Investment Banking Services, Product Development, and Corporate Communications as needed to brand the report. The bank may also enlist the help of global research platforms to gather the required information such as Bloomberg and Refinitiv (formerly known as Thomson Reuters).

Committee's Decision: The bank is allowed to offer the mentioned service in this question; it is a permissible Sharia-compliant service, involving additional work on the regular report, deserving compensation (transaction fees) from the bank. The mentioned compensation (transaction fees) is determined by mutual agreement between the service requester (the client) and the bank. May Allah guide towards goodness, He is the Most Knowledgeable and Wise.

Sheikh Dr. Majid Muhammad Al-Kindi
Chairman of the Shari'a Committee

Sheikh Dr. Azzan Hassan
Deputy Chairman of the Shari'a Committee

Sheikh Dr. Ali Sulaiman Al-Jahdhami
Member of the Shari'a Committee

Fatwa: License
Product: "Profit Rate Swap"

The Shari'a Supervisory Board at Bank Nizwa has reviewed the "Profit Rate Swap" product and examined its documents thoroughly.

Due to the prohibition of Twaruq by the Central Bank of Oman, Bank Nizwa sought to obtain an alternative product for hedging and protection against fluctuations in the indicative profit rates on deposits or financing with banks and other Islamic windows. For this purpose, it resorted to an Islamic profit rate swap product.

This product primarily involves swapping profit through an agreement between two parties (two Islamic financial institutions) by exchanging payments of indicative profit rates in a manner chosen by the parties involved in the transaction.

The product achieves the following advantages for the bank:

- Empowering customers to minimize financing costs and efficiently manage the exposure to fluctuations in profit rates, whether they decrease or increase.
- Benefits for both the financing institution and the funded institutions, enabling them to protect themselves from exposure to market price fluctuations (yield fluctuations).
- The funded institution can convert variable profit rates to fixed profit rates through a profit rate swap process.
- The funded institution can convert the fixed profit rate on its assets to a variable profit rate using this product.

Product Structure:

The product is executed through an agreement to exchange profit rates between one party at a fixed rate and another party at a variable profit rate, or vice versa. It is implemented through a series of principal contracts in accordance with the principles of Islamic Sharia using investment agency. The essence of it is that profit exchange occurs through entering into a real deal for actual hedging, not through a nominal deal. The bank acts either as an agent or a principal, and this is done only with Islamic banks. The settlement is made between the outcomes of the agency operations and the resulting profits.

The swap refers to the exchange of the difference in profit rates, where one party pays an expected fixed profit rate and the other party pays an expected variable profit rate. The profit in the investment agency is always expected profit. The fixed profit here means not modifying it by agreement of the parties throughout the period of the investment agency, while the variable profit means the agreement of the parties to adjust the expected profit rate every month according to an indicative index, so that the new expected profit rate applies to the new investment period.

Profit rate swap helps Islamic financial institutions manage their cash flows and revenues, protecting their public budgets against large fluctuations in fixed and variable profit rates.

The Shari'a Supervisory Board confirms that the "Profit Rate Swap" program is compliant with the Sharia rulings issued by the Shari'a Supervisory Board of the bank and the standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions, especially Sharia Standard (28) Banking Services in Islamic Banks, Sharia Standard (44) Liquidity Management and Deployment, Sharia Standard (45) Capital Protection and Investment, Sharia Standard (46) Investment Agency, and Sharia Standard (47) Principles of Calculating Profit for Transactions, along with other relevant Sharia and accounting standards, in accordance with the applicable laws in the Sultanate of Oman.

The Shari'a Supervisory Board recommends God-consciousness, and success is from Allah. Allah knows best.

Sheikh Dr. Majid Muhammad Al-Kindi	Sheikh Dr. Azzan Hassan	Sheikh Dr. Ali Sulaiman Al-Jahdhami
Chairman of the Shariah Board	Deputy Chairman of the Shariah Board	Member of the Shariah Board

Muscat, Tuesday, 24th of Safar, 1444 AH - corresponding to 20/09/2022 AD.