# SOHAR INTERNATIONAL BANK SAOG

# FINANCIAL STATEMENTS

# FOR THE YEAR ENDED 31 DECEMBER 2024

# Chairman's report for the year ended 31 December 2024

Sohar International continues to lead Oman's banking sector, solidifying our reputation as the "Best Bank in Oman" through the delivery of exceptional value to stakeholders. By focusing on digital innovation, operational excellence, robust financial and risk management, strong corporate governance, and a people-first culture, we are well positioned as a forward-thinking leader in the industry.

It is with great pride that we achieved a milestone record profit for the year of over OMR 100 million in addition to achieving a market capitalisation of USD 2.4 billion, the 3rd highest listed entity on the Muscat Stock Exchange. The Bank's outstanding financial performance reflects the successful execution of our strategy.

Sohar International is committed to supporting Oman's economic growth, showcasing Oman's success story internationally and providing new opportunities to our customer base. We have expanded our presence beyond Oman, entering the Kingdom of Saudi Arabia and announced plans to open a Branch in the United Kingdom, reinforcing Sohar International's role as a key enabler of economic progress.

## FINANCIAL STRENGTH

Profit for the year increased by 42% to a record RO 100.2 million.

Total operating income increased by 50% to RO 244.9 million driven by increases in net interest income, other operating income and reflecting the full year impact of the merger with HSBC Bank Oman. Total operating expenses increased at a lower rate of 28% to RO 98.4 million reflecting the positive synergies of the merger with the expenses/income ratio improving to 40.2% from 47.1% last year.

Net operating income before impairment provisions and before gain on bargain purchase increased 69% to RO 146.5 million.

Loan impairment charges and other credit risk provisions for the year of RO 37.9 million supported an increase in the Bank's coverage ratio to 158% compared to 143% last year reflecting the Bank's prudent and proactive approach to credit risk management.

Total assets increased by 10% to RO 7,361 million mainly driven by a 9% increase in loans and Islamic financings and a 24% increase in investment securities.

Customer deposits increased by 13% to RO 5,777 million with the improved net loans/customer deposit ratio of 74% compared to 77% last year. The Bank's strong funding and liquidity position will support the Bank's growth initiatives in Oman as well as the branch operation in the Kingdom of Saudi Arabia.

The increase in shareholder's equity of 28% was supported by a RO 130 million rights issue demonstrating the continued support of the Bank's shareholders.

## DIGITAL FIRST

In 2024, Sohar International launched over 30 innovative solutions, reinforcing our 'Digital First' strategy positioning us at the forefront of Oman's digital transformation. Key initiatives include the 'My Life | My Goals' platform, which integrates financial and non-financial services into a seamless mobile experience, offering travel bookings, insurance, and more from a single application. This ecosystem simplifies goal achievement by blending lifestyle and banking services.

We have revolutionized corporate banking with our Unified Transaction Banking Platform, offering auto-reconciliation, digital trade finance, and liquidity management. We also introduced Oman's first corporate mobile banking application and the fully digital E-Mandate – Direct Debit product, streamlining recurring payments.

We enhanced our digital offerings with Oman's first API Banking Portal, Digital IPO 1:1 loan journey, and expanded cross-border payment capabilities, enabling instant remittances to over 35 countries, while prioritizing top-tier digital security. Complementing these achievements, we developed Oman's first AI platform, a cutting-edge Digital Contact Centre, advanced facial recognition, and robust data analytics, positioning Sohar International at the forefront of digital excellence.

## SERVING CUSTOMERS

Sohar International remains at the forefront of Oman's financial sector, delivering strategic contributions to landmark transactions and partnerships. As the Issue Manager, Joint Global Coordinator, and Collection Agent for OQEP's Initial Public Offering (IPO), the largest equity capital market financing in Oman's history, the Bank has set a new benchmark in financial excellence. We further demonstrated our leadership by becoming the first Bank in Oman to be appointed a sole Lead Manager for another high-profile IPO, reinforcing our position as a regional leader in capital markets.

We have strengthened our presence in the oil and gas sector and become the Bank of choice for multinational corporations seeking comprehensive financial solutions across the value chains supported by our dedicated and agile teams.

As part of our commitment to enhancing premium services, we launched our new Savings Plus and Recurring Deposit Accounts, offering customers flexible savings solutions. The 'Because You Deserve More' campaign exemplified this approach, providing tangible benefits such as cashback incentives, fee waivers, competitive loan rates, and exclusive lifestyle offers through the Sohar International Entertainer application.

We also introduced the Visa Airport Companion Application to deliver added convenience for travelling customers. Additionally, seasonal campaigns such as the summer promotion enhanced card-related offerings, providing exclusive rewards and benefits designed to elevate the customer experience.

The introduction of the Platinum Credit Card offers exclusive privileges alongside advanced features such as contactless payment capabilities and compatibility with Apple Pay and Samsung Wallet. Competitive auto finance campaigns and attractive housing profit rates reinforce our commitment to making financial solutions more accessible and affordable.

Further strengthening our position as a leading provider of tailored Sharia-compliant financial solutions we expanded Sohar Islamic's branch network with nine new locations and expanded its product portfolio to better serve our customers.

## ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

At Sohar International we are focused on integrating ESG into our business strategy and responding to the ever-increasing requirements by stakeholders. This includes supporting the Sultanate of Oman's increasing focus and requirements on economic diversification and transitioning to a low carbon economy.

Our commitment is reflected in the robust ESG Framework in place, focused on key material areas for the Bank, enabling the transition to a sustainable future, embedding responsible business operations, and empowering and developing employees, customers and communities.

In 2024, we moved our focus to implementation of our ESG framework which has included rollout of ESG awareness training to all employees, preparing a detailed environmental footprint for all banking operations; and development of our first ESG Report.

We have continued to play a key role in identifying solutions for Oman through our involvement in events such as Oman Sustainability Week (Sustainable Finance Partner) and developing a partnership with Nafath Renewable Energy to bring solar solutions to market for our retail customers. In addition, we have proudly supported large transactions in relation to green steel; green hydrogen; solar and other energy efficiency projects.

We remain dedicated to supporting inclusive growth through strategic initiatives such as our partnership with Sharakah and youth empowerment programs. Our commitment extends to youth empowerment through sports, exemplified by our role as the Official Bank Sponsor for IRONMAN 70.3 Muscat 2025 and the exclusive banking partner for the Socca World Cup 2024.

## SERVING THE NATION

Sohar International plays a pivotal role in driving Oman's growth through impactful partnerships and initiatives, reinforcing our commitment to social development and sustainability with multiple Memorandums of Understandings (MoU) signed that support key programs across various sectors.

A MoU with the Down Syndrome Association supported crucial initiatives, including the development of a comprehensive database, water therapy programs, and the provision of assistive technology for children with special needs.

We also partnered with the Al Noor Association for the Blind to train visually impaired Omanis, enhancing their employability and fostering inclusion.
Our collaboration with the Association of Early Intervention introduced Oman's first Applied Behaviour Analyst Technician (ABAT) training program, equipping professionals with the skills needed to support children with developmental challenges.

In collaboration with Sharakah, we launched a training program to empower Omani female entrepreneurs and foster innovation within the SME sector. Through our partnership with Takaful Sohar, we provided essential household items to low-income families, helping to ease financial burdens.

These initiatives complemented efforts in youth empowerment, education, sponsorship of major sporting events and environmental sustainability, reinforcing the Bank's role in Oman's socioeconomic progress and commitment to a sustainable future.

## SERVING EMPLOYEES

We prioritized the personal and professional growth of our staff by launching a Digital Academy, an e-learning platform designed to enhance employee skills. In addition, we invested in over 2,500 learning hours and facilitated 1,300 training days through initiatives such as the Leadership Program and a diverse range of professional and job-specific development courses, delivering a total of 110 unique training programs.

To foster collaboration and engagement we introduced new internal communication channels, including an intranet and WhatsApp platform, to enhance connectivity across the organization.

## AWARDS AND ACCOLADES

Sohar International continues to set new standards of excellence in Oman's banking sector, earning over 18 prestigious awards in 2024. These accolades reflect our commitment to business excellence, digital innovation, operational excellence, and transformative contributions to the financial ecosystem.

The Bank earned distinguished awards, including Oman's Best Bank (Euromoney Awards for Excellence, UK), Best Bank – Large Bank Category (Oman Banking & Finance Awards 2025, Oman), and Bank of the Year – Oman (The Banker, UK). Our commitment to digital innovation was celebrated with titles such as Most Innovative Digital Bank for Ecosystem Services – Oman 2023 (The Annual Global Economics Awards, UK) and Best Mobile App Oman 2024 (World Business Outlook Annual Awards, Singapore).

In corporate and government banking, Sohar International received the Best Corporate Banking Oman 2024 award (Global Business Review Magazine, UAE) and the Best Government & Private Banking Bank in Oman 2024 accolade (International Business Magazine, UAE). Operational excellence was recognized through JP Morgan's Straight Through Processing Awards (MT202 and MT103) (USA).

The Bank’s leadership in sustainability and branding was reaffirmed with Oman's Best Bank for ESG award (Euromoney Awards for Excellence, UK) and Top Omani Brand in the Banking Sector Award (Alam Al Iktisaad Magazine, Oman). Furthermore, Sohar International was honoured with the ‘Exemplary CSR Leadership’ award at the Oman CSR Summit and Awards 2024, reinforcing our commitment to CSR and human development. These recognitions demonstrate our unwavering dedication to excellence across all facets of banking and corporate responsibility.

## RECOGNITION

It is with great pride that I express on behalf of Sohar International my sincere congratulations to our former CEO, His Excellency Ahmed Al Musalmi, on his appointment by His Majesty Sultan Haitham bin Tarik as Governor of the Central Bank of Oman. His Excellency’s vision, dedication and passion for excellence has transformed Sohar International to be the leading Bank in Oman.

I congratulate Mr. Abdul Wahid Mohamed Al Murshidi, our Chief Islamic Banking Officer, on his appointment as Acting Chief Executive Officer and look forward to the Bank’s continued success under his leadership.

My profound appreciation to our stakeholders, who have consistently bestowed upon us the highest degree of faith in support of our transformative journey. The continued dedication with which our employees have embraced and aligned themselves with the organisational values has been instrumental to our success.

The strong governance, transparency, and leadership exemplified by the Central Bank of Oman and the Financial Services Authority continue to play a pivotal role in helping us achieve new levels of excellence.

On behalf of the Board of Directors and our employees, I convey my sincere gratitude to His Majesty Sultan Haitham bin Tarik, whose visionary leadership has propelled Oman towards significant socio-economic progress and established a clear path for Oman's continued prosperity and growth.

**Said Mohamed Al-Aufi**
**Chairman**

## STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2024

| 31 December 2023 USD'000 | **31 December 2024 USD'000** | | Note | **31 December 2024 RO'000** | 31 December 2023 RO'000 |
|---|---|---|---|---|---|
| | | **ASSETS** | | | |
| 534,205 | **527,151** | Cash and balances with Central Bank | *6* | **202,953** | 205,669 |
| 1,693,517 | **1,459,039** | Due from banks | *7* | **561,730** | 652,004 |
| 4,444,629 | **5,503,971** | Investment securities | *8* | **2,119,029** | 1,711,182 |
| 10,184,914 | **11,090,410** | Loans, advances and Islamic financings (net) | *9* | **4,269,808** | 3,921,192 |
| 139,190 | **150,748** | Other assets | *10* | **58,038** | 53,588 |
| 7,532 | **7,532** | Investment properties | *11* | **2,900** | 2,900 |
| 196,288 | **193,153** | Property and equipment | *12* | **74,364** | 75,571 |
| 173,023 | **186,829** | Intangible assets | *13* | **71,929** | 66,614 |
| 17,373,298 | **19,118,833** | **TOTAL ASSETS** | | **7,360,751** | **6,688,720** |
| | | **LIABILITIES** | | | |
| 1,756,156 | 1,481,332 | Due to banks | 14 | 570,313 | 676,120 |
| 13,254,662 | 15,005,299 | Customer deposits | 15 | 5,777,040 | 5,103,045 |
| 279,170 | 298,940 | Other liabilities | 16 | 115,092 | 107,481 |
| 15,289,988 | **16,785,571** | **TOTAL LIABILITIES** | | **6,462,445** | 5,886,646 |
| | | **SHAREHOLDERS' EQUITY** | | | |
| 1,458,629 | **1,824,696** | Share capital | *17* | **702,508** | 561,572 |
| 46,852 | **46,852** | Share premium | *17* | **18,038** | 18,038 |
| 116,649 | **145,195** | Legal reserve | *18* | **55,900** | 44,910 |
| (14,356) | **(17,234)** | Other reserves | *19* | **(6,635)** | (5,527) |
| 215,795 | **333,753** | Retained earnings | | **128,495** | 83,081 |
| 1,823,569 | **2,333,262** | **TOTAL SHAREHOLDERS' EQUITY** | | **898,306** | 702,074 |
| 259,741 | - | Perpetual tier 1 capital securities | *20* | - | 100,000 |
| 2,083,310 | **2,333,262** | **TOTAL EQUITY** | | **898,306** | 802,074 |
| 17,373,298 | **19,118,833** | **TOTAL LIABILITIES AND EQUITY** | | **7,360,751** | 6,688,720 |
| 1,750,299 | **1,473,865** | **CONTINGENT LIABILITIES** | *21.a* | **567,438** | 673,865 |
| 2,541,112 | **2,278,478** | **COMMITMENTS** | *21.b* | **877,214** | 978,328 |
| Cents | **Cents** | | | **Baisa** | Baisa |
| 33.4 | **35.3** | **Net assets per share** | *23* | **135.8** | 128.4 |

These financial statements were approved and authorised for issue by the Board of Directors on 28 January 2025 and signed on their behalf by:

*Chairman* *Board member*

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

## STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 31 DECEMBER 2024

| 31 December 2023 | **31 December 2024** | | | **31 December 2024** | 31 December 2023 |
|---|---|---|---|---|---|
| USD'000 | **USD'000** | | Note | **RO'000** | RO'000 |
| 623,719 | **816,774** | Interest income | *24* | **314,458** | 240,132 |
| (316,047) | **(375,112)** | Interest expense | *25* | **(144,418)** | (121,678) |
| 307,672 | **441,662** | **Net interest income** | | **170,040** | 118,454 |
| 19,286 | **28,449** | Net income from Islamic financing and investing activities | *26* | **10,953** | 7,425 |
| 97,475 | **166,112** | Other operating income | *27* | **63,953** | 37,528 |
| 424,434 | **636,223** | **TOTAL OPERATING INCOME** | | **244,946** | 163,407 |
| (116,634) | **(152,018)** | Staff costs | | **(58,527)** | (44,904) |
| (72,790) | **(90,800)** | Other operating expenses | *28* | **(34,958)** | (28,024) |
| (10,390) | **(12,790)** | Depreciation | *12* | **(4,924)** | (4,000) |
| (199,814) | **(255,608)** | **TOTAL OPERATING EXPENSES** | | **(98,409)** | (76,928) |
| 224,621 | **380,615** | **NET OPERATING INCOME BEFORE IMPAIRMENT PROVISIONS** | | **146,537** | 86,479 |
| 238,314 | **23,984** | Gain on bargain purchase | *40* | **9,234** | 91,751 |
| (272,906) | **(98,338)** | Loan impairment charges and other credit risk provisions (net) | *29* | **(37,860)** | (105,069) |
| 190,029 | **306,261** | **PROFIT BEFORE TAX** | | **117,911** | 73,161 |
| (7,340) | **(46,052)** | Income tax expense | *30.a* | **(17,730)** | (2,826) |
| 182,689 | **260,209** | **PROFIT FOR THE YEAR** | | **100,181** | 70,335 |
| | | **Items that will not be reclassified to profit and loss** | | | |
| (1,065) | **(2,878)** | Revaluation loss on equity instruments held at fair value through other comprehensive income (FVOCI) | | **(1,108)** | (410) |
| (1,065) | **(2,878)** | **OTHER COMPREHENSIVE LOSS FOR THE YEAR** | | **(1,108)** | (410) |
| 181,623 | **257,331** | **TOTAL COMPREHENSIVE INCOME FOR THE YEAR NET OF INCOME TAX** | | **99,073** | 69,925 |
| 181,623 | **257,331** | **TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT COMPANY** | | **99,073** | 69,925 |
| 182,688 | **260,209** | **PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT COMPANY** | | **100,181** | 70,335 |
| Cents | **Cents** | | | Baisa | Baisa |
| 1.97 | **4.42** | **Basic and diluted earnings per share for the year** | *31* | **17.02** | 7.60 |

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

## STATEMENT OF CHANGES IN EQUITY
### FOR THE YEAR ENDED 31 DECEMBER 2024

| (RO'000) | Note | Share capital | Share premium | Legal reserve | Other reserves | Retained earnings | TOTAL SHAREHOLDERS' EQUITY | Perpetual tier 1 capital securities | TOTAL EQUITY |
|---|---|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2024** | | **561,572** | **18,038** | **44,910** | **(5,527)** | **83,081** | **702,074** | **100,000** | **802,074** |
| Profit for the year | | - | - | - | - | **100,181** | **100,181** | - | **100,181** |
| Other comprehensive income for the year | | - | - | - | **(1,108)** | - | **(1,108)** | - | **(1,108)** |
| **Total comprehensive income for the year, net of income tax** | | - | - | - | **(1,108)** | **100,181** | **99,073** | - | **99,073** |
| Transfer to legal reserve | *18* | - | - | **10,018** | - | **(10,018)** | - | - | - |
| **Transaction with equity holders of the Bank:** | | | | | | | | | |
| Issue of ordinary shares | *17* | **130,000** | - | - | - | - | **130,000** | - | **130,000** |
| Issue of bonus shares | *17* | **10,936** | - | - | - | **(10,936)** | - | - | - |
| Dividend paid for the year 2023 | | - | - | - | - | **(30,073)** | **(30,073)** | - | **(30,073)** |
| Perpetual tier 1 interest paid | *20* | - | - | - | - | **(3,740)** | **(3,740)** | - | **(3,740)** |
| Rights issue expenses surplus | | - | - | **972** | - | - | **972** | - | **972** |
| Repayment of perpetual tier 1 capital securities | | - | - | - | - | - | - | **(100,000)** | **(100,000)** |
| **Balance as at 31 December 2024** | | **702,508** | **18,038** | **55,900** | **(6,635)** | **128,495** | **898,306** | - | **898,306** |
| Balance as at 31 December 2024 (USD'000s) | | 1,824,696 | 46,852 | 145,195 | (17,234) | 333,753 | 2,333,262 | - | 2,333,262 |

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## STATEMENT OF CHANGES IN EQUITY
### FOR THE YEAR ENDED 31 DECEMBER 2024
### (RO'000)

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

The accompanying notes 1 to 42 form an integral part of these financial statements

## STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2024

| 31 December 2023 USD'000 | **31 December 2024 USD'000** | **OPERATING ACTIVITIES** | **Note** | **31 December 2024 RO'000** | 31 December 2023 RO'000 |
|---|---|---|---|---|---|
| 190,029 | **306,261** | Profit before tax | | **117,911** | 73,161 |
| | | Adjustments for: | | | |
| 10,390 | **12,790** | Depreciation | 12 | **4,924** | 4,000 |
| 4,408 | **14,410** | Amortisation of intangible asset | 13 | **5,548** | 1,697 |
| 272,906 | **98,338** | Loan impairment charges and other credit risk provisions (net) | 29 | **37,860** | 105,069 |
| 4,514 | **(1,361)** | Unrealized (gain) / loss from investments held at FVTPL | 27 | **(524)** | 1,738 |
| (238,314) | **(23,984)** | Gain on bargain purchase | 40 | **(9,234)** | (91,751) |
| 243,933 | **406,455** | **Cash from operating activities before changes in operating assets and liabilities** | | **156,485** | 93,914 |
| (285,109) | **100,400** | Due from banks | | **38,654** | (109,767) |
| 114,810 | **(1,001,340)** | Loans, advances and Islamic financings (net) | | **(385,516)** | 44,202 |
| 223,031 | **(9,273))** | Other assets | | **(3,570)** | 85,867 |
| 58,906 | **(274,823)** | Due to banks | | **(105,807)** | 22,679 |
| 2,298,951 | **1,750,636** | Customer deposits | | **673,995** | 885,096 |
| (190,387) | **(27,808)** | Other liabilities | | **(10,706)** | (73,299) |
| 2,464,135 | **944,247** | **Cash from operating activities** | | **363,535** | 948,692 |
| (8,834) | **(774)** | Income tax paid | | **(298)** | (3,401) |
| 2,455,301 | **943,473** | **Net cash from operating activities** | | **363,237** | 945,291 |
| | | **INVESTING ACTIVITIES** | | | |
| (161,039) | **(198,608)** | Purchase of investment securities | | **(76,464)** | (62,000) |
| 262,639 | **300,670** | Proceeds from sale/maturity of investment securities | | **115,758** | 101,116 |
| (22,855) | **(16,504)** | Purchase of property and equipment | 12 | **(6,354)** | (8,799) |
| 2,043,790 | - | Cash and cash equivalents received from business combination | | - | 786,859 |
| (644,525) | - | Merger consideration | 40 | - | (248,142) |
| 1,478,010 | **85,558** | **Net cash from investing activities** | | **32,940** | 569,034 |
| | | **FINANCING ACTIVITIES** | | | |
| (53,649) | **(78,112)** | Dividends paid | | **(30,073)** | (20,655) |
| - | **337,662** | Rights issue of ordinary shares | | **130,000** | - |
| - | **2,525** | Rights issue expenses surplus | | **972** | - |
| - | **(259,740)** | Redemption of perpetual tier 1 capital securities | | **(100,000)** | - |
| (1,260) | - | Repayment of subordinated loans on maturity | | - | (485) |
| (19,481) | **(9,714)** | Interest paid on perpetual tier 1 capital securities | | **(3,740)** | (7,500) |
| (74,390) | **(7,379)** | **Net cash used in financing activities** | | **(2,841)** | (28,640) |
| 3,858,921 | **1,021,652** | **NET CHANGE IN CASH AND CASH EQUIVALENTS** | | **393,336** | 1,485,685 |
| 1,182,987 | **5,041,909** | **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | **1,941,135** | 455,450 |
| 5,041,908 | **6,063,561** | **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **2,334,471** | 1,941,135 |
| | | **Represented by:** | | | |
| 532,888 | **525,834** | Cash and available balance with Central Bank | 6 | **202,446** | 205,162 |
| 1,336,410 | **1,202,311** | Due from banks with original maturity (OM) of 90 days or less | | **462,890** | 514,518 |
| 3,172,610 | **4,335,416** | Investment securities with OM of 90 days or less | 8.2 | **1,669,135** | 1,221,455 |
| 5,041,908 | **6,063,561** | | | **2,334,471** | 1,941,135 |

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

## NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024

**1. Legal status and principal activities**

**1.1 Sohar International Bank SAOG**

Sohar International Bank SAOG ("the Bank" or "Parent Company"), formerly Bank Sohar SAOG, was established in the Sultanate of Oman on 4 March 2007 as a public joint stock company and is primarily engaged in commercial, investment and Islamic banking through a network of 54 commercial banking branches and 20 Islamic banking branches within the Sultanate of Oman. The Bank operates under commercial, investment and an Islamic banking licence issued by the Central Bank of Oman (CBO) and is covered by its deposit insurance scheme. The Bank started commercial operations from 9 April 2007. The registered address of the Bank is PO Box 44, Hai Al Mina, Postal Code 114, Muscat, Sultanate of Oman. The Bank has its primary listing on the Muscat Stock Exchange.

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

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

The merger by incorporation with HSBC Bank Oman SAOG ("HBON") was completed as of 17th August 2023 (merger date). The merger resulted in all of HBON's rights, obligations, assets (including contracts and employees) and liabilities transferring to the Bank by operation of law.

As at 31 December 2024, the Bank operated in 2 countries (31 December 2023: 1 country) and employed 1,548 employees (31 December 2023: 1,548).

**2. Basis of preparation**

**2.1 Statement of compliance**

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB), and in compliance with applicable requirements of the Commercial Companies Law of Oman 2019 and disclosure requirements of the Financial Services Authority of the Sultanate of Oman and the applicable regulations of the CBO.

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

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

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

**2.2 Basis of measurement**

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

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

The statement of financial position is presented in descending order of liquidity.

**2.3 Functional and presentation currency**

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

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

# NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024

**2. Basis of preparation (continued)**

**2.4 Use of estimates and judgements**

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

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

**2.5 Going concern**

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

**2.6 Business combinations**

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

In accordance with IFRS 3, the Bank initiated in 2023 an independent Purchase Price Allocation (PPA) review of the fair values of the identifiable assets and liabilities acquired relative to the total consideration paid to identify any intangible assets, changes in fair values, or other adjustments which had not been identified at the merger date and which should be reflected as goodwill or an adjustment to any gain on bargain purchase already recognised. The provisional results of this PPA review are reflected in the financial statements for the year ended 31 December 2023. In accordance with IFRS 3 the Bank may recognise PPA adjustments within 12 months of the merger date.

The Bank has recognised in the financial statements for the year ended 31 December 2024, within the 12-month provisional period, an additional gain on bargain purchase.

IFRS 3 requires that adjustments to provisional amounts should be recognised retrospectively if they relate to facts and circumstances existing at the acquisition date. Such adjustments would normally necessitate the restatement of comparative information for prior periods. The Bank's management have decided not to restate prior year financial statements having considered all aspects of the potential implications of restatement noting that there is no impact on the Bank's shareholders' equity or any of the Bank's capital ratios as of 31 December 2024. The Bank has made comprehensive disclosure in Note:40 regarding the impact on the Bank's financial statements for the year ended 31 December 2023 had the 2024 PPA adjustment been recognised in the prior year.

**3. Application of new and revised International Financial Reporting Standards (IFRS)**

**3.1 Standards, amendments and interpretations to IFRS effective in 2024**

Below are the changes to the accounting Standards that are required to be applied by an entity with an annual reporting period beginning on 1 January 2024.

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

- Non-current Liabilities with Covenants (Amendments to IAS 1)
- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)
- Lease Liability in a sale and Lease back – Amendments to IFRS 16
- Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7).

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

## NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024

**3 Application of new and revised International Financial Reporting Standards (IFRS) (continued)**

**3.1 Standards, amendments and interpretations to IFRS effective in 2024 (continued)**

The following are the recent changes to Accounting Standards that are required to be applied for annual periods beginning after 1 January 2024 and that are available for early adoption in annual periods beginning on 1 January 2024:

- Lack of Exchangeability (Amendments to IAS 21) [effective from 1 January 2025]
- Classification and Measurement of Financial Instruments – Amendments to IFRS 9 and IFRS 7 [effective from 1 January 2026]
- IFRS 18 Presentation and Disclosures in Financial Statements [effective from 1 January 2027]
- IFRS 19 Subsidiaries without Public Accountability [effective from 1 January 2027]
- Sale or Contribution of Assets between an Investor and its Associates or Joint Venture (Amendments to IFRS 10 and IAS 28)

The Bank has not early adopted these amendments listed above which are not expected to have any significant impact on the Bank's financial statements of future periods.

**3.2 Accounting standards issued but not yet effective**

A number of new accounting standards and amendments to accounting standards are effective for annual periods beginning after 1 January 2024 and earlier application is permitted. However, the Bank has not early adopted the new and amended accounting standards in preparing these financial statements.

**3.2a Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7)**

In May 2024, the International Accounting Standards Board (IASB) issued Amendments to the classification and Measurement of Financial Instruments which amended IFRS 9 and IFRS 7.

The requirements will be effective for annual .reporting periods beginning on or after 1 January 2026, with early application permitted, and are related to:

- settling financial liabilities using electronic payments system; and
- assessing contractual cash flow characteristics of financial assets, including those with sustainability-linked features.

The Bank is in the process of assessing the impact of the new amendments.

**3.2b IFRS 18 Presentation and Disclosures in Financial Statements**

IFRS 18 will replace IAS 1 Presentation of Financial Statements and applies for annual reporting periods beginning on or after 1 January 2027. The new standard introduces the following key new requirements.

- Entities are required to classify all income and expenses into five categories in the statement of profit or loss, namely the operating, investing, financing, discontinued operations and income tax categories. Entities are also required to present a newly-defined operating profit subtotal. Entities' net profit will not change.
- Management-defined performance measures (MPMs) are disclosed in a single note in the financial statements.
- Enhanced guidance is provided on how to group information in the financial statements.

In addition, all entities are required to use the operating profit subtotal as the starting point for the statement of cash flows when presenting operating cash flows under the indirect method.
The Bank is still in the process of assessing the impact of the new standard, particularly with respect to the structure of the Bank's statement of profit or loss, the statement of cash flows and the additional disclosures required for MPMs. The Bank is also assessing the impact on how information is grouped in the financial statements, including for items currently labelled as 'other'.

**3.2c. Other accounting standards**

The Lack of Exchangeability (Amendments to IAS 21) is not expected to have a significant impact on the Bank's financial statements.

**3.3 ECL provisions and management overlays**

The Bank continues to assess borrowers for other indications of default, taking into consideration the underlying cause of any financial difficulty and whether it is likely to be temporary or of a longer-term nature. The Bank continues to assess significant corporate exposures impacted by macro-economic events and geo-political factors in addition to those corporates experiencing industry specific financial stress. Similarly, for retail exposures the Bank considers the impact on employees working for industry sectors under financial stress.
Assessing future economic conditions and the potential adverse impact on customers is highly judgmental. The Bank continues to assess on a regular basis the adequacy of its ECL provisioning guided by CBO regulations as well as standards issued by the IASB.
The Bank has included within its loan impairment charges and other credit risk provisions (net) a significant element of management overlay, adopting prudence and being proactive, in considering potential impacts of circumstances such as lag effect of past increases in interest rates on borrowers, increasing global and regional geopolitical events and applying expert credit judgement in relation to other evolving credit risks not reflected within its standard credit models.

## NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024

**3 Application of new and revised International Financial Reporting Standards (IFRS) (continued)**

**3.3 ECL provisions and management overlays (continued)**

**Accounting for modification loss:**

For both corporate and retail customers, the Bank has added the simple interest accrued during the deferral period (DP) to the principal outstanding and either extended the original maturity period of the loan or increased the instalments at the end of the DP. The Bank has determined that the modifications due to deferment of instalment and waiver of profit allowed in line with CBO relaxation measures do not result in de-recognition of financial assets. Further, the impact of day one modification loss was not considered material for the year.

### 4. Material accounting policies

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

#### 4.1 Foreign currency transactions and balances

Transactions in foreign currencies are translated into functional currency at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gains or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for the effective interest and payments during the period, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the period. The non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date the fair value was determined.

Foreign currency differences arising on retranslation are recognised in the statement of comprehensive income, except for non-monetary financial assets, such as equities classified as fair value through other comprehensive income, which are included in other comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

#### 4.2 Revenue and expense recognition

#### 4.2a Interest income and expense

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

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

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

For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

#### 4.2b Fair value gains and losses

Fair value changes on derivatives held for risk management purposes and FVOCI are presented in other comprehensive income.
Net income from financial assets measured at FVTPL, including all realised and unrealised fair value changes, interest, dividend and foreign exchange differences are presented in the income statement for the year.

#### 4.2c Dividend income

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

## NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024

**4. Material accounting policies (continued)**

**4.2d Fees and commission**

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

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

Other fees and commission income including account or loan servicing fees, advisory fee, investment management fees and sales commission are recognised as the related services are performed. Loan syndication fees are recognised as income when the syndication has been completed, and the Bank retains no part of the loan package for itself or retains a part of the same effective interest rate as for the other participants. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight-line basis.

**4.2e Provisions**

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

**4.2f Offsetting of income and expense**

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

**4.3 Financial instruments**

**4.3a Date of recognition and initial measurement**

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

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

**4.3b Day 1 profit or loss**

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

**4.3c Measurement categories of financial assets and liabilities**

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024

**4. Material accounting policies (continued)**

**4.3 Financial instruments (continued)**

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

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

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

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

The details of these conditions are outlined below.

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

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

- *Business model assessment*

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

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

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

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

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024

**4. Material accounting policies (continued)**

**4.3 Financial instruments (continued)**

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

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

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

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

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

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

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

Embedded derivatives:

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

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

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

*(iii) Debt instruments at FVOCI*

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

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

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

- Interest revenue using the effective interest method.
- Expected credit loss (ECL) and reversals; and
- Foreign exchange gains and losses.

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

## NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024

**4. Material accounting policies (continued)**

**4.3 Financial instruments (continued)**

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

*(iv) Equity instruments at FVOCI*

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

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

*(v) Debt issued and other borrowed funds*

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

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

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

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

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

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

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

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

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

*(viii) Financial liabilities*

A financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. Under IFRS 9 fair value changes are generally presented as follows:

• The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and

• The remaining amount of change in the fair value is presented in profit or loss.

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

## NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024

**4. Material accounting policies (continued)**

**4.3 Financial instruments (continued)**

**4.3d De-recognition**

*(i) Financial assets*

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

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

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

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

*(ii) Financial liabilities*

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

**4.3e Offsetting of financial assets and financial liabilities**

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

**4.3f Impairment of financial assets**

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

- Financial assets that are debt instruments.
- Financial guarantee contracts issued.
- Loan commitments issued.

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

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

*(i) Measurement of ECL*

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

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

## NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024

**4. Material accounting policies (continued)**

**4.3 Financial instruments (continued)**

**4.3f Impairment of financial assets (continued)**

*(ii) Overview of the ECL principles*

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

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

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

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

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

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

**Stage 1**

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

**Stage 2**

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

**Stage 3**

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

**POCI:** An asset is considered credit-impaired if one or more events that have a detrimental impact on the estimated future cash flows of the asset have occurred.

**After initial recognition, the three stages under the proposals would be applied**:

Stage 1: Credit risk has not increased significantly since initial recognition – recognise 12m ECL.

Stage 2: Credit risk has increased significantly since initial recognition – recognise lifetime expected credit losses.

Stage 3: All credit facilities that are credit impaired either at origination or at reporting date i.e. having objective evidence of default/credit impaired.

**4. Material accounting policies (continued)**

**4.3 Financial instruments (continued)**

**4.3f Impairment of financial assets (continued)**

**Movement between the stages**

*(iii) The calculation of ECL*

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

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.
- EAD - The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest.
- LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Bank would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

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

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

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

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

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

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets.
- Loan commitments and financial guarantee contracts: generally, as a provision.
    - where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component, the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

*(v) Debt instruments measured at FVOCI*

Loss allowance is deducted from the fair value of debt instruments and booked in profit or loss account.

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

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

**4. Material accounting policies (continued)**

**4.3 Financial instruments (continued)**

**4.3f Impairment of financial assets (continued)**

*(vii) Credit cards and other revolving facilities*

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

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

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

*(viii) Forward looking information*

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

- Gross domestic product
- Savings and investment
- Inflation
- Trade statistics
- Demographics
- Revenue and expenditure
- Public debt
- Real estate
- Composite indicators
- Oil prices and production

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

*(ix) Collateral valuation*

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

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

*(x) Write-offs*

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

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

## NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024

**4. Material accounting policies (continued)**

**4.3 Financial instruments (continued)**

**4.3f Impairment of financial assets (continued)**

*(x) Write-offs (continued)*

- If the expected restructuring will not result in de-recognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

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

**4.3g Restructured financial assets**

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

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

**4.3h Amortised cost measurement**

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

**4.3i Fair value measurement**

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

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

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

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

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

**4. Material accounting policies (continued)**

**4.3 Financial instruments (continued)**

**4.3i Fair value measurement (continued)**

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

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

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

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

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

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

**4.3j Cash and cash equivalents**

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

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

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

**4.3k Acceptances**

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

**4.3l Derivatives held for risk management purposes**

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

*(i) Fair value hedge*

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

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

# NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024

**4. Material accounting policies (continued)**

**4.3 Financial instruments (continued)**

**4.3l Derivatives held for risk management purpose (continued)**

*(ii) Cash flow hedge*

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

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

*(iii) Other non-trading derivative*

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

**4.3m Reclassifications**

The Bank does not reclassify its financial assets after their initial recognition, except in the period after the Bank changes its business model for managing financial assets. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2024 (2023: Nil)

**4.3n Modifications of financial assets and liabilities**

*Financial assets*

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, the original financial asset is derecognised and a new financial asset is recognised at fair value. If the cash flows are not substantially different, then the modification does not result in de-recognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the statement of comprehensive income. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

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

*Financial liabilities*

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

**4.4 Property and equipment**

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

## NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024

**4. Material accounting policies (continued)**

**4.4 Property and equipment (continued)**

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

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

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

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

**4.5 Investment properties**

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

**4.6 Goodwill and acquired intangibles**

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

Intangibles acquired separately in a business combination are shown at fair value as at the date of acquisition. Following initial recognition, intangibles are further reduced by any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible asset are assessed to be either finite or indefinite. Intangibles with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangibles may be impaired. The amortisation period and amortisation method for intangibles with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embedded in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in an accounting estimate. The amortisation expense on intangibles with finite lives is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangibles.

The estimated useful life of the intangibles is 15 years.

**4.7 Deposits, debt securities issued and subordinated liabilities**

All money market and customer deposits are initially measured at fair value plus transaction cost and subsequently carried at amortised cost. Deposits, debt securities issued and subordinated liabilities are measured at their amortised cost using the effective interest method.
The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

**4.8 Taxation**

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024

**4. Material accounting policies (continued)**

**4.9 Leases**

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term. IFRS 16 results in accounting for most leases by a lessee within the scope of the standard in a manner like that in which finance leases were accounted for under IAS 17 'Leases'. Lessees recognise a 'right of use' asset and a corresponding financial liability. The right of use asset is amortised over the length of the lease, and the financial liability is measured at amortised cost. Lessor accounting remains substantially the same as under IAS 17. The Bank applied the IFRS 16 standard using a modified retrospective approach and therefore comparatives are not restated.

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

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

**4.10 Financial guarantees**

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

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was issued. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of initial measurement, less amortisation calculated to recognise in the statement of comprehensive income the fee income earned on the straight-line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management.
Any increase in the liability relating to guarantees is taken to the statement of comprehensive income. For ECL assessment on financial guarantees ref note 4.3f.

**4.11 Employee benefits**

**4.11a Terminal benefits**

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

**4.11b Short term benefits**

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

**4.11c Compensation Deferment Policy**

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

**4.12 Earnings per share**

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

**4. Material accounting policies (continued)**

**4.13 Dividends on ordinary shares**

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

Dividends for the year that are approved after the reporting date are disclosed as an event subsequent to balance sheet date.

**4.14 Segmental reporting**

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

**4.15 Directors' remuneration and sitting fees**

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

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

a) Will not exceed in total RO 300,000 where realised net profits equal or exceed the profits realised in the previous financial year and there is no accumulated losses or losses in the capital.
b) Will not exceed in total RO 150,000 where realised net profits are less than the profits realised in the previous financial year and no losses in the capital.

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

**4.16 Perpetual tier I capital securities**

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

**5. Critical accounting estimates and judgements**

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

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

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

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by several factors, changes in which can result in different Levels of allowances. The Bank's ECL calculations are outputs of complex models with a few underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns PD to the individual grades.
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment.
- The segmentation of financial assets when their ECL is assessed on a collective basis.
- Development of ECL models, including the various formulas and the choice of inputs.

## NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024

**5. Critical accounting estimates and judgements (continued)**

**5.1 Inputs, assumptions and techniques used for ECL calculation – IFRS 9 Methodology (continued)**

- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PD, EAD and LGD.
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

**5.2 Fair value of derivatives and other financial instruments**

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

**5.3 Fair value estimation of unquoted securities**

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

**5.4 Fee and commission income**

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

**5.5 Taxation**

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

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

**5.6 Determination of lease term**

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

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

## NOTES TO FINANCIAL STATEMENTS
### FOR THE YEAR ENDED 31 DECEMBER 2024
### (RO'000)

**6. Cash and balances with Central Bank**

| | 31 December 2024 | 31 December 2023 |
|---|---|---|
| Cash | **47,537** | 60,100 |
| Balance with CBO | **154,909** | 145,062 |
| | **202,446** | 205,162 |
| Capital deposit with CBO | **507** | 507 |
| | **202,953** | 205,669 |

(i) The capital deposit with CBO is restricted and cannot be withdrawn without CBO approval.

(ii) Average minimum balance to be kept with CBO as statutory reserves during the year is RO 194.6 million (2023: RO 163.9 million).

**7. Due from banks**

| | 31 December 2024 | 31 December 2023 |
|---|---|---|
| *Local currency:* | | |
| Money market placements | **121,160** | 90,281 |
| *Foreign currency:* | | |
| Money market placements | **395,188** | 404,024 |
| Demand balances | **45,873** | 158,195 |
| Gross carrying amount | **562,221** | 652,500 |
| Less: ECL provision | **(491)** | (496) |
| | **561,730** | 652,004 |

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

| | 31 December 2024 | | | | 31 December 2023 |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | Total |
| At 1 January | **652,500** | - | - | **652,500** | 103,946 |
| New assets originated or purchased | - | - | - | - | 548,554 |
| Assets derecognised or matured | **(90,278)** | - | - | **(90,278)** | - |
| **Gross carrying amount** | **562,222** | - | - | **562,222** | 652,500 |

| | 31 December 2024 | | | | 31 December 2023 |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | Total |
| At 1 January | **496** | - | - | **496** | - |
| Net impairment charge/(release) (Note: 29) | **(5)** | - | - | **(5)** | 496 |
| **ECL provision** | **491** | - | - | **491** | 496 |

## NOTES TO FINANCIAL STATEMENTS
### FOR THE YEAR ENDED 31 DECEMBER 2024
### (RO'000)

**8. Investment securities**

| | **31 December 2024** | 31 December 2023 |
|---|---|---|
| **Equity investments:** | | |
| Held at FVOCI | **21,276** | 1,885 |
| Held at FVTPL | **599** | 603 |
| **Total equity investments** | **21,875** | 2,488 |
| **Debt investments:** | | |
| **Held at FVTPL** | **37,682** | 91,314 |
| Held at FVOCI | **1,669,135** | 1,221,455 |
| Less: ECL provision | **-** | - |
| **Held at FVOCI (net)** | **1,669,135** | 1,221,455 |
| Held at amortised cost | **370,537** | 396,033 |
| Less: ECL provision | **(188)** | (108) |
| **Held at amortised cost (net)** | **370,349** | 395,925 |
| **Total debt investments** | **2,077,166** | 1,708,694 |
| **Total investment securities** | **2,119,029** | 1,711,182 |

**8.1 Held at FVTPL**

| | **31 December 2024** | 31 December 2023 |
|---|---|---|
| **Unquoted equity investment - Oman** | | |
| Service sector | **500** | 500 |
| **Quoted equity investments – Foreign** | | |
| Service sector | **99** | 103 |
| **Quoted debt investments – Oman** | | |
| Government development bonds (GDB) | **37,682** | 91,314 |
| | **38,281** | 91,917 |

## NOTES TO FINANCIAL STATEMENTS
### FOR THE YEAR ENDED 31 DECEMBER 2024
### (RO'000)

**8. Investment securities (continued)**

**8.2 Held at FVOCI**

| | **Carrying / fair value 31 December 2024** | **Cost 31 December 2024** | Carrying / fair value 31 December 2023 | Cost 31 December 2023 |
|---|---|---|---|---|
| **Quoted equity investments – Oman** | | | | |
| Service Sector | **8,224** | **9,726** | 1,386 | 1,777 |
| **Unquoted equity investments – Oman** | | | | |
| Service sector | **13,052** | **13,229** | 499 | 676 |
| **Total equity investments** | **21,276** | **22,955** | 1,885 | 2,453 |
| **Unquoted debt investments** (Original maturity of 90 days or less) | | | | |
| Treasury bills - Oman | **159,849** | **161,910** | 540 | 540 |
| Treasury bills - Foreign | **1,509,286** | **1,514,405** | 1,220,915 | 1,227,540 |
| | **1,669,135** | **1,676,315** | 1,221,455 | 1,228,080 |
| Sovereign sukuk (Quoted) - Oman | **19,988** | **19,988** | - | - |
| **Total debt investments** | **1,689,123** | **1,696,303** | 1,221,455 | 1,228,080 |
| | **1,710,399** | **1,719,258** | 1,223,340 | 1,230,533 |

USD Treasury bills of RO 354.2 million (31 December 2023: RO 354.2 million) are assigned as collateral against USD borrowings of RO 354.2 million (31 December 2023: RO 354.2 million).

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

| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | 31 December 2023 |
|---|---|---|---|---|---|
| As at 1 January 2024 | - | - | - | - | 438 |
| Net impairment release (Note: 29) | - | - | - | - | (438) |
| **At 31 December 2024** | - | - | - | - | - |

**8.3 Held at amortised cost**

| | **31 December 2024** | 31 December 2023 |
|---|---|---|
| **Quoted debt investments – Oman** | | |
| Government Development Bonds | **355,515** | 381,818 |
| Service sector | **9,286** | 14,215 |
| Treasury bills | **5,736** | - |
| | **370,537** | 396,033 |
| Less: ECL provision | **(188)** | (108) |
| | **370,349** | 395,925 |

## NOTES TO FINANCIAL STATEMENTS
**FOR THE YEAR ENDED 31 DECEMBER 2024**
**(RO'000)**

**8. Investment securities (continued)**

**8.3 Held at amortised cost (continued)**

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

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| At 1 January 2024 | **387,810** | **8,223** | **-** | **396,033** |
| Assets purchased/(sold) | **(25,496)** | **-** | **-** | **(25,496)** |
| **Gross carrying amount** | **362,314** | **8,223** | **-** | **370,537** |

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| At 1 January 2024 | **22** | **86** | **-** | **108** |
| Net impairment charge (Note: 29) | **75** | **5** | **-** | **80** |
| **ECL** | **97** | **91** | **-** | **188** |

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| At 1 January 2023 | 337,412 | 8,223 | - | 345,635 |
| Assets purchased/(sold) | 50,398 | - | - | 50,398 |
| Gross carrying amount | 387,810 | 8,223 | - | 396,033 |

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

# NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024
## (RO'000)

**9. Loans, advances and Islamic financings (net)**

| | **31 December 2024** | 31 December 2023 |
|---|---|---|
| Corporate | **3,224,445** | 2,809,678 |
| Retail | **1,392,215** | 1,398,703 |
| Gross loans, advances and Islamic financings | **4,616,660** | 4,208,381 |
| Less: ECL provision | **(274,961)** | (237,030) |
| Less: Contractual interest/profit not recognised | **(71,891)** | (50,159) |
| | **(346,852)** | (287,189) |
| | **4,269,808** | 3,921,192 |

Gross loans, advances and Islamic financings include RO 687.93 million (31 December 2023: RO 522.62 million) through Islamic financing activities.

**Loans, advances and Islamic financings (net) comprise:**

| | **31 December 2024** | 31 December 2023 |
|---|---|---|
| Loans | **4,004,756** | 3,628,890 |
| Overdrafts | **367,661** | 351,744 |
| Loans against trust receipts | **228,293** | 215,124 |
| Bills discounted | **15,950** | 12,623 |
| Gross loans, advances and Islamic financings | **4,616,660** | 4,208,381 |
| Expected credit loss allowance | **(274,961)** | (237,030) |
| Contractual interest/profit not recognised | **(71,891)** | (50,159) |
| | **(346,852)** | (287,189) |
| | **4,269,808** | 3,921,192 |

## NOTES TO FINANCIAL STATEMENTS
### FOR THE YEAR ENDED 31 DECEMBER 2024
### (RO'000)

**9. Loans, advances and Islamic financings (net) (continued)**

The analysis of changes in the gross carrying amount and corresponding ECL allowance is as follows:

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **At 1 January 2024** | **3,428,928** | **578,852** | **200,601** | **4,208,381** |
| New assets originated/additions | **686,939** | **33,255** | **13,743** | **733,937** |
| Assets derecognised or repaid | **(284,385)** | **(26,950)** | **(14,657)** | **(325,992)** |
| Loans (written off) / recovered (net) | - | - | **334** | **334** |
| Transfers to Stage 1 | **42,053** | **(39,387)** | **(2,666)** | - |
| Transfers to Stage 2 | **(135,526)** | **136,454** | **(928)** | - |
| Transfers to Stage 3 | **(16,614)** | **(6,013)** | **22,627** | - |
| **Gross carrying amount** | **3,721,395** | **676,211** | **219,054** | **4,616,660** |

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **At 1 January 2024** | **18,216** | **131,317** | **87,497** | **237,030** |
| Impairment charge (Note:29) | **2,234** | **33,605** | **16,460** | **52,299** |
| Impairment release | **(3,448)** | **(1,506)** | **(10,447)** | **(15,401)** |
| Net impairment charge / (release) (Note: 29) | **(1,214)** | **32,099** | **6,013** | **36,898** |
| Loans (written off) / recovered (net) | - | - | **1,033** | **1,033** |
| Transfers to Stage 1 | **2,432** | **(1,361)** | **(1,071)** | - |
| Transfers to Stage 2 | **(177)** | **309** | **(132)** | - |
| Transfers to Stage 3 | **(762)** | **(625)** | **1,387** | - |
| **ECL provision** | **18,495** | **161,739** | **94,727** | **274,961** |

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| At 1 January 2023 | 2,573,987 | 333,095 | 159,185 | 3,066,267 |
| Assets acquired | 738,722 | 389,613 | 42,590 | 1,170,925 |
| New assets originated or purchased | 434,768 | 87,765 | 9,736 | 532,269 |
| Assets derecognised or repaid | (154,318) | (382,832) | (10,148) | (547,298) |
| Loans (written off) / recovered (net) | - | - | (13,782) | (13,782) |
| Transfers to Stage 1 | 15,213 | (9,774) | (5,439) | - |
| Transfers to Stage 2 | (172,615) | 173,777 | (1,162) | - |
| Transfers to Stage 3 | (6,829) | (12,792) | 19,621 | - |
| Gross carrying amount | 3,428,928 | 578,852 | 200,601 | 4,208,381 |

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| At 1 January 2023 | 13,389 | 36,785 | 63,375 | 113,549 |
| Expected credit losses recognised | 14,850 | 85,400 | 33,857 | 134,107 |
| Recoveries from expected credit losses | (15,343) | (678) | (12,559) | (28,580) |
| Net impairment charge / (release) (Note: 29) | (493) | 84,722 | 21,298 | 105,527 |
| Loans (written off) / recovered (net) | - | - | (20,446) | (20,446) |
| ECL on acquired assets | 2,542 | 10,248 | 25,610 | 38,400 |
| Transfers to Stage 1 | 3,022 | (496) | (2,526) | - |
| Transfers to Stage 2 | (170) | 703 | (533) | - |
| Transfers to Stage 3 | (74) | (645) | 719 | - |
| ECL provision | 18,216 | 131,317 | 87,497 | 237,030 |

## NOTES TO FINANCIAL STATEMENTS
### FOR THE YEAR ENDED 31 DECEMBER 2024
### (RO'000)

**9. Loans, advances and Islamic financings (net) (continued)**

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

| | **31 December 2024** | 31 December 2023 |
|---|---|---|
| Contractual interest not recognised | | |
| Balance at beginning of year | **50,159** | 28,424 |
| Not recognised during the year | **22,696** | 29,877 |
| Written back due to recovery/write off | **(964)** | (8,142) |
| Balance at end of the year | **71,891** | 50,159 |

All loans, advances and Islamic financings require payment of interest, some at fixed rates and others at rates that reprice prior to maturity. Interest reserve account is maintained to comply with rules, regulations and guidelines issued by CBO on loans, advances and financings that are impaired. As of 31 December 2024, loans, advances and Islamic financings on which interest was not being accrued or where interest was reserved amounted to RO 219 million. (31 December 2023: RO 201 million).

Concentration of gross loans and advances by economic sector:

| | **31 December 2024** | 31 December 2023 |
|---|---|---|
| Personal | **1,392,215** | 1,410,506 |
| Services | **657,831** | 549,102 |
| Construction | **493,205** | 431,801 |
| Manufacturing | **470,246** | 391,170 |
| Wholesale and retail | **441,565** | 420,746 |
| Mining and quarrying | **271,113** | 171,115 |
| Electricity, gas and water | **245,755** | 160,611 |
| Government | **219,428** | 221,818 |
| International trade | **176,125** | 191,351 |
| Financial institutions | **103,643** | 126,961 |
| Transport and communication | **102,832** | 104,271 |
| Agriculture and allied activities | **23,160** | 13,344 |
| Non – resident | **11,580** | 11,453 |
| Other | **7,962** | 4,132 |
| | **4,616,660** | 4,208,381 |

**10. Other assets**

| | **31 December 2024** | 31 December 2023 |
|---|---|---|
| Acceptances | **21,200** | 28,956 |
| Prepayments | **2,128** | 1,926 |
| Receivables | **10,279** | 10,118 |
| Positive fair value of derivatives (Note: 36.2) | **268** | 1,432 |
| Others | **24,163** | 11,156 |
| | **58,038** | **53,588** |

**NOTES TO FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 31 DECEMBER 2024**
**(RO'000)**

**11. Investment properties**

Investment properties represent two vacant plots of land granted by the Government of Sultanate of Oman in 2008. The estimated fair value as at 31 December 2024 is in line with the carrying value.

**12. Property and equipment**

| | Freehold land & Buildings | Software | Furniture and fixtures | Office equipment | Motor vehicles | Right-to-use assets | Capital work –in-progress | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | | |
| 1 January 2024 | **51,265** | **29,481** | **23,659** | **15,504** | **1,178** | **20,968** | **10,526** | **152,582** |
| Additions/(disposals) | - | **2,881** | **387** | **275** | - | **2,811** | - | **6,353** |
| Transfers | - | **2,351** | - | - | - | - | **(2,351)** | - |
| **As at 31 December 2024** | **51,265** | **34,713** | **24,046** | **15,780** | **1,178** | **23,779** | **8,175** | **158,935** |
| **Accumulated depreciation:** | | | | | | | | |
| 1 January 2024 | **14,427** | **16,911** | **18,551** | **12,322** | **1,072** | **13,728** | - | **77,011** |
| Depreciation | **98** | **2,458** | **1,406** | **930** | **32** | - | - | **4,924** |
| Amortisation | - | - | - | - | - | **2,636** | - | **2,636** |
| **As at 31 December 2024** | **14,525** | **19,369** | **19,957** | **13,252** | **1,104** | **16,364** | - | **84,571** |
| ***Net book value as at 31 December 2024*** | **36,740** | **15,344** | **4,088** | **2,527** | **74** | **7,415** | **8,175** | **74,364** |

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

## NOTES TO FINANCIAL STATEMENTS
### FOR THE YEAR ENDED 31 DECEMBER 2024
### (RO'000)

**13. Intangible assets**

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

| | **31 December 2024** | 31 December 2023 |
|---|---|---|
| **Cost:** | | |
| 1 January 2024 | **68,311** | - |
| Assets acquired on business combination (Note: 40) | **10,863** | 68,311 |
| **As at 31 December 2024** | **79,174** | 68,311 |
| **Amortisation:** | | |
| **1 January 2024** | **1,697** | - |
| Amortisation during the period (Note: 28) | **5,548** | 1,697 |
| | **7,245** | 1,697 |
| **Net book value as at 31 December 2024** | **71,929** | 66,614 |

**14. Due to banks**

| | **31 December 2024** | 31 December 2023 |
|---|---|---|
| *Local currency:* | | |
| Money market borrowings | **-** | 17,082 |
| Demand balances | **31,723** | 49,934 |
| | **31,723** | 67,016 |
| *Foreign currency:* | | |
| Money market borrowings | **500,905** | 574,690 |
| Demand balances | **37,685** | 34,414 |
| | **538,590** | 609,104 |
| | **570,313** | 676,120 |

Foreign currency money market borrowings include bank borrowings amounting to RO 354.2 million (December 2023: RO 354.2 million) with underlying collateral in the form of USD Treasury bills of RO 354.2 million (December 2023: RO 354.2 million).

**15. Customer deposits**

| | **31 December 2024** | | | 31 December 2023 | | |
|---|---|---|---|---|---|---|
| | **Conventional banking** | **Islamic banking** | **Total** | Conventional banking | Islamic banking | Total |
| Demand deposits | **2,682,958** | **174,128** | **2,857,086** | 2,536,020 | 123,265 | 2,659,285 |
| Term deposits | **1,522,152** | **310,412** | **1,832,564** | 1,253,587 | 277,561 | 1,531,148 |
| Saving deposits | **863,053** | **210,794** | **1,073,847** | 736,699 | 103,730 | 840,429 |
| Margin accounts | **11,416** | **2,127** | **13,543** | 69,925 | 2,258 | 72,183 |
| **Total** | **5,079,579** | **697,461** | **5,777,040** | 4,596,231 | 506,814 | 5,103,045 |

# NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024
## (RO'000)

### 16. Other liabilities

| | Note: | 31 December 2024 | 31 December 2023 |
|---|---|---|---|
| Other accruals and provisions | | **45,049** | 47,482 |
| Income tax provision | *30.b* | **24,515** | 6,178 |
| Acceptances | | **21,200** | 28,956 |
| Deferred tax liability (net) | *30.c* | **11,608** | 10,893 |
| Staff entitlements | | **3,312** | 3,499 |
| Lease liability on right-of-use assets | | **7,013** | 5,736 |
| ECL provision on loan commitments financial guarantees & acceptances | | **1,754** | 1,572 |
| Negative fair value of derivatives | *36.2* | **641** | 3,165 |
| | | **115,092** | 107,481 |
| *Staff entitlements:* | | | |
| End of service benefits | | **1,515** | 1,429 |
| Other liabilities | | **1,797** | 2,070 |
| | | **3,312** | 3,499 |
| *Movement in the end of service benefits liability* | | | |
| At 1 January | | **1,429** | 595 |
| Expenses recognised in the profit or loss | | **368** | 1,410 |
| End of service benefits paid | | **(282)** | (576) |
| | | **1,515** | 1,429 |

### 17. Share capital and share premium

The authorised share capital of the Bank is RO 1 billion (31 December 2023: RO 1 billion). The issued shares of the Bank are 6,617,246,270 shares (31 December 2023: 5,467,888,500 shares) The fully paid-up capital of the Bank is RO 702.508 million (31 December 2023: RO 561.572 million).

In the Annual General Meeting held on 28 March 2024, the shareholders approved the distribution of bonus shares at the rate of 1.95% of the Bank's paid up capital amounting to RO 10,935,777. The number of bonus shares issued to shareholders was 2 shares for every 100 shares held, resulting in an increase in the issued shares of 109,357,770.

On 24 November 2024, the Bank completed the issuance of 1,040,000,000 shares through rights issue to its existing shareholders at a price of 127 baisa per share, including 2 baisa per share to cover the rights issue expenses, resulting in an increase in paid up capital of RO 130 million.

As at 31 December 2024, the following shareholders held 10% or more of the Bank's capital, either individually or together with related parties:

| | *Number of shares* | *% Holding* |
|---|---|---|
| The Royal Court of Affairs | 1,284,118,732 | 19.41 |
| Oman Investment & Finance Co SAOG | 868,136,341 | 13.12 |

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

### 17.a Proposed dividend

For the year ended 31 December 2024 the Board of Directors propose a cash dividend of 8 baisa per share amounting to RO 52.94 million (31 December 2023: cash dividend of 5.5 baisa per share amounting to RO 30.07 million and bonus shares of 2 baisa per share amounting to RO 10.94 million). The proposed dividend is subject to approval of the shareholders at the Annual General Meeting. The proposed cash dividend is a deduction from CET 1 capital for the purpose of calculating the Bank's capital adequacy ratios (note 38). Bonus shares are an appropriation from retained earnings with no impact on CET1 capital.

## NOTES TO FINANCIAL STATEMENTS
### FOR THE YEAR ENDED 31 DECEMBER 2024
### (RO'000)

**18. Legal reserve**

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

**19 Other reserves**

| | **General reserve** | **Fair value reserve** | **Impairment reserve** | **Fair value reserve on acquisition** | **Subordinated loan reserve** | **Total** |
|---|---|---|---|---|---|---|
| Balance as at 1 January 2024 | **988** | **(568)** | **5,464** | **(11,411)** | - | **(5,527)** |
| Transfer to retained earnings | - | - | - | - | - | |
| Net changes in fair value of equity and debt instruments at FVOCI | - | **(1,108)** | - | - | - | **(1,108)** |
| **Balance as at 31 December 2024** | **988** | **(1,676)** | **5,464** | **(11,411)** | - | **(6,635)** |

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

**19.a General reserve**

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

**19.b Fair value reserve**

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

**19.c Impairment reserve**

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

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

**19.d Fair value reserve on acquisition**

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

## NOTES TO FINANCIAL STATEMENTS
### FOR THE YEAR ENDED 31 DECEMBER 2024
### (RO'000)

**20. Perpetual Tier 1 Capital Securities**

On 14 March 2019, the Bank issued perpetual tier 1 capital securities amounting to RO 100 million. These securities bear interest on their nominal amount from the issue date to the first call date at a fixed annual rate of 7.50% with interest rate reset at five-year intervals. The interest is payable semi-annually in arrears and treated as a deduction from equity. RO 3.740 million was paid as interest for the period ended 31 December 2024 (31 December 2023: RO 7.500 million,) and is recognised in the statement of changes in equity.

On 28th February 2024, the Bank at its discretion and after prior consent from the relevant regulatory authority, exercised its option to redeem the securities in full on the first Call Date, i.e. the 5th anniversary of the issuance date being 14 March 2024.

**21. Contingent liabilities and commitments**

**21.a Contingent liabilities**

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

| | **31 December 2024** | 31 December 2023 |
|---|---|---|
| Guarantees | **503,920** | 570,214 |
| Documentary letters of credit | **63,518** | 103,651 |
| | **567,438** | 673,865 |

**21.b Commitments**

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

| | **31 December 2024** | 31 December 2023 |
|---|---|---|
| Capital commitments | **2,597** | 2,962 |
| Credit related commitments | **874,617** | 975,366 |
| | **877,214** | 978,328 |

Analysis of changes in the gross carrying amount and corresponding ECL provision on credit related commitments, contingent liabilities and acceptances:

| | **31 December 2024** | 31 December 2023 |
|---|---|---|
| Contingent liabilities | **567,438** | 673,865 |
| Credit related commitments | **874,617** | 975,366 |
| Acceptances | **21,200** | 28,956 |
| **Gross carrying amount** | **1,463,255** | 1,678,187 |

## NOTES TO FINANCIAL STATEMENTS
### FOR THE YEAR ENDED 31 DECEMBER 2024
### (RO'000)

**21. Contingent liabilities and commitments (continued)**

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

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| At 1 January 2024 | **1,618,895** | **56,515** | **2,777** | **1,678,187** |
| New assets originated/additions | **573,875** | **-** | **-** | **573,875** |
| Assets derecognised or repaid | **(752,798)** | **(34,595)** | **(1,414)** | **(788,807)** |
| Transfers to Stage 1 | **13,000** | **(12,795)** | **(205)** | **-** |
| Transfers to Stage 2 | **(25,515)** | **25,516** | **(1)** | **-** |
| Transfers to Stage 3 | **(465)** | **-** | **465** | **-** |
| **As at 31 December 2024** | **1,426,992** | **34,641** | **1,622** | **1,463,255** |

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| At 1 January 2024 | **741** | **477** | **354** | **1,572** |
| Expected credit losses recognised | **600** | **131** | **476** | **1,207** |
| Recoveries from expected credit losses | **(198)** | **(114)** | **(8)** | **(320)** |
| Net impairment charge/ (release) (Note: 29) | **402** | **17** | **468** | **887** |
| Written off | **-** | **-** | **(705)** | **(705)** |
| Transfers to Stage 1 | **149** | **(50)** | **(99)** | **-** |
| Transfers to Stage 2 | **(1)** | **1** | **-** | **-** |
| Transfers to Stage 3 | **(481)** | **(230)** | **711** | **-** |
| **As at 31 December 2024** | **810** | **215** | **729** | **1,754** |

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| As at 1 January 2023 | 871,116 | 28,043 | 2,594 | 901,753 |
| Assets acquired | 935,147 | - | - | 935,147 |
| New assets originated or purchased | 129,506 | 5,524 | 108 | 135,138 |
| Assets derecognised or repaid | (286,923) | (6,743) | (185) | (293,851) |
| Transfers to Stage 1 | 87 | (87) | - | - |
| Transfers to Stage 2 | (29,891) | 29,891 | - | - |
| Transfers to Stage 3 | (147) | (113) | 260 | - |
| As at 31 December 2023 | 1,618,895 | 56,515 | 2,777 | 1,678,187 |

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| As at 1 January 2023 | 330 | 213 | 1,147 | 1,690 |
| Expected credit losses recognised | 535 | 268 | - | 803 |
| Recoveries from expected credit losses | (124) | (22) | (831) | (162) |
| Net impairment charge/ (release) (Note: 29) | 411 | 246 | (831) | (174) |
| Written off | - | - | 56 | 56 |
| Transfers to Stage 1 | - | - | - | - |
| Transfers to Stage 2 | - | 19 | (19) | - |
| Transfers to Stage 3 | - | (1) | 1 | - |
| As at 31 December 2023 | 741 | 477 | 354 | 1,572 |

## NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024
## (RO'000)

### 22. Litigation

Litigation is a common occurrence in the Banking industry due to the nature of the business it undertakes. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes provision for such loss within its financial statements. No provision (2023: Nil) has been made as at 31 December 2024, as professional advice indicates that it is unlikely that any significant loss will arise.

### 23. Net assets per share

The calculation of net assets per share is based on net assets of RO 898.306 million as at 31 December 2024 (31 December 2023: RO 702.074 million) attributable to ordinary shareholders of 6,617,246,270 ordinary shares (31 December 2023: 5,467,888,500 ordinary shares), being the number of shares outstanding as at 31 December 2024.

### 24. Interest income

| | **31 December 2024** | 31 December 2023 |
|---|---|---|
| Loans and advances | **196,529** | 173,351 |
| Investment securities | **92,682** | 51,796 |
| Due from banks | **25,247** | 14,985 |
| | **314,458** | 240,132 |

### 25. Interest expense

| | **31 December 2024** | 31 December 2023 |
|---|---|---|
| Customer deposits | **112,382** | 84,285 |
| Due to banks | **32,036** | 37,393 |
| | **144,418** | 121,678 |

### 26. Net income from Islamic financing and investing activities

**Gross income**

| | **31 December 2024** | 31 December 2023 |
|---|---|---|
| Financings | **31,484** | 24,720 |
| Due from banks | **3,788** | 754 |
| Investment securities | **1,530** | 1,532 |
| | **36,802** | 27,006 |

**Profit paid**

| | | |
|---|---|---|
| Customer deposits | **24,921** | 17,943 |
| Due to banks | **928** | 1,638 |
| | **25,849** | 19,581 |
| **Net income from Islamic financing and investing activities** | **10,953** | 7,425 |

# NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024
## (RO'000)

### 27. Other operating income

| | 31 December 2024 | 31 December 2023 |
|---|---|---|
| Fee and commission income | **43,223** | 24,434 |
| Fee and commission expense | **(4,561)** | (3,078) |
| Net gains from foreign exchange | **24,380** | 17,583 |
| Dividend income | **253** | 273 |
| Bad debt recovery | **5** | 5 |
| Realised gains on investments | **129** | 49 |
| Unrealised gains /(loss) on FVTPL investments | **524** | (1,738) |
| | **63,953** | 37,528 |

### 28. Other operating expenses

| | 31 December 2024 | 31 December 2023 |
|---|---|---|
| Operating and administration costs | **24,338** | 21,460 |
| Amortisation of intangible asset (Note: 13) | **5,548** | 1,697 |
| Amortisation of right-to-use assets (Note: 12) | **2,636** | 2,654 |
| Occupancy cost | **2,020** | 1,797 |
| Directors' remuneration | **300** | 300 |
| Directors sitting fees | **65** | 67 |
| Shari'a supervisory board remuneration and sitting fees | **51** | 49 |
| | **34,958** | 28,024 |

### 29. Loan impairment charges and other credit risk provisions, net

| | Note: | 31 December 2024 | 31 December 2023 |
|---|---|---|---|
| **Net impairment charge/(release):** | | | |
| Loans, advances and Islamic financings (net) | 9 | **36,898** | 105,527 |
| Contingent liabilities and commitments | 21 | **887** | (174) |
| Due from banks | 7 | **(5)** | 496 |
| Debt securities at amortised cost | 8.3 | **80** | (342) |
| Debt securities at FVOCI | 8.2 | **-** | (438) |
| | | **37,860** | 105,069 |

### 30. Taxation

### 30.a Income tax expense

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

| | 31 December 2024 | 31 December 2023 |
|---|---|---|
| Profit before tax for the year | **117,911** | 73,161 |
| Income tax @ 15% | **17,687** | 10,974 |
| Tax impact of: | | |
| Non-deductible expenses/losses | **141** | 273 |
| Tax exempt income | **(98)** | (8,421) |
| | **17,730** | 2,826 |

| | | |
|---|---|---|
| Income tax expense movements: | | |
| Current year | **18,635** | 2,985 |
| Deferred tax | **(905)** | (159) |
| **Income tax expense** | **17,730** | 2,826 |

# NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024
## (RO'000)

### 30.b Income tax provision

Tax assessments of the Bank for the years 2007 to 2020 have been completed and adjustments recognised in the financial statements for the year ended 2022. The Bank is of the opinion that additional taxes, if any, related to the open tax year 2021 to 2023 would not be significant to the financial position of the Bank as at 31 December 2024.

| | **31 December 2024** | 31 December 2023 |
|---|---|---|
| Balance at the beginning of the year | **6,178** | 6,594 |
| Charge during the year | **18,635** | 2,985 |
| Paid during the year | **(298)** | (3,401) |
| Balance at the end of the year | **24,515** | 6,178 |

### 30.c Deferred tax liability (net)

| | **31 December 2024** | 31 December 2023 |
|---|---|---|
| Balance at the beginning of the year | **10,893** | 1,186 |
| Current year | **(905)** | (159) |
| Arising from gain on bargain purchase | **1,620** | 9,866 |
| Balance at the end of the year | **11,608** | 10,893 |
| Deferred tax asset | **(864)** | (1,086) |
| Deferred tax liability | **12,472** | 11,979 |
| Balance at the end of the year | **11,608** | 10,893 |

### 31. Basic and diluted earnings per share

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

| | **31 December 2024** | 31 December 2023 |
|---|---|---|
| Profit for the year | **100,181** | 70,335 |
| Less: Interest paid on perpetual tier 1 capital securities | **(3,740)** | (7,500) |
| | **96,441** | 62,835 |
| Weighted average number of shares outstanding during the year (in '000) | **5,665,929** | 5,026,501 |
| Basic earnings per share for the year (baisa) | **17.02** | 7.60 |

## NOTES TO FINANCIAL STATEMENTS
### FOR THE YEAR ENDED 31 DECEMBER 2024
### (RO'000)

**32. Impairment of financial instruments**

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

| 31 December 2024 Classification: CBO | IFRS 9 | Gross Carrying amount | CBO Provision[ii] | IFRS9 Provisions | Difference | Net carrying amount | CBO Reserve interest[iii] |
|---|---|---|---|---|---|---|---|
| | | (1) | (2) | (3) | (4) = (2)-(3) | (5) = (1)-(3) | |
| Standard | Stage 1 | 3,634,417 | 49,143 | 15,964 | 33,179 | 3,618,453 | - |
| | Stage 2 | 106,154 | 1,139 | 90,180 | (89,041) | 15,974 | - |
| | Stage 3 | - | - | - | - | - | - |
| Sub Total | | 3,740,571 | 50,282 | 106,144 | (55,862) | 3,634,427 | - |
| Special mention | Stage 1 | 86,978 | 744 | 2,531 | (1,787) | 84,447 | - |
| | Stage 2 | 570,057 | 10,304 | 91,319 | (81,015) | 478,738 | 19,760 |
| | Stage 3 | 1 | - | 1 | (1) | - | - |
| Sub Total | | 657,036 | 11,048 | 93,851 | (82,803) | 563,185 | 19,760 |
| Sub standard | Stage 1 | - | - | - | - | - | - |
| | Stage 2 | - | - | - | - | - | - |
| | Stage 3 | 17,910 | 3,743 | 5,669 | (1,926) | 12,241 | 169 |
| Sub Total | | 17,910 | 3,743 | 5,669 | (1,926) | 12,241 | 169 |
| Doubtful | Stage 1 | - | - | - | - | - | - |
| | Stage 2 | - | - | - | - | - | - |
| | Stage 3 | 11,828 | 3,687 | 3,302 | 385 | 8,526 | 449 |
| Sub Total | | 11,828 | 3,687 | 3,302 | 385 | 8,526 | 449 |
| Loss | Stage 1 | - | - | - | - | - | - |
| | Stage 2 | - | - | - | - | - | - |
| | Stage 3 | 189,315 | 134,597 | 137,886 | (3,289) | 51,429 | 51,512 |
| Sub Total | | 189,315 | 134,597 | 137,886 | (3,289) | 51,429 | 51,512 |
| **Gross Loans, advances and Islamic financings** | | | | | | | |
| | Stage 1 | 3,721,395 | 49,887 | 18,495 | 31,392 | 3,702,900 | - |
| | Stage 2 | 676,211 | 11,443 | 181,499 | (170,056) | 494,712 | 19,760 |
| | Stage 3 | 219,054 | 142,027 | 146,858 | (4,831) | 72,196 | 52,130 |
| Sub Total | | 4,616,660 | 203,357 | 346,852 | (143,495) | 4,269,808 | 71,891 |
| Due from banks, Investment securities, Loan commitments & Financial Guarantees [i] | Stage 1 | 4,100,020 | - | 1,399 | (1,399) | 4,098,621 | - |
| | Stage 2 | 42,864 | - | 305 | (305) | 42,559 | - |
| | Stage 3 | 1,622 | - | 729 | (729) | 893 | - |
| Sub Total | | 4,144,506 | - | 2,433 | (2,433) | 4,142,073 | - |
| | **Stage 1** | 7,821,415 | 49,887 | 19,894 | 29,993 | 7,801,521 | - |
| | **Stage 2** | 719,075 | 11,443 | 181,804 | (170,361) | 537,271 | 19,760 |
| | **Stage 3** | 220,676 | 142,027 | 147,587 | (5,560) | 73,089 | 52,130 |
| | **Total** | 8,761,166 | 203,357 | 349,285 | (145,928) | 8,411,881 | 71,891 |

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

## NOTES TO FINANCIAL STATEMENTS
### FOR THE YEAR ENDED 31 DECEMBER 2024
### (RO'000)

**32. Impairment of financial instruments (continued)**

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

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

# NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024
## (RO'000)

**32. Impairment of financial instruments (continued)**

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

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

| **31 December 2024** | **CBO** | **IFRS 9** | **Difference** |
|---|---|---|---|
| Loan impairment charges and other credit risk provisions (net) | **37,860** | **37,860** | **-** |
| Total ECL provision and contractual interest/profit rate not recognised | **275,247** | **349,285** | **74,038** |
| Gross NPL ratio | **4.74** | **4.74** | **-** |
| Net NPL ratio | **0.57** | **1.69** | **1.12** |

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

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

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

| | **31 December 2024** | | 31 December 2023 | |
|---|---|---|---|---|
| | **CBO** | **IFRS 9** | CBO | IFRS 9 |
| Gross loans advances and Islamic financings | **203,357** | **274,961** | 192,131 | 237,030 |
| Due from banks | **-** | **492** | - | 496 |
| Investment securities (amortised cost) | **-** | **188** | - | 108 |
| Loan commitments and financial guarantees | **-** | **1,754** | - | 966 |
| **Total ECL** | **203,357** | **277,395** | 192,131 | 238,600 |
| Contractual interest/profit rate not recognised | **71,890** | **71,891** | 50,159 | 50,159 |
| **Total ECL provision and contractual interest/profit rate not recognised** | **275,247** | **349,286** | 242,290 | 288,759 |

## NOTES TO FINANCIAL STATEMENTS
**FOR THE YEAR ENDED 31 DECEMBER 2024**
**(RO'000)**

**32. Impairment of financial instruments (continued)**

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

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| At 1 January 2024 | **18,954** | **131,794** | **87,851** | **238,600** |
| Impairment charge | **2,909** | **33,736** | **16,936** | **53,581** |
| Impairment release | **(3,646)** | **(1,620)** | **(10,455)** | **(15,721)** |
| (Written off)/Recovered (net) | **-** | **-** | **934** | **934** |
| Transfers to Stage 1 | **3,096** | **(1,320)** | **(1,776)** | **-** |
| Transfers to Stage 2 | **(178)** | **310** | **(132)** | **-** |
| Transfers to Stage 3 | **(1,243)** | **(855)** | **2,098** | **-** |
| **Total ECL provision** | **19,892** | **162,045** | **95,456** | **277,394** |

***Restructured loans:***

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

**31 December 2024**

| **Classification: CBO** | **IFRS 9** | **Gross Carrying amount** | **CBO Provision** | **IFRS9 Provisions** | **Difference** | **Net carrying amount** |
|---|---|---|---|---|---|---|
| | Stage 1 | **142,746** | **1,859** | **2,593** | **(734)** | **140,154** |
| | Stage 2 | **236,900** | **6,708** | **22,241** | **(15,533)** | **214,659** |
| Classified as performing | Stage 3 | - | - | - | - | - |
| Sub Total | | **379,646** | **8,567** | **24,834** | **(16,267)** | **354,813** |
| | Stage 1 | - | - | - | - | - |
| Classified as non-performing | Stage 2 | - | - | - | - | - |
| | Stage 3 | **58,627** | **21,548** | **33,215** | **(33,215)** | **25,412** |
| Sub Total | | **58,627** | **21,548** | **33,215** | **(33,215)** | **25,412** |
| | Stage 1 | **142,746** | **1,859** | **2,593** | **(734)** | **140,154** |
| Total | Stage 2 | **236,900** | **6,708** | **22,241** | **(15,533)** | **214,659** |
| | Stage 3 | **58,627** | **21,548** | **33,215** | **(33,215)** | **25,412** |
| **Total** | | **438,273** | **30,115** | **58,049** | **(49,482)** | **380,225** |

| Classification: CBO 31 December 2023 | IFRS 9 | Gross Carrying amount | CBO Provision | IFRS9 Provisions | Difference | Net carrying amount |
|---|---|---|---|---|---|---|
| | Stage 1 | 130,846 | 1,595 | 1,860 | (265) | 128,986 |
| | Stage 2 | 169,861 | 8,041 | 14,383 | (6,342) | 155,478 |
| Classified as performing | Stage 3 | - | - | - | - | - |
| Sub Total | | 300,707 | 9,636 | 16,243 | (6,607) | 284,464 |
| | Stage 1 | - | - | - | - | - |
| Classified as non-performing | Stage 2 | - | - | - | - | - |
| | Stage 3 | 55,961 | 17,586 | 19,777 | (2,191) | 36,184 |
| Sub Total | | 55,961 | 17,586 | 19,777 | (2,191) | 36,184 |
| | Stage 1 | 130,846 | 1,595 | 1,860 | (265) | 128,986 |
| Total | Stage 2 | 169,861 | 8,041 | 14,383 | (6,342) | 155,478 |
| | Stage 3 | 55,961 | 17,586 | 19,777 | (2,191) | 36,184 |
| Total | | 356,668 | 27,222 | 36,020 | (8,798) | 320,648 |

## NOTES TO FINANCIAL STATEMENTS
### FOR THE YEAR ENDED 31 DECEMBER 2024
### (RO'000)

**33. Fair value of financial instruments**

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

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

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

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

**Estimation of fair values**

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

***Loans, advances and financings***

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

***Investment securities carried at amortised cost and derivatives***

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

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

***Bank and customer deposits***

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

***Other on-balance sheet financial instruments***

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

***Off-balance sheet financial instruments***

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

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

## NOTES TO FINANCIAL STATEMENTS
### FOR THE YEAR ENDED 31 DECEMBER 2024
### (RO'000)

**33. Fair value of financial instruments (continued)**

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

| At 31 December 2024 | Amortised cost | FVOCI | FVTPL | Total Carrying value | Total Fair value |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and balances with Central Bank | **202,953** | **-** | **-** | **202,953** | **202,953** |
| Due from banks | **561,730** | **-** | **-** | **561,730** | **561,730** |
| Investment securities | **370,349** | **1,710,400** | **38,280** | **2,119,029** | **2,119,029** |
| Loans, advances and Islamic financings (net) | **4,269,808** | **-** | **-** | **4,269,808** | **4,262,418** |
| Other assets (excluding prepayments) | **55,624** | **-** | **268** | **55,892** | **55,892** |
| **Total** | **5,460,464** | **1,710,400** | **38,548** | **7,209,412** | **7,202,022** |
| **Liabilities** | | | | | |
| Due to banks | **570,313** | **-** | **-** | **570,313** | **570,313** |
| Customer deposits | **5,661,780** | **-** | **115,260** | **5,777,040** | **5,845,351** |
| Other liabilities (excluding accruals and provisions) | **69,404** | **-** | **641** | **70,045** | **70,045** |
| **Total** | **6,301,497** | **-** | **115,901** | **6,417,398** | **6,485,709** |

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

## NOTES TO FINANCIAL STATEMENTS
### FOR THE YEAR ENDED 31 DECEMBER 2024
### (RO'000)

**33. Fair value of financial instruments (continued)**

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

| **31 December 2024** | **Investment securities** | **Positive FV of derivatives** | **Negative FV of derivatives** | **Customer deposits** | **Total** |
|---|---|---|---|---|---|
| Level 1 | **4,396** | **-** | **-** | **-** | **4,396** |
| Level 2 | **1,743,784** | **268** | **(641)** | **115,260** | **1,858,671** |
| Level 3 | **498** | **-** | **-** | **-** | **498** |
| | **1,748,678** | **268** | **(641)** | **115,260** | **1,863,565** |

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

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

# NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024
## (RO'000)

### 34. Related party transactions

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

**Aggregate amount of balances and the income and expenses generated with such related parties**:

| | 31 December 2024 | 31 December 2023 |
|---|---|---|
| **Directors & senior management** | | |
| Loans, advances and Islamic financings | **4,884** | 4,569 |
| Deposits | **3,528** | 602 |
| Interest income | **156** | 167 |
| Interest expense | **33** | 33 |
| Directors' sitting fees and remuneration | **365** | 367 |
| Shari'a Supervisory Board members | **51** | 49 |
| **Other related parties** | | |
| Loans, advances and Islamic financing | **91,253** | 94,158 |
| Deposits | **10,654** | 12,401 |
| Interest income | **3,487** | 4,760 |
| Interest expense | **220** | 293 |

**Key management compensation:**

Key management comprises of 7 (2023: 7) senior management executives. The Bank considers these members to be key management personnel for the purpose of IAS 24 Related Party Disclosures.

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

| | 31 December 2024 | 31 December 2023 |
|---|---|---|
| Loans, advances and Islamic financings | **1,231** | 1,295 |
| Customer Deposits | **178** | 48 |

## NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024
## (RO'000)

**34. Related party transactions (continued)**

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

| | **31 December 2024** | 31 December 2023 |
|---|---|---|
| Interest income | **36** | 49 |
| Interest expense | **1** | 1 |
| Salaries and other short-term benefits [1] | **3,658** | 3,163 |
| Post-employment benefits | **52** | 45 |

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

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

| | **31 December 2024** | 31 December 2023 |
|---|---|---|
| Loans, advances and Islamic financing | **16,978** | 15,100 |
| Deposits | **92** | 38 |
| Interest income | **668** | 797 |
| Interest expense | **-** | 1 |

As at 31 December 2024, no loans to related parties are classified under stage 3 (31 December 2023: Nil)

**35. Fiduciary activities**

The Bank's fiduciary activities consist of portfolio and investment management and custodial services. The aggregated assets under management, which are not included in the Bank's statement of financial position as at 31 December 2024 is RO 1,173 million (31 December 2023: RO 411 million).

# NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024
## (RO'000)

### 36. Derivatives

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

### 36.1 Derivative product types

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

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

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

### 36.2 Derivatives held or issued for hedging purposes

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

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

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

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

| **At 31 December 2024** | | | | **Notional amounts by term to maturity** | | |
|---|---|---|---|---|---|---|
| | **Positive FV** | **Negative FV** | **Notional amount** | **Within 3 months** | **3 - 12 months** | **More than 1 year** |
| Forward foreign exchange purchase contracts | **55** | **119** | **949,811** | **902,745** | **10,399** | **36,667** |
| Forward foreign exchange sales contracts | **58** | **9** | **938,940** | **891,868** | **10,373** | **36,699** |
| Interest rate swaps | **155** | **513** | **115,500** | **-** | **38,500** | **77,000** |
| Total | **268** | **641** | | | | |

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

## NOTES TO FINANCIAL STATEMENTS
### FOR THE YEAR ENDED 31 DECEMBER 2024
### (RO'000)

**36. Derivatives (continued)**

**36.3 Fair value hedges**

**36.3a Interest rate swaps**

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

**37. Financial risk management**

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

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

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

**Executive Nomination & Remuneration Committee**

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

**Board Audit Committee**

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

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

**Credit Approval Committee**

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

**Board Risk Committee**

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS
### FOR THE YEAR ENDED 31 DECEMBER 2024
### (RO'000)

**37. Financial risk management (continued)**

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

**37.1 Credit risk**

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

**Management of credit risk**

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

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

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

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

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

**Accounting for modification loss**

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

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

# NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024
## (RO'000)

**37. Financial risk management (continued)**

**37.1 Credit risk (continued)**

**Management of credit risk (continued)**

**Post-model adjustments and management overlays**

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

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

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

**37.1a Sensitivity of impairment estimates**

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

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

| | **At 31 December 2024** | | At 31 December 2023 | |
|---|---|---|---|---|
| | **ECL** | **Impact on ECL** | ECL | Impact on ECL |
| ECL on non-impaired loans under IFRS9 | **199,994** | - | 138,129 | - |
| **Simulations** | | | | |
| Upside case - 100% weighted | **176,093** | **23,901** | 126,023 | 12,106 |
| Base case - 100% weighted | **182,541** | **17,453** | 138,129 | 8,840 |
| Downside scenario - 100% weighted | **193,517** | **6,477** | 127,825 | 10,304 |

For computation of ECL, the Bank considers three scenario viz. base case, upside case and downside case with weightage of 34.1%, 32.95% and 32.95% respectively.

**37.1b Exposure to credit risk**

**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 52 bps.

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

**Low Credit Risk Exemption**

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

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

## NOTES TO FINANCIAL STATEMENTS
### FOR THE YEAR ENDED 31 DECEMBER 2024
### (RO'000)

**37. Financial risk management (continued)**

**37.1 Credit risk (continued)**

**37.1b Exposure to credit risk (continued)**

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

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

| | Performing | Past due but not impaired | Credit impaired | Total |
|---|---|---|---|---|
| **31 December 2024** | | | | |
| **Loans, advances and Islamic financings - corporate** | | | | |
| Performing loans (Grades 1-5) | 2,136,221 | 75,247 | - | 2,211,468 |
| Performing loans (Grades 6) | 250,651 | 260,682 | - | 511,333 |
| Performing loans (Grades 7) | - | 327,093 | - | 327,093 |
| Non-performing loans (Grades 8-10) | - | - | 174,551 | 174,551 |
| | 2,386,872 | 663,022 | 174,551 | 3,224,445 |
| **Loans, advances and Islamic financings - retail** | | | | |
| Performing loans (Grades 1-5) | 1,334,524 | 13,188 | - | 1,347,713 |
| Performing loans (Grades 6) | - | - | - | - |
| Performing loans (Grades 7) | - | - | - | - |
| Non-performing loans (Grades 8-10) | - | - | 44,502 | 44,502 |
| | 1,334,524 | 13,188 | 44,502 | 1,392,215 |
| **Total gross loans, advances and Islamic financings** | 3,721,396 | 676,210 | 219,053 | 4,616,660 |
| **Credit related contingent items** | | | | |
| Performing loans (Grades 1-5) | 1,214,400 | 14,030 | - | 1,228,431 |
| Performing loans (Grades 6) | 210,822 | 11,209 | - | 222,031 |
| Performing loans (Grades 7) | - | 8,676 | - | 8,676 |
| Non-performing loans (Grades 8-10) | - | - | 1,622 | 1,622 |
| **Total gross contingent items to customers** | 1,425,222 | 33,916 | 1,622 | 1,460,760 |
| **Due from banks (Grades 1-5)** | 562,221 | - | - | 562,221 |
| **Investment securities (Grades1-5)** | 2,110,994 | 8,223 | - | 2,119,217 |
| **Cash and balances (BBB-)** | 202,953 | - | - | 202,953 |
| **Other assets (unrated)** | 58,038 | - | - | 58,038 |

## NOTES TO FINANCIAL STATEMENTS
### FOR THE YEAR ENDED 31 DECEMBER 2024
### (RO'000)

**37. Financial risk management (continued)**

**37.1 Credit risk (continued)**

**37.1b Exposure to credit risk (continued)**

| 31 December 2023 | Performing | Past due but not impaired | Credit impaired | Total |
|---|---|---|---|---|
| Loans, advances and Islamic financings - corporate | | | | |
| Performing loans (Grades 1-5) | 1,522,166 | 68,563 | - | 1,590,729 |
| Performing loans (Grades 6) | 552,531 | 200,817 | - | 753,349 |
| Performing loans (Grades 7) | - | 290,528 | - | 290,528 |
| Non-performing loans (Grades 8-10) | - | - | 163,269 | 163,269 |
| | 2,074,697 | 559,908 | 163,269 | 2,797,875 |
| Loans, advances and Islamic financings - retail | | | | |
| Performing loans (Grades 1-7) | 1,354,230 | 18,944 | - | 1,373,174 |
| Non-performing loans (Grades 8-10) | - | - | 37,332 | 37,332 |
| | 1,354,230 | 18,944 | 37,332 | 1,410,506 |
| Total gross loans, advances and Islamic financings | 3,428,927 | 578,853 | 200,601 | 4,208,381 |
| Credit related contingent items | | | | |
| Performing loans (Grades 1-5) | 1,387,206 | 3,172 | - | 1,390,378 |
| Performing loans (Grades 6) | 217,417 | 16,782 | - | 234,199 |
| Performing loans (Grades 7) | - | 23,533 | - | 23,533 |
| Non-performing loans (Grades 8-10) | - | - | 1,120 | 1,120 |
| Total gross contingent items to customers | 1,604,623 | 43,487 | 1,120 | 1,649,231 |
| Due from banks | 652,500 | - | - | 652,500 |
| Investment securities | 1,703,067 | 8,223 | - | 1,711,290 |
| Cash and balances (BB+) | 205,669 | - | - | 205,669 |
| Other assets (unrated) | 53,588 | - | - | 53,588 |

## NOTES TO FINANCIAL STATEMENTS
**FOR THE YEAR ENDED 31 DECEMBER 2024**
**(RO'000)**

**37. Financial risk management (continued)**

**37.1 Credit risk (continued)**

**37.1b Exposure to credit risk (continued)**

The table below presents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation, based on Moody's ratings or equivalent.

| | **31 December 2024** | 31 December 2023 |
|---|---|---|
| Aaa | **13,332** | - |
| AA+ | **1,509,284** | 1,220,914 |
| AA- | **5,736** | - |
| Ba2 | **5,910** | 5,915 |
| Ba3 | **8,190** | 8,192 |
| BBB- | **545,482** | 473,673 |
| Unrated bonds | **9,217** | - |
| **Total** | **2,097,151** | 1,708,694 |

The following table shows the gross placements held with counterparties at the reporting date:

| | **31 December 2024** | 31 December 2023 |
|---|---|---|
| Aaa1 to Aaa3 | **246,127** | 99,732 |
| A1 to A3 | **96,260** | 120,553 |
| Baa1 to Baa3 | **139,061** | 69,852 |
| Ba1 to Ba3 | **63,183** | 113,124 |
| B1 to Ca | **17,590** | 249,239 |
| **Total** | **562,221** | 652,500 |

The Bank performs an independent assessment based on quantitative and qualitative factors in cases where a bank is unrated.

## NOTES TO FINANCIAL STATEMENTS
### FOR THE YEAR ENDED 31 DECEMBER 2024
### (RO'000)

**37. Financial risk management (continued)**

**37.1 Credit risk (continued)**

**37.1b Exposure to credit risk (continued)**

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

The maximum credit risk exposures relating to off-balance sheet items calculated as per Basel guidelines are provided in note 38. The amounts represented in note 38 represent a worst-case scenario of credit risk exposure as of 31 December 2024 and 2023, without considering of any collateral held or other credit enhancements attached.

**Impairment assessment**

**Definition of default and cure**

A financial asset to be in default when:
- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default, indicators like the following are considered:
- qualitative - e.g. breaches of covenant.
- quantitative - e.g. overdue status and non-payment on another obligation of the same issuer; and
- based on data developed internally and obtained from external sources.

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

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

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

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

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

**Incorporation of forward-looking information**

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

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

## NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024
## (RO'000)

**37. Financial risk management (continued)**

**37.1 Credit risk (continued)**

**37.1b Exposure to credit risk (continued)**

**The Bank's internal rating and PD estimation process**

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

**Generating the term structure of Probability of Default (PD)**

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

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

| Internal rating grades | Internal rating grade description | PD range (%) |
|---|---|---|
| 1 | Investment Grade | 0.65% |
| 2+ | Investment Grade | 0.8% - 1.00% |
| 2 | Investment Grade | |
| 2- | Investment Grade | |
| 3+ | Investment Grade | 1.11%-1.36% |
| 3 | Investment Grade | |
| 3- | Investment Grade | |
| 4+ | Investment Grade | 1.50%-1.90% |
| 4 | Investment Grade | |
| 4- | Investment Grade | |
| 5+ | Investment Grade | 2.16%-2.64% |
| 5 | Investment Grade | |
| 5- | Investment Grade | |
| 6+ | Investment Grade | 2.87%-3.31% |
| 6 | Investment Grade | |
| 6- | Investment Grade | |
| 7+ | Sub Investment Grade | 3.61%-5.80% |
| 7 | Sub Investment Grade | |
| 7- | Sub Investment Grade | |
| 8 to 10 | Non-Performing | 100% |

## NOTES TO FINANCIAL STATEMENTS
### FOR THE YEAR ENDED 31 DECEMBER 2024
### (RO'000)

**37. Financial risk management (continued)**

**37.1 Credit risk (continued)**

**37.1b Exposure to credit risk (continued)**

**Economic variable assumptions**

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

a) Public external debt/Total external debt
b) Europe Brent Spot Price FOB (Dollar per barrel)
c) Europe Brent Spot Price FOB
d) Current-account balance/GD

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

a) Gross domestic saving/GDP
b) Net foreign direct investment/GDP
c) Europe Brent Spot Price FOB (Dollar per barrel)

These economic variables and their associated impact on the PD, EAD and LGD vary by business segments vs wholesale banking and retail. Expert judgment has also been applied in this process wherever required. Forecasts of these economic variables (the "base economic scenario") are collected from statistical database of Moody's to provide the best estimate view of the economy.

# NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024
## (RO'000)

**37. Financial risk management (continued)**

**37.1 Credit risk (continued)**

**37.1b Exposure to credit risk (continued)**

**Economic variable assumptions (continued)**

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

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis.

Treasury, trading and interbank relationships (FIG)
The Bank's treasury, trading and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Bank's credit risk department analyses publicly available information such as financial information and other external data, e.g., the rating of Moody's or equivalent, and assigns the rating.

Corporate and small business lending
For corporate and investment banking loans, the borrowers are assessed by the business teams duly complemented by an independent review by Credit Risk Management Team. The credit risk assessment is based on a robust credit scoring model that considers various historical, current and forward-looking information such as:

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

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

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

**Exposure at default**

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

To calculate the EAD for a Stage 1 loan, the exposure at default comprising of utilized balances and potential future exposures wherever applicable are considered for a 12Mecl calculation. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios.

**Loss given default**
LGD is the share of an asset that is lost when a borrower default. The recovery rate is defined as 1 minus the LGD, the share of an asset that is recovered when a borrower default. Loss given default is facility-specific because such losses are generally understood to be influenced by key transaction characteristics such as the presence of collateral and the degree of subordination, if any.

# NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024
## (RO'000)

**37. Financial risk management (continued)**

**37.1 Credit risk (continued)**

**37.1b Exposure to credit risk (continued)**

The Bank segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. This comprehensive loan portfolio segmentation strategy enabled the Bank to quickly identify the underlying behaviours that drive credit risk. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

Further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the Bank.

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

**Significant Increase in Credit Risk**

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

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the stress classification watch list, or the account becoming forborne. In certain cases, the Bank may also consider that events set out below are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition. Bank would be guided by the requirements of regulator in this regard.

a. Inadequate or unreliable financial or other information such as unavailability of audited financial statements and non-cooperation by borrower in matters pertaining to documentation.
b. Borrower is subject to litigation by third parties that may have a significant impact on his financial position.
c. Frequent changes in key senior management personnel without acceptable successors or professional management.
d. Significant Intra Group transfer of funds without underlying transactions.
e. Deferment/delay in the date for commencement of commercial operations by more than one year except in Government projects or delays are due to Government approvals.
f. Modifications of terms resulting in concessions granted to the borrower (after examining the cash flows of the borrower/financial position/ability to repay) including extension of moratorium, deferment of payment, waiver of covenants etc. This requirement shall be in conformity to the restructuring guidelines issued by CBO from time to time.
g. A fall of 25% or more in the turnover or in the EBIT as compared to the previous year except in the case of change in business model/one of material events.
h. A fall in Debt Service coverage ratio to below 1 except in cases which have acceptable external credit support.
i. 7 notch downgrade in Master Rating Scale (MRS) of the Bank along with associated downgrade in PD except for accounts rated as 1 at origination for which a 3 notch downgrade in sub investment grades
j. Erosion in net worth by more than 20% compared to previous year coupled with increase in leverage by 1.5 times.

**Model risk management:**

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

To manage the model risks, the Bank has established the Model Governance Committee thus building a robust framework around the governance of the ECL Models and all other such models that directly affect the financial reporting on Expected Loss (EL). Banks ECL Models were also subject to an independent third-party validation in 2022.

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

# NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024
## (RO'000)

**37. Financial risk management (continued)**

**37.1 Credit risk (continued)**

**37.1c Collateral securities**

The Bank holds collateral against loans, advances and financings in the form of mortgage interests over property, other registered securities, assets and guarantees. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing and updated once every three years (or at such extended intervals as may be permitted by the regulator from time to time), except when a loan is individually assessed as impaired. In appropriate cases, two valuation reports are also obtained for validation. The shares of MSX listed companies obtained as securities are valued minimum monthly unless the share price is highly volatile, in which case valuation is performed on a more frequent basis.

Estimate of the fair value of collateral and other security enhancements held against loans, advances and financings:

| | **31 December 2024** | 31 December 2023 |
|---|---|---|
| **Against past due but not impaired** | | |
| Property | **188,823** | 212,067 |
| Equity | **7,955** | 6,997 |
| Commercial mortgage | **147,865** | 112,829 |
| Vehicles | **475** | 305 |
| Fixed deposits | **648** | 199 |
| **Total** | **345,766** | 332,397 |
| **Against past due and impaired** | | |
| Property | **156,308** | 90,715 |
| Commercial mortgage | **162,496** | 51,755 |
| Fixed deposits | **293** | 337 |
| Vehicles | **993** | 477 |
| Guarantees | **2,238** | 1,658 |
| **Total** | **322,328** | 144,942 |
| **Against neither past due nor impaired** | | |
| Property | **1,061,536** | 486,723 |
| Commercial mortgage | **456,508** | 397,400 |
| Guarantees | **135,397** | 104,000 |
| Fixed deposits | **140,352** | 13,834 |
| Equity | **130,401** | 66,392 |
| Vehicles | **15,210** | 6,635 |
| **Total** | **1,939,404** | 1,074,984 |
| **Total collateral held** | **2,607,497** | 1,552,323 |

**37.1d Settlement risk**

Settlement risk is the risk that the settlement or clearance of transactions will fail. It arises whenever the exchange of cash, securities and/or other assets is not simultaneous.

In foreign exchange trades, though there is fulfilment of both the legs of the transaction on the settlement date as is common practice between trading partners (free settlement), there will be risk on account of different time zones. In these cases, daily settlement limits shall control the aggregate size of FX notional amounts permitted to settle with a counterparty on any given settlement date.

**37.1e Concentrations**

Concentrations of credit risk arise when several counter- parties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

# NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024
## (RO'000)

**37. Financial risk management (continued)**

**37.1 Credit risk (continued)**

**37.1f Concentrations (continued)**

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

Concentration of the gross credit exposure:

| | **31 December 2024** | | | 31 December 2023 | | |
|---|---|---|---|---|---|---|
| | **Loans, advances and financings** | **Due from banks** | **Debt securities** | Loans, advances and financings | Due from banks | Debt securities |
| ***Concentration by sector*** | | | | | | |
| Corporate | **3,224,445** | **-** | **27,433** | 2,809,678 | - | 14,107 |
| Personal | **1,392,215** | **-** | **-** | 1,398,703 | - | - |
| Sovereign | **-** | **-** | **2,049,733** | - | - | 1,694,587 |
| Banks | **-** | **562,222** | **-** | - | 652,500 | - |
| | **4,616,660** | **562,222** | **2,077,166** | 4,208,381 | 652,500 | 1,708,694 |
| ***Concentration by location*** | | | | | | |
| Middle east | **4,616,660** | **423,381** | **554,548** | 4,199,334 | 339,224 | 487,780 |
| Europe | **-** | **70,270** | **691,763** | 9,047 | 258,885 | 434,090 |
| North America | **-** | **107** | **830,855** | - | 977 | 766,349 |
| Asia | **-** | **68,464** | **-** | - | 53,414 | 20,475 |
| | **4,616,660** | **562,222** | **2,077,166** | 4,208,381 | 652,500 | 1,708,694 |

Refer note 9 for analysis by economic sector

## NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024
## (RO'000)

**37. Financial risk management (continued)**

**37.1 Credit risk (continued)**

**37.1f Concentrations (continued)**

Concentration by location for loans and advances is measured based on the location of the entity holding the asset, which has a high correlation with the location of the borrower. Concentration by location for investment securities is measured based on the location of the issuer of the security. The Bank seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risk with banks or customers in a specific currency. It also obtains security when appropriate.

**37.1g Revenue concentration**

No revenue from transactions with a single external counterparty or customer amounted to 10% or more of the Bank's total revenue for the year ending 31 December 2024 and 31 December 2023 respectively.

**37.2 Liquidity risk**

Liquidity risk arises from the Bank's potential inability to meet all payment obligations when they come due or only being able to meet these obligations at excessive costs. There are two type of liquidity risks.

- Funding liquidity risk is the risk that a bank will be unable to pay its debts when due. In simple terms, it is the risk that the bank cannot meet the demand of customers wishing to withdraw their deposits.
- Market liquidity risk is the risk of not being able to sell assets in a timely fashion without having to offer a heavy discount. Funding liquidity issues can often lead to market liquidity risk and vice versa.

**Management of Liquidity Risk**

The Bank's approach to managing liquidity is to ensure that it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking damage to the Bank's reputation. The Bank has a robust Liquidity Contingency Plan to facilitate management of liquidity under stressed conditions.

Liquidity risk management process involves identifying the key liquidity and funding risks to which the Bank is exposed; describing how these risks are identified, monitored and measured and describing the techniques and resources used to manage and mitigate these risks.

The Board defines the liquidity and funding risk strategy for the Bank as well as the risk appetite, based on recommendations made by the Bank's Risk Management Department. The Board reviews and approves the risk appetite annually.

The Bank's Treasury function is mandated to manage the overall liquidity and funding positions of the Bank, under the guidance and supervision of the ALCO. ALCO ensures that the Bank maintains adequate liquidity through the following:

- Establishing suitable limits on time-band based structural liquidity exposure ('Gaps'), through "gap limits" and "maximum cumulative outflow" controls.

- Ensuring 'crisis survivability', including the development of contingency plans which would include liquidity options such as the creation of an appropriate stock of highly liquid, unencumbered marketable assets; and borrowing facilities such as stand-by credit lines and committed facilities.

The Bank's RMD is responsible for reviewing the liquidity risk framework, proposing the risk appetite limits, and stress test scenarios to ALCO for guidance and approval.

Key Tools and Strategies for Liquidity Management:

The bank employs a variety of tools to maintain an optimal liquidity position, including:

1. Liquidity Gap Analysis: Regular assessment of liquidity gaps using internal and regulatory benchmarks to identify mismatches in cash inflows and outflows.
2. Stress Testing and Simulations: Periodic evaluations to simulate liquidity crises and assess the bank's ability to withstand stress scenarios. This includes ensuring adequate crisis survivability buffers.
3. Liquidity Early Warning Indicators (EWIs): A set of predefined indicators monitored by ALCO to detect potential liquidity risks early and enable proactive measures.
4. Regulatory Compliance: Adherence to standards such as the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) to maintain a strong liquidity position in line with regulatory expectations.
5. Economic Capital Assessment: As part of the Internal Capital Adequacy Assessment Process (ICAAP), the bank evaluates liquidity sensitivity and provides results to regulators, including the Central Bank

## NOTES TO FINANCIAL STATEMENTS
### FOR THE YEAR ENDED 31 DECEMBER 2024
### (RO'000)

**37. Financial risk management (continued)**

**37.2 Liquidity risk (continued)**

**37.2a Exposure to liquidity risk**

Liquidity risk exposure arises from the bank's inability to meet its financial obligations as they become due without incurring unacceptable losses or impacting the bank's financial stability. To mitigate this risk, the bank employs both the stock approach and the cash flow approach for liquidity management:

- Stock Approach: This method involves the monitoring of key ratios such as liquid assets to total assets, loan-to-deposit ratios, and other metrics that assess the sufficiency of available liquidity buffers against the bank's obligations.

- Cash Flow Approach: This approach focuses on the comprehensive tracking of cash flow mismatches. It includes the measurement of critical liquidity ratios and the evaluation of the cumulative surplus or deficit of funds across specific time horizons using a maturity ladder. This ensures an accurate assessment of liquidity gaps and facilitates proactive management.

Regulatory Compliance with Liquidity Ratios

The bank adheres to regulatory requirements set by the Central Bank of Oman (CBO) to ensure robust liquidity risk management:

1. Liquidity Coverage Ratio (LCR):

- The bank maintains a liquidity coverage ratio of at least 100% as mandated by the CBO guidelines.
- The LCR ensures that the bank holds a sufficient stock of unencumbered high-quality liquid assets (HQLA) to withstand a significant short-term liquidity stress scenario lasting up to 30 days.
- High-quality liquid assets include cash, central bank reserves, and government securities that are easily convertible into cash under stressed market conditions.

2. Net Stable Funding Ratio (NSFR):

- The bank complies with the 100% NSFR requirement, which focuses on ensuring resilience over a longer time horizon.
- The NSFR evaluates the stability of the bank's funding profile by requiring that long-term assets are supported by stable funding sources, such as customer deposits, long-term wholesale funding, and capital.

These regulatory ratios are monitored on an ongoing basis to ensure that the bank is adequately prepared for both short-term and long-term liquidity risks.

**3.** Lending Ratio

The lending ratio, that measures total loans and advances to customer deposits plus capital, is monitored daily in line with regulatory guidelines. Internally the lending ratio threshold is set at a more conservative level than required by regulator. On a monthly frequency the Bank also manages its liquidity risk by monitoring the liquid ratio, i.e. net liquid assets to total assets. For this purpose, net liquid assets include cash and cash equivalents and investment grade debt securities for those securities that has an active and liquid market. The Bank has taken several initiatives to increase customer deposits progressively. Under the cash flow approach, the Bank spread it assets and liabilities over various time buckets based on a residual maturity basis.to ascertain liquidity gaps.

4. Liquidity Stress Testing and Contingency Planning

To further enhance liquidity risk management, the bank conducts regular stress testing to simulate extreme but plausible liquidity stress scenarios. These simulations assess the bank's ability to manage outflows under adverse conditions. The results are reviewed by the Asset and Liability Committee (ALCO) to implement any necessary contingency measures.

The bank also maintains a Liquidity Contingency Plan (LCP) to address unexpected liquidity crises. The LCP outlines the actions required to secure additional funding, prioritize essential payments, and preserve the bank's reputation during periods of stress.

The Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) is calculated in accordance with Basel III framework and guidelines adopted by CBO vide circular BM 1127 and BM 1147. The complete disclosures required under these circulars are available on the Investor Relations page of the Bank's website.

The maturity profile of the Bank's liabilities as on the reporting date based on contractual repayment arrangements. The contractual maturities of liabilities have been determined based on the remaining period at the statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds. Gross nominal outflow includes contractual interest to maturity.

## NOTES TO FINANCIAL STATEMENTS
### FOR THE YEAR ENDED 31 DECEMBER 2024
### (RO'000)

**37. Financial risk management (continued)**

**37.2 Liquidity risk (continued)**

**37.2a Exposure to liquidity risk**

| | **Carrying amount** | **Gross nominal outflow** | **Within 3 months** | **3 - 12 months** | **Over 1 year** |
|---|---|---|---|---|---|
| **31 December 2024** | | | | | |
| **Non – derivative liabilities** | | | | | |
| Due to banks | **570,313** | **634,003** | **109,776** | **137,744** | **386,483** |
| Customer deposits | **5,777,040** | **5,885,510** | **3,952,044** | **940,050** | **993,417** |
| Other liabilities | **115,092** | **115,092** | **115,092** | **-** | **-** |
| **Total** | **6,462,445** | **6,634,605** | **4,176,912** | **1,077,794** | **1,379,900** |

| | Carrying amount | Gross nominal outflow | Within 3 months | 3 - 12 months | Over 1 year |
|---|---|---|---|---|---|
| 31 December 2023 | | | | | |
| Non – derivative liabilities | | | | | |
| Due to banks | 676,120 | 678,663 | 216,880 | 107,576 | 354,207 |
| Customer deposits | 5,103,045 | 5,253,025 | 3,821,242 | 721,688 | 710,095 |
| Other liabilities | 107,481 | 107,481 | 107,481 | - | - |
| Total | 5,886,646 | 6,039,169 | 4,145,603 | 829,264 | 1,064,302 |

## NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024
## (RO'000)

**37. Financial risk management (continued)**

**37.3 Market risk**

Market risk is defined as potential losses on account of changes in market variables. The sources of market risk include changes in interest rate, foreign exchange rates, credit spreads, commodity prices, equity prices and so on. These fluctuations can significantly impact the bank's earnings and valuation. The bank's business activities, including its trading and investment portfolios, are inherently exposed to market risk.

**Measurement and management of market risk**

The primary objectives of the Market and Liquidity Risk Management, as part of the bank's independent Risk Management function, is to lay down market risk management guidelines for Treasury, Forex, Equity and Derivative operations of the Bank. It serves to outline the Bank's risk appetite and risk philosophy in respect of Treasury / Forex / Equity / Derivative operations, and the controls that are considered essential for the management of market risks. Market and Liquidity Risk Management works closely together with first line of defence ("the business units") and other control and support groups to achieve this objective.

The Bank predominantly faces two types of market risks:

1. Trading market risk arises primarily through the market-making activities. This involves taking positions in currencies, debt, equity or related securities.

2. Non-trading market risk arises from market movements in the Bank's banking book and from off-balance sheet items. This includes interest rate risk, credit spread risk, investment risk, foreign exchange risk and commodity price risk.

Market and Liquidity Risk Management governance is designed and established to promote oversight of all market and liquidity risks, effective decision-making and timely escalation to senior management and the Board. Further, Market Risk Management defines and implements a framework to systematically identify, assess, monitor and report market risk. Market risk managers identify market risks through active portfolio analysis and engagement with the business areas.

**37.3a Measurement of Market and Liquidity Risk Management**

The market risk management monitor the following limits and approved / thresholds:

- Nostro and NOP monitoring
- Liaise with internal / external legal to review master agreements such as ISDA and CSA
- Monitor CSA exchange
- Monitor / Validate / Report MTM of the derivative portfolio
- Monthly review of counterparty credit rating
- Perform periodic stress testing / scenario analysis as per regulatory requirements
- Review and recommend investment proposals, derivative structures
- Identify and measure market risk exposures
- Monitor profit and loss against authorized stop loss limits
- Calculate NOP capital charge
- Report exceptions or violations in respect to Market Risk limits, Market Related Inter-Bank Credit exposure limits
- Monitor Internal / Regulatory limits
- Rate Tolerance and dealer limits

The risk management function is responsible for development of detailed risk management policies (subject to approval by ALCO and BRC). The market and liquidity risk policy is periodically reviewed and updated based on the evolving business environment and regulatory changes.

Interest rate risk arises from the adverse impact on the Bank's financial position because of change in market interest rates. The trading book impact is reflected by way of change in the value of investments. The banking book impact is reflected through the change in Net Interest Income (NII) and Economic Value of Equity (EVE). The Bank's Asset Liability Committee (ALCO) is responsible for managing interest rate risk. Regular reports to ALCO report include interest rate risk reports, currency wise as well as consolidated balance sheet positions, liquidity gaps and measurement of NII and EVE. The ALCO regularly reviews the reports and provide direction to treasury to manage interest rate risk. Further key information related to interest rate risk is periodically reported to the Bank's Board Risk Committee (BRC). Hedge transactions for banking book are periodically assessed via hedge effectiveness testing.

## NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024
## (RO'000)

**37. Financial risk management (continued)**

**37.3 Market risk (continued)**

**37.3a Exposure to Interest Rate Risk – non trading portfolios**

Interest rate sensitivity position based on contractual re-pricing arrangements:

| | Effective annual interest rate % | Within three months | Four months to 12 months | Over one year | Non-sensitive to interest rate | Total |
|---|---|---|---|---|---|---|
| **31 December 2024** | | | | | | |
| **Assets** | | | | | | |
| Cash and balances with Central Banks | **0.01** | **7** | **500** | **-** | **202,446** | **202,953** |
| Due from banks | **4.62** | **441,706** | **73,865** | **-** | **46,159** | **561,730** |
| Investment securities | **4.79** | **1,638,136** | **160,830** | **298,260** | **21,803** | **2,119,029** |
| Loans, advances and Islamic financings (net) | **5.27** | **1,918,284** | **599,236** | **1,730,474** | **21,813** | **4,269,808** |
| Other assets | | **-** | **-** | **-** | **57,969** | **57,969** |
| Investment properties | | **-** | **-** | **-** | **2,900** | **2,900** |
| Property and equipment | | **-** | **-** | **-** | **74,364** | **74,364** |
| Intangible assets | | **-** | **-** | **-** | **71,998** | **71,998** |
| **Total assets** | | **3,998,133** | **834,431** | **2,028,734** | **499,452** | **7,360,751** |
| **Liabilities and equity** | | | | | | |
| Due to banks | **4.62** | **372,927** | **140,450** | **0** | **56,936** | **570,313** |
| Customer deposits | **2.51** | **1,199,003** | **742,765** | **706,177** | **3,129,095** | **5,777,040** |
| Other liabilities | | **-** | **-** | **-** | **115,092** | **115,092** |
| Total equity | | **-** | **-** | **-** | **898,306** | **898,306** |
| **Total liabilities and equity** | | **1,571,930** | **883,215** | **706,177** | **4,199,429** | **7,360,751** |
| **Interest sensitivity gap** | | **2,426,203** | **(48,784)** | **1,322,557** | **(3,699,977)** | **-** |
| **Cumulative Gap** | | **2,426,203** | **2,377,419** | **3,699,977** | **-** | **-** |

| | Effective annual interest rate % | Within three months | Four months to 12 months | Over one year | Non-sensitive to interest rate | Total |
|---|---|---|---|---|---|---|
| 31 December 2023 | | | | | | |
| Assets | | | | | | |
| Cash and balances with Central Banks | 0.01 | 507 | - | - | 205,162 | 205,669 |
| Due from banks | 1.36 | 586,763 | 25,059 | 21,417 | 18,765 | 652,004 |
| Investment securities | 3.32 | 1,348,731 | 62,744 | 299,044 | 663 | 1,711,182 |
| Loans, advances and Islamic financings (net) | 5.47 | 1,666,931 | 566,413 | 1,657,628 | 30,220 | 3,921,192 |
| Other assets | - | - | - | - | 53,588 | 53,588 |
| Investment properties | - | - | - | - | 2,900 | 2,900 |
| Property and equipment | - | - | - | - | 75,571 | 75,571 |
| Intangible assets | | - | - | - | 66,614 | 66,614 |
| Total assets | | 3,602,932 | 654,216 | 1,978,089 | 453,483 | 6,688,720 |
| Liabilities and equity | | | | | | |
| Due to banks | 1.91 | 484,463 | 111,542 | - | 80,115 | 676,120 |
| Customer deposits | 2.63 | 1,189,309 | 391,472 | 670,302 | 2,851,962 | 5,103,045 |
| Other liabilities | - | - | - | - | 107,481 | 107,481 |
| Total equity | - | - | - | - | 802,074 | 802,074 |
| Total liabilities and equity | | 1,673,772 | 503,014 | 670,302 | 3,841,632 | 6,688,720 |
| Interest sensitivity gap | | 1,929,160 | 151,202 | 1,307,787 | (3,388,149) | - |
| Cumulative Gap | | 1,929,160 | 2,080,362 | 3,388,149 | - | - |

## NOTES TO FINANCIAL STATEMENTS
### FOR THE YEAR ENDED 31 DECEMBER 2024
### (RO'000)

**37. Financial risk management (continued)**

**37.3 Market risk (continued)**

**37.3a Exposure to interest rate risk – non trading portfolios (continued)**

Interest rate risk is managed by taking views on interest rate movements for the year and realigning the portfolios and covenants of lending, so as to be proactive and minimise adverse effects. The benchmark presently available in Oman is the 28-day CBO rates. The trend of the weighted average interest on loans and cost of deposits for the year is provided below:

| **2024** | **Jan** | **Feb** | **Mar** | **Apr** | **May** | **Jun** | **Jul** | **Aug** | **Sep** | **Oct** | **Nov** | **Dec** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Lending rate** | 5.79% | 5.75% | 5.81% | 5.84% | 5.86% | 5.80% | 5.80% | 5.82% | 5.80% | 5.82% | 5.83% | n/a |
| **Deposit rate** | 2.65% | 2.65% | 2.71% | 2.57% | 2.63% | 2.65% | 2.67% | 2.66% | 2.67% | 2.60% | 2.67% | n\a |

n/a* (not available)

| 2023 | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Lending rate | 5.61% | 5.65% | 5.65% | 5.64% | 5.74% | 5.71% | 5.70% | 5.74% | 5.74% | 5.72% | 5.78% | 5.76% |
| Deposit rate | 2.13% | 2.18% | 2.22% | 2.29% | 2.34% | 2.42% | 2.39% | 2.47% | 2.51% | 2.61% | 2.67% | 2.72% |

Overview of Interest Rate Risk Management

Interest rate risk is a critical component of market risk management and arises primarily from the mismatch between the bank's interest-earning assets and interest-bearing liabilities. This mismatch can lead to fluctuations in the bank's earnings and economic value due to changes in market interest rates. Effective management of interest rate risk is essential to ensure the stability of the bank's financial performance and safeguard its capital position.

Approaches to Managing Interest Rate Risk

The bank employs two key approaches to measure and manage interest rate risk in its non-trading portfolios:

1. Earnings Approach:
   • This approach focuses on the short-term impact of changes in interest rates on the Net Interest Income (NII) of the bank.
   • By assessing the sensitivity of NII to interest rate shocks, the bank evaluates its ability to absorb potential declines in income caused by unfavourable interest rate movements.
   • The earnings perspective helps in identifying immediate corrective actions, such as rebalancing assets and liabilities, to maintain stable profitability.

2. Economic Value Approach:
   • This approach examines the longer-term impact of interest rate fluctuations on the Economic Value of Equity (EVE).
   • It assesses the present value of the bank's assets and liabilities, quantifying the changes in their value due to variations in interest rates.
   • By focusing on the economic value, this method provides a comprehensive view of the potential long-term implications of interest rate risk on the bank's financial stability.

Key Components of Interest Rate Risk Monitoring

To manage interest rate risk effectively, the bank employs the following tools and practices:

1. Repricing Gap Analysis:
   • The bank regularly analyses the mismatch between the maturity and repricing schedules of assets and liabilities to identify potential risks arising from interest rate changes.

1. Scenario and Stress Testing:
   • Quantitative models are used to measure the sensitivity of NII and EVE to parallel and non-parallel shifts in the yield curve.
   • The bank conducts periodic stress testing to evaluate its resilience under adverse interest rate scenarios. These tests help in understanding the impact of extreme but plausible market conditions.

2. Hedging Strategies:
   • Where necessary, the bank employs hedging instruments such as interest rate swaps and options to mitigate the impact of adverse rate movements on earnings and capital.

4. ALCO Oversight: • The Asset and Liability Committee (ALCO) regularly reviews interest rate risk metrics, provides strategic guidance, and ensures that exposures remain within Board-approved limits and regulatory thresholds.

# NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024
## (RO'000)

**37. Financial risk management (continued)**

**37.3 Market risk (continued)**

**37.3a Exposure to interest rate risk – non trading portfolios (continued)**

The Basel-II Accord recommended that banks should assess the impact of interest rate risk by applying a 200 bps interest rate sensitivity and accordingly the impact of 200 bps interest rate shock on the Bank's earnings and capital is provided below:

| | **31 December 2024** | 31 December 2023 |
|---|---|---|
| **Net interest income (including Islamic financing)** | **180,993** | 125,879 |
| **Total Regulatory Capital (note 38)** | **821,929** | 764,056 |
| ***Based on 50 bps interest rate shock*** | | |
| Impact of 50 bps interest rate shock | **11,643** | 9,726 |
| Impact as % to net interest income | **6.43%** | 7.73% |
| Impact as % to capital | **1.42%** | 1.27% |
| ***Based on 100 bps interest rate shock*** | | |
| Impact of 100 bps interest rate shock | **23,286** | 19,451 |
| Impact as % to net interest income | **12.87%** | 15.45% |
| Impact as % to capital | **2.83%** | 2.55% |
| ***Based on 200 bps interest rate shock*** | | |
| Impact of 200 bps interest rate shock | **46,574** | 38,903 |
| Impact as % to net interest income | **25.73%** | 30.91% |
| Impact as % to capital | **5.67%** | 5.09% |

**37.3b Exposure to other market risks**

Investment value risk is the risk of reduction in the market value of the Bank's portfolio as a result of diminution in the market value of individual investments. The responsibility for management of investment value risk rests with the Investment division under the supervision and guidance of the Management Investment Committee. The Bank's investments are governed by an investment policy approved by the Board of Directors. The ratings and prices of the instruments are monitored on a regular basis and necessary actions are taken to reduce exposure if needed. The portfolio is revalued at market price to ensure that unrealised losses, if any, on account of reduction in the market value of the investments remains within acceptable parameters.

**Security by country**

| | **Changes in fair value +/- 5%** | |
|---|---|---|
| | **31 December 2024** | 31 December 2023 |
| Oman | **279** | **87** |
| Other Gulf Co-operation Council (GCC) countries | **4** | **4** |

## NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024
## (RO'000)

**37. Financial risk management (continued)**

**37.3 Market risk (continued)**

**37.3b Exposure to other market risks (continued)**

**Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on the total open position and open position per currency. The open position limits include overnight and intraday open position. Open positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits. The Bank had the following net open positions denominated in foreign currencies:

| | **31 December 2024** | | | 31 December 2023 | | |
|---|---|---|---|---|---|---|
| | **Assets FCY' 000** | **Liabilities FCY' 000** | **Net (liabilities)/assets FCY' 000** | Assets FCY' 000 | Liabilities FCY' 000 | Net (liabilities)/assets FCY' 000 |
| **US Dollar** | **8,914,502** | **8,469,796** | **444,706** | 7,040,951 | 6,813,563 | 227,388 |
| **UAE Dirhams** | **6,200,623** | **6,297,125** | **(96,502)** | 6,718,317 | 6,782,930 | (64,613) |
| **Euro** | **1,875,303** | **1,875,941** | **(638)** | 1,347,110 | 1,347,771 | (661) |
| **Japanese Yen** | **791,555** | **775,077** | **16,478** | 17,031,136 | 16,954,053 | 77,083 |
| **Pound Sterling** | **287,422** | **287,138** | **284** | 262,277 | 261,427 | 850 |
| **Swiss Franc** | **165,713** | **165,150** | **563** | 2,331 | 2,230 | 101 |
| **Indian Rupee** | **73,074** | **1,128** | **71,946** | 20,406 | 1,128 | 19,278 |

| | **Changes in fair value +/- 5%** | |
|---|---|---|
| | **31 December 2024** | 31 December 2023 |
| **Currency risk** | **481.59** | **543.8** |

The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

**37.4 Operational risk**

As per Regulatory guidelines operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, or from external events and excludes credit, market and liquidity risks. It includes Legal Risk however excludes Strategic and Reputational Risk.

The Bank's objective is to manage operational risk to avoid/reduce financial losses to the Bank by the establishment of the necessary controls, systems and procedures. The Bank recognises that an over-controlled environment will affect the Bank's business and earnings, besides adding to costs. Therefore, the Bank aims to effectively manage operational risk through control optimisation and well-established systems, methods and governance framework.

## NOTES TO FINANCIAL STATEMENTS
### FOR THE YEAR ENDED 31 DECEMBER 2024
### (RO'000)

**37. Financial risk management (continued)**

**37.4 Operational risk (continued)**

In this regard, the primary responsibility for development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank's standards in the following areas for management of operational risk:

- Clear reporting lines.
- Proper delegation of powers.
- Appropriate segregation of duties and authorisation of transactions through a maker checker system and authorisation matrix.
- Ownership reconciliation and monitoring of accounts.
- Documentation of controls and processes.
- Compliance with regulatory and other legal requirements.
- Periodic assessment of the operational risks faced and evaluating the adequacy of controls and procedures to address the risks identified.
- Reporting of operational losses and incidents triggering operational losses and remedial action.
- Development of contingency plans.
- Training, skill up gradation and professional development.
- Ethical and business standards; and
- Risk mitigation through insurance, wherever desirable.

In this regard, Bank has put in place a Board approved Operational Risk Management Policy & Framework (ORMF) which ensures compliance with all applicable local Regulatory guidelines as well as global standards, stipulated in the Basel Committee on Banking Supervision (BCBS). The core objective of the Operational Risk Management Policy & Framework is to continuously ensure that risks related to people, processes, systems and external events are adequately managed, through a set of well-defined policies and procedures / guidelines. These policies & procedures in the Bank are supported with robust systems, applications & workflows, together with well training & skilled staff in respective business, operations and support divisions.

The Bank has an independent Operational Risk Management Department, reporting to Chief Risk Officer (CRO) and it is adequately staffed, comprising of specialised resources / staff with adequate levels of experience and knowledge in different areas of banking business, wherein the Head of Operational Risk is directly involved in the recruitment, objective setting and appraisal of the staff. For effective management of Operational Risk, the core Operational Risk Management Department staff / risk officers, closely interacts / collaborates with Risk & Control Managers (RCM) from 1st and 2nd Line, who are nominated staff within all critical lines of business & operations, and responsible for ensuring Operational Risk policy requirements are adequately adhered, thereby improving the overarching internal control environment in the Bank. These RCMs acts as subject matter experts with deep technical and functional knowledge along with adequate understanding of Bank's Operational Risk Policy & Regulatory requirements, and together with core Operational Risk Management Department, they regularly oversee, support and challenge activities of business and operations and ensures optimization of risk –reward trade-off, by aligning risk taking and strategic planning.

It is pertinent to note that Bank has implemented all key control measures necessary to mitigate Operational Risk, which includes but not limited to, adequate segregation of duties, access control, robust change management governance, sound business continuity planning and physical security controls, alongside Data back, disaster recovery measures and need-based staff training & awareness.

Furthermore, Bank has implemented a structured Operational Risk Loss Event reporting process/system to promptly identify and mitigate any control deficiencies/process lapses. In addition, the Bank has a comprehensive Risk Control Self-assessment (RCSA) process in place which is conducted on periodic basis for all critical business lines, with the aim to identify, assess, mitigate, monitor and report all key risks. In line with Regulatory requirements, Bank maintains a comprehensive Operational Risk incident / internal loss database, duly categorising them as per BCBS requirements to study the loss trends and for preparing towards higher approaches for Operational Risk Management.

With respect to Management and Board oversight, Bank has instituted a strong governance framework through formulation of committees at different levels, for effective management and implementation of ORMF. In this regard, at Board level, the Board Risk Committee (BRC), has been delegated the task of implementing and effective ORMF within the Bank, while at the Executive Management level, the Management Risk Committee (MRC) is responsible to periodically review, monitor and provide suitable guidance/instruction on bank's non-financial risk areas, namely Operational Risk, Compliance Risk, Information Security Risk and Legal Risk and further ensure appropriate Management actions are undertaken where necessary. For the purpose, the Operational Risk Management Department submits periodic reports to both MRC and BRC and discusses various key issues, incidents and emerging risks along with mitigation measures which are in place.

# NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024
## (RO'000)

**37. Financial risk management (continued)**

**37.5 Business Continuity Management**

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

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

**38. Capital management**

The Bank's lead regulator, the CBO, sets and monitors the capital requirements for the Bank as a whole. In implementing current capital requirements CBO requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets. The Bank calculates capital requirements for market risk and operational risk based upon the model prescribed by the CBO as follows:

- Claims against sovereign entities in the respective national currencies – Nil
- Claims against sovereign entities in other currencies – 100% risk weighting is applied as prescribed by the CBO
- Retail and Corporate loans – In the absence of credit rating model 100% risk weighting is applied
- Off balance sheet items – As per credit conversion factors and risk weighting prescribed by the CBO

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital includes ordinary share capital, share premium, perpetual tier 1 capital securities classified as innovative Tier 1 securities, retained earnings, translation reserve and minority interests after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital includes qualifying subordinated liabilities, collective impairment allowances and unrealised losses on equity instruments classified as available for sale investments.

Various limits are applied to elements of the capital base. The amount of innovative tier 1 securities cannot exceed 15 per cent of total tier 1 capital; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 per cent of tier 1 capital. There are also restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of banks and certain other regulatory items.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The Bank's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

In order to smoothen the higher volatility in ECL computation and its impact on regulatory capital of the Banks due to Covid19, CBO has issued a new interim requirement to apply a "prudential filter" on IFRS 9 ECL provisions for calculating the regulatory capital. The impact of this prudential filter on the Bank's regulatory capital is 52 bps.

The capital adequacy ratio is calculated in accordance with Basel II & Basel III requirements as adopted by CBO. Disclosures required under Basel III and circular BM-1114 dated 17 November 2013 issued by CBO are available on the Investor Relations page of the Bank's website.

## NOTES TO FINANCIAL STATEMENTS
**FOR THE YEAR ENDED 31 DECEMBER 2024**
**(RO'000)**

**38. Capital management (continued)**

The international standard for measuring capital adequacy is the risk asset ratio, which relates capital to balance sheet assets and off-balance sheet exposures weighted according to broad categories of risk. The risk asset ratio calculated in accordance with the capital adequacy guidelines of the Bank for International Settlement is as follows:

| | **31 December 2024** | 31 December 2023 |
|---|---|---|
| **CET 1 capital** | | |
| Ordinary share capital | **702,508** | 561,572 |
| Share premium | **18,038** | 18,038 |
| Legal reserve | **55,900** | 44,910 |
| General reserve | **988** | 988 |
| Retained earnings [(1)] | **75,557** | 53,008 |
| Fair value reserve on acquisition | **(11,411)** | (11,411) |
| Intangible [(2)] | **(61,140)** | (56,622) |
| Fair value losses | **(1,723)** | (645) |
| **Total CET 1 capital** | **778,717** | 609,838 |
| **Additional Tier 1 capital** | | |
| Perpetual tier 1 capital securities | - | 100,000 |
| **Total Tier 1 capital** | **778,717** | 709,838 |
| **Tier 2 capital** | | |
| Impairment allowance on portfolio basis | **43,191** | 54,183 |
| Fair value gains | **21** | 35 |
| **Total Tier 2 capital** | **43,212** | 54,218 |
| **Total regulatory capital** | **821,929** | 764,056 |
| **Risk weighted assets** | | |
| Credit risk | **4,188,315** | 3,898,527 |
| Market risk | **189,749** | 103,013 |
| Operational risk | **367,264** | 269,921 |
| **Total risk weighted assets** | **4,745,328** | 4,271,461 |
| **Capital adequacy ratio** | | |
| Total CET 1 capital expressed as a percentage of total risk weighted assets | **16.41%** | 14.28% |
| Total tier I capital expressed as a percentage of total risk weighted assets | **16.41%** | 16.62% |
| Total regulatory capital expressed as a percentage of total risk weighted assets | **17.32%** | 17.89 % |

[(1)] Retained earnings for the year 2024 is stated after deducting proposed cash dividend of RO 52.94 million (31 December 2023: RO 30.07 million).

[(2)] Intangible assets net of deferred tax liability is a deduction from CET1 capital.

## NOTES TO FINANCIAL STATEMENTS
**FOR THE YEAR ENDED 31 DECEMBER 2024**
**(RO'000)**

**39. Segmental information**

Segment information is presented in respect of the Bank's operating segments as follows:

- **Retail banking:**

Retail banking delivers superior customer experience to individuals through cutting edge technology and best in class relationship management through its extensive branch network, offering a wide range of products including personal loans, house finance, foreign currency, credit cards, current and term deposits.

The private banking and wealth management team provide value-added services including fund management and advisory.

- **Wholesale banking:**

The corporate banking team provides corporate loan and working capital facilities in addition to trade and payment cash management products and services.

The global banking and markets team offer money market, foreign exchange and derivative products to customers in addition to managing the Bank's overall balance sheet funding and liquidity.

The investment banking team provides debt capital markets advisory services and funds management services in addition to managing the Bank's proprietary investment portfolio.

The government banking team provides customised value-added products and services to the unique needs of government ministries, public enterprises, and NGOs.

The priority banking team provides advisory services to foreign investors seeking to enter the Omani market through direct investments in addition to providing a range of personalised and customised financial solutions to family offices and non-residents.

- **Islamic banking** provides Shari'ah compliant products and services to its customer base.

- **KSA branch** offers commercial and Islamic banking products and services to customers in Saudi Arabia.

# NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024
## (RO'000)

**39. Segmental information (continued)**

| 31 December 2024 | Retail banking | Wholesale banking | Islamic banking | KSA branch | Head Office | Total |
|---|---|---|---|---|---|---|
| **PROFIT AND LOSS** | | | | | | |
| Net interest income | 35,778 | 133,718 | - | 544 | - | 170,040 |
| Net income from Islamic financing and investing activities | - | - | 10,953 | - | - | 10,953 |
| Other operating income | 17,572 | 41,271 | 5,035 | 75 | - | 63,953 |
| **Total Operating Income** | 53,350 | 174,989 | 15,988 | 619 | - | 244,946 |
| **Total Operating Expenses** | (36,276) | (45,699) | (6,533) | (4,422) | (5,479) | (98,409) |
| **Net Operating Income Before Impairment Provisions** | 17,074 | 129,290 | 9,455 | (3,803) | (5,479) | 146,537 |
| Loan impairment charges and other credit risk provisions (net) | (2,268) | (34,302) | (1,096) | (194) | - | (37,860) |
| Gain on bargain purchase | - | - | - | - | 9,234 | 9,234 |
| **Profit before tax** | 14,806 | 94,988 | 8,359 | (3,997) | 3,755 | 117,911 |
| Income tax expense | (2,221) | (13,697) | (1,254) | - | (558) | (17,730) |
| **Profit for the year** | 12,585 | 81,291 | 7,105 | (3,997) | 3,197 | 100,181 |
| **FINANCIAL POSITION** | | | | | | |
| **Assets** | | | | | | |
| Cash and balances with Central Bank | - | 179,180 | 23,304 | 469 | - | 202,953 |
| Due from banks | - | 489,878 | 71,774 | 78 | - | 561,730 |
| Investment securities | - | 2,068,049 | 45,244 | 5,736 | - | 2,119,029 |
| Loans, advances and Islamic financings (net) | 1,192,828 | 2,312,266 | 681,482 | 83,232 | - | 4,269,808 |
| Other assets | - | 21,468 | 2,498 | 564 | 33,439 | 57,969 |
| Investment properties | - | - | - | - | 2,900 | 2,900 |
| Property and equipment | - | - | 2,387 | 2,667 | 69,310 | 74,364 |
| Intangible assets | - | - | - | - | 71,998 | 71,998 |
| **TOTAL ASSETS** | 1,192,828 | 5,070,841 | 826,689 | 92,746 | 177,647 | 7,360,751 |
| **Liabilities** | | | | | | |
| Due to banks | - | 556,046 | 14,173 | 94 | - | 570,313 |
| Customer deposits | 1,083,534 | 3,994,315 | 697,461 | 1,730 | - | 5,777,040 |
| Other liabilities | - | 20,627 | 5,790 | 1,903 | 86,772 | 115,092 |
| **TOTAL LIABILITIES** | 1,083,534 | 4,570,988 | 717,424 | 3,727 | 86,772 | 6,462,445 |
| **Internal Funding (net)** | 109,294 | 499,853 | 18,900 | 89,019 | (717,066) | - |
| **TOTAL EQUITY** | - | - | 90,365 | - | 807,941 | 898,306 |
| **TOTAL LIABILITIES & EQUITY** | 1,192,828 | 5,070,841 | 826,689 | 92,746 | 177,647 | 7,360,751 |

## NOTES TO FINANCIAL STATEMENTS
### FOR THE YEAR ENDED 31 DECEMBER 2024
### (RO'000)

**39. Segmental information (continued)**

| 31 December 2023 | Retail banking | Wholesale banking | Islamic banking | Head Office | Total |
|---|---|---|---|---|---|
| PROFIT AND LOSS | | | | | |
| Net interest income | 14,808 | 103,646 | - | - | 118,454 |
| Net income from Islamic financing and investing activities | - | - | 7,425 | - | 7,425 |
| Other operating income | 10,737 | 23,581 | 3,210 | | 37,528 |
| Total Operating Income | 25,545 | 127,227 | 10,635 | - | 163,407 |
| Total Operating Expenses | (32,233) | (34,505) | (5,552) | (4,638) | (76,928) |
| Net Operating Income Before Impairment Provisions | (6,688) | 92,722 | 5,083 | (4,638) | 86,479 |
| Loan impairment charges and other credit risk provisions (net) | 15,418 | (119,423) | (1,064) | - | (105,069) |
| Gain on bargain purchase | - | - | - | 91,751 | 91,751 |
| Profit before tax | 8,730 | (26,701) | 4,019 | 87,113 | 73,161 |
| Income tax expense | (1,310) | 3,836 | (603) | (4,749) | (2,826) |
| Profit for the year | 7,420 | (22,865) | 3,416 | 82,364 | 70,335 |
| FINANCIAL POSITION | | | | | |
| Assets | | | | | |
| Cash and balances with Central Bank | - | 167,437 | 38,232 | - | 205,669 |
| Due from banks | - | 633,227 | 18,777 | - | 652,004 |
| Investment securities | - | 1,686,630 | 24,552 | - | 1,711,182 |
| Loans, advances and Islamic financings (net) | 1,231,608 | 2,171,271 | 518,313 | - | 3,921,192 |
| Other assets | - | 30,340 | 1,777 | 21,471 | 53,588 |
| Investment properties | - | - | - | 2,900 | 2,900 |
| Property and equipment | - | - | 2,361 | 73,210 | 75,571 |
| Intangible asset | - | - | - | 66,614 | 66,614 |
| TOTAL ASSETS | 1,231,608 | 4,688,905 | 604,012 | 164,195 | 6,688,720 |
| Liabilities | | | | | |
| Due to banks | - | 650,954 | 25,166 | - | 676,120 |
| Customer deposits | 992,936 | 3,603,295 | 506,814 | - | 5,103,045 |
| Other liabilities | - | 32,117 | 2,389 | 72,975 | 107,481 |
| TOTAL LIABILITIES | 992,936 | 4,286,366 | 534,369 | 72,975 | 5,886,646 |
| Internal Funding (net) | 238,672 | 402,539 | | (641,211) | - |
| TOTAL EQUITY | - | - | 68,757 | 733,317 | 802,074 |
| TOTAL LIABILITIES & EQUITY | 1,231,608 | 4,688,905 | 603,126 | 165,081 | 6,688,720 |

## NOTES TO FINANCIAL STATEMENTS
### FOR THE YEAR ENDED 31 DECEMBER 2024
### (RO'000)

**40. Business combination – Purchase consideration and identifiable net assets acquired**

The merger by incorporation with HBON has been accounted for using the acquisition method of accounting. Accordingly, assets acquired, liabilities assumed, and consideration exchanged are recorded at estimated fair value on the acquisition date.

The purchase consideration (also referred to as "purchase price") has been allocated to the acquired assets and liabilities using their provisional fair values at the merger date. The calculation of the purchase consideration and its allocation to the net assets of the merged entity is based on their respective fair values as of the merger date and the resulting gain on bargain purchase is detailed below.

Gain on bargain purchase is based on the provisional purchase price allocation and represents the difference between purchase consideration and fair value of identifiable net assets. The allocation of the purchase price may be modified within a period of twelve months from the date of business combination, as more information is obtained about the fair value of assets acquired and liabilities assumed, including alignment in business models as appropriate.

The fair value of identifiable assets and liabilities of HBON as at the merger date and subsequent fair value adjustments and additions are as follows:

| | **31 December 2024** | 31 December 2023 |
|---|---|---|
| **Assets** | | |
| Cash and balances with Central Bank | **456,817** | 456,817 |
| Due from banks | **477,913** | 477,913 |
| Investment securities | **62,087** | 62,087 |
| Loans and advances (net) | **1,123,979** | 1,123,979 |
| Other assets | **38,913** | 38,913 |
| Property and equipment | **19,977** | 19,977 |
| Intangible assets (Note 13) | **79,174** | 68,311 |
| **Total assets** | **2,258,860** | 2,247,997 |
| **Liabilities** | | |
| Due to banks | **65,728** | 65,728 |
| Customer deposits | **1,654,871** | 1,654,871 |
| Other liabilities | **94,329** | 92,700 |
| **Total liabilities** | **1,814,928** | 1,813,299 |
| **Fair value of net identifiable assets at merger date (a)** | **443,932** | 434,698 |
| Preliminary fair value adjustments (net) | - | - |
| | 443,932 | 434,698 |
| **Less: Consideration for the merger** | | |
| Ordinary shares | 106,216 | 106,216 |
| Fair value reserve on acquisition | (11,411) | (11,411) |
| Fair value of shares issued | 94,805 | 94,805 |
| Cash | 248,142 | 248,142 |
| **Total consideration paid (b)** | **342,947** | 342,947 |
| **Gain on bargain purchase (a) – (b)** | **100,985** | 91,751 |
| **Recognized in the statement of comprehensive income** | | |
| For the year ended 31 December 2023 | **91,751** | |
| For the year ended 31 December 2024 | **9,234** | |
| | **100,985** | |

# NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2024
## (RO'000)

**40. Business combination – Purchase consideration and identifiable net assets acquired (continued)**

The following tables summarize the impact on the Bank's financial statements for the year ended 31 December 2023, had the PPA adjustment been recognised in prior year.

### Statement of financial position

| | Previously reported 31 December 2023 | PPA adjustment | Including PPA 31 December 2023 |
|---|---|---|---|
| Intangible assets | 66,614 | 10,593 | 77,207 |
| All other assets | 6,622,106 | - | 6,622,106 |
| **Total assets** | **6,688,720** | **10,593** | **6,699,313** |
| Deferred tax liability (net) | 10,893 | 1,629 | 12,522 |
| Income tax provision | 6,178 | (40) | 6,138 |
| All other liabilities | 5,869,575 | - | 5,869,575 |
| **Total liabilities** | **5,886,646** | **1,589** | **5,888,235** |
| Retained earnings | 83,081 | 9,004 | 92,085 |
| All other equity | 718,993 | - | 718,993 |
| **Total equity** | **802,074** | **9,004** | **811,078** |
| **Total liabilities and equity** | **6,688,720** | **10,593** | **6,699,313** |

### Statement of comprehensive income

| | | | |
|---|---|---|---|
| Gain on bargain purchase | 91,751 | 9,234 | 100,985 |
| Amortization of intangible asset | (1,697) | (270) | (1,967) |
| Income tax expense | (2,826) | 40 | (2,786) |
| All other items | (16,893) | - | (16,893) |
| **Profit for the year** | **70,335** | **9,004** | **79,339** |
| Other comprehensive income | (410) | - | (410) |
| **Total comprehensive income** | **69,925** | **9,004** | **78,929** |

**41. Comparative figures**

Certain comparative figures for 2023 have been reclassified to conform to the presentation for the current year. Such reclassifications do not affect previously reported profit for the year or shareholders' equity.