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 2024, 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**		Note	**31 December 2024**	31 December 2023
USD'000	**USD'000**			**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
3.25	**4.42**	**Basic and diluted earnings per share for the year**	*31*	**17.02**	12.50

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

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

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)

		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	Note	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 41 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

Interest income received was RO 237.04 million (2023: RO 177.09 million) and interest expense paid was RO 193.99 million (2023: RO 148.17 million). These form part of operating cash flows of the Bank.

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

The financial statements have been prepared in accordance with IFRS and are presented in Omani Rial.
For the convenience of users, supplementary information is provided in the form of a presentation of financial statement numbers in United States Dollar (USD), in addition to the primary financial statements presented in the local currency. This supplementary information is for informational purposes only and does not form part of the audited financial statements.

The USD-converted figures are derived using 1 USD = 0.385 OMR for the statement of financial position, the statements of comprehensive income, changes in equity and cash flows for the year ended 31 December 2024 and 31 December 2023.

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

3.2 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.

3.2a 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'.

3.2b. 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.

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.

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.

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 at the same effective interest rate for comparable risk 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.

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.

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.

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 designated 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.

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.

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: POCI financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL are incorporated into the calculation of the effective interest rate on initial recognition. Consequently, POCI assets do not carry an impairment allowance on initial recognition. The amount recognised as a loss allowance subsequent to initial recognition is equal to the changes in lifetime ECL since initial recognition of the asset.

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:

- 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.

4. Material accounting policies (continued)

4.3 Financial instruments (continued)

4.3g Restructured financial assets

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

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

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.

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:

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

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.

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 Employee benefits

4.10a 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.

4.10b 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.

4.10c 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.

4.11 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)

4.12 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.

4.13 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.

4.14 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.

4.15 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.

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 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.

5.5 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.

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(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	**(90,279)**	-	-	**(90,279)**	-
Gross carrying amount	**562,221**	-	-	**562,221**	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

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(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	**1,689,123**	1,221,455
Less: ECL provision	**-**	-
Held at FVOCI (net)	**1,689,123**	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	**2,097,154**	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
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(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	**327,965**	381,818
Service sector	**36,836**	14,215
Treasury bills	**5,736**	-
	370,537	396,033
Less: ECL provision	**(188)**	(108)
	370,349	395,925

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8. Investment securities (continued)

8.3 Held at amortised cost (continued)

The analysis of changes in the amortised cost 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

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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

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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

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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)	**11,086**	1,432
Others	**13,345**	11,156
	58,038	**53,588**

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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

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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

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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.

The percentage shareholdings of the Bank as at 31 December is as follows:

	2024	2023
Royal Court Affairs	19.4	13.8
Oman Investment and Finance SAOG (OIFC)	13.1	13.0
The Seventh Moon Investment LLC	6.4	7.6
Neptune National Investments LLC	5.5	6.6
Western Sea Investments LLC	5.4	6.4
Others (widely spread)	50.2	52.6
Total	**100**	100

Share premium of RO 18.038 million (31 Dec. 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.

(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 IFRS 9 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 IFRS 9 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. Utilisation 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.

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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

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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**
Additions during the year	**573,875**	**-**	**-**	**573,875**
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
Acquired during the year	935,147	-	-	935,147
Additions during the year	129,506	5,524	108	135,138
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

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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

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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

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30.b Income tax provision

Tax assessments of the Bank until 2020 have been completed. 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**	12.50

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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]**	**IFRS 9 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**	**146,789**	**137,886**	**8,903**	**51,429**	**51,512**
Sub Total		**189,315**	**146,789**	**137,886**	**8,903**	**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**	**154,219**	**146,858**	**7,361**	**72,196**	**52,131**
Sub Total		**4,616,660**	**215,549**	**346,852**	**(131,303)**	**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**	**154,219**	**147,587**	**6,632**	**73,089**	**52,131**
	Total	**8,761,166**	**215,549**	**349,285**	**(133,736)**	**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.

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32. Impairment of financial instruments (continued)

Classification: CBO	IFRS 9	Gross Carrying amount	CBO Provision[ii]	IFRS 9 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.

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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 IFRS 9, 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	**287,440**	**349,285**	**61,845**
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

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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:

Restructured loans are defined as loans, advances, and Islamic financings whose original terms have been altered due to financial difficulties of the borrower. Modifications may involve reduced interest rates, extended maturity dates, principal forgiveness or reduction, interest capitalization and payment deferrals. A loan continues to be presented as restructured until maturity, early repayment, or write-off.

31 December 2024

Classification: CBO	**IFRS 9**	**Gross Carrying amount**	**CBO Provision**	**IFRS 9 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**	**(11,667)**	**25,412**
Sub Total		**58,627**	**21,548**	**33,215**	**(11,667)**	**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**	**(11,667)**	**25,412**
Total		**438,273**	**30,115**	**58,049**	**(27,934)**	**380,225**

Classification: CBO 31 December 2023	IFRS 9	Gross Carrying amount	CBO Provision	IFRS 9 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

32. Impairment of financial instruments (continued)

In addition to the above, loan outstandings of customers whose credit facilities were rescheduled as per the COVID19 guidelines of Central Bank of Oman amount to 349,189 (Stage 1: 126,203, Stage 2: 219,820, Stage 3: 3,166) with an impairment allowance of 28,838 (Stage 1: 1,834, Stage 2: 26,307, Stage 3: 697). In 2023, loan outstandings of customers whose credit facilities were rescheduled as per the COVID19 guidelines of Central Bank of Oman amount to 384,885 (Stage 1: 193,129, Stage 2: 189,362, Stage 3: 2,394) with an impairment allowance of 33,097 (Stage 1: 5,476, Stage 2: 27,128, Stage 3: 493).

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.

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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

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33. Fair value of financial instruments (continued)

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

31 December 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.

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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

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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).

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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	**10,876**	**9**	**938,940**	**891,868**	**10,373**	**36,699**
Interest rate swaps	**155**	**513**	**115,500**	**-**	**38,500**	**77,000**
Total	**11,086**	**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				

36. Derivatives (continued)

36.3 Fair value hedges

36.3a Interest rate swaps

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

37. Financial risk management

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

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

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

Executive Nomination & Remuneration Committee

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

Board Audit Committee

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

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

Credit Approval Committee

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

Board Risk Committee

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

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

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

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

37. Financial risk management (continued)

There are sub-committees at management level for managing risks. The Asset and Liability Committee (ALCO) manages the risks in the balance sheet arising out of liquidity management, interest rates management as well as tenor of exposures taken by the Bank. ALCO provides management with guidance on managing these risks. Risk appetite is articulated through various limits, ratios and caps. Operational Risk and Information security risk is managed under the guidance of Management Risk Committee (MRC) at the management level. A separate ALCO has also been established to monitor the performance of the assets of Sohar Islamic. 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 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.

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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 IFRS 9	**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.

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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.

31 December 2024	Performing	Past due but not impaired	Credit impaired	Total
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)	1,216,170	14,756	-	1,230,927
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	1,426,992	34,641	1,622	1,463,255
Due from banks (Grades 1-5)	562,221	-	-	562,221
Investment securities (Grades1-5)	2,088,928	8,223	-	2,097,151
Cash and balances (BBB-)	202,953	-	-	202,953
Other assets (unrated)	58,038	-	-	58,038

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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	1,700,471	8,223	-	1,708,694
Cash and balances (BB+)	205,669	-	-	205,669
Other assets (unrated)	53,588	-	-	53,588

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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.

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. Such events include:

- Internal rating of the borrower indicating default or near-default and/or substantial downgrade of rating by at least 2 rating grades
- 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.

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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	
2	Investment Grade	
2-	Investment Grade	0.8% - 1.00%
3+	Investment Grade	
3	Investment Grade	
3-	Investment Grade	1.11%-1.36%
4+	Investment Grade	
4	Investment Grade	
4-	Investment Grade	1.50%-1.90%
5+	Investment Grade	
5	Investment Grade	
5-	Investment Grade	2.16%-2.64%
6+	Investment Grade	
6	Investment Grade	
6-	Investment Grade	2.87%-3.31%
7+	Sub Investment Grade	
7	Sub Investment Grade	3.61%-5.80%
7-	Sub Investment Grade	
8 to 10	Non-Performing	100%

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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. Economic scenarios included the below key indicators in the base case for the Bank's portfolio:

		2025	2026
a)	Public external debt/Total external debt (%)	38.20	40.40
b)	Europe Brent Spot Price FOB (Dollar per barrel) Lag3	87.68	88.11
c)	Current-account balance/GD (%) Lag4	0.20	(0.50)
d)	Net foreign direct investment/GDP(%) Lag 2	5.77	5.57
e)	Gross Domestic Savings/GDP (%) Lag 2	41.05	41.46

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.

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 IFRS 9 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.

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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	**2,607,498**	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
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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
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(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

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
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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
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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		-	-	-	58,038	58,038
Investment properties		-	-	-	2,900	2,900
Property and equipment		-	-	-	74,364	74,364
Intangible assets		-	-	-	71,929	71,929
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	-	-

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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.
2. 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.
3. 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.

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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
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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
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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.

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
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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
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39. Segmental information

The Chief Executive Officer monitors the performance of the following key business segments.

Retail Banking:

Retail banking offers individual customers a wide range of products and services including current and term deposits, housing finance, personal loans, insurance, credit cards, foreign exchange and wealth management products delivering a superior customer experience through the Bank's extensive branch network and market leading digital channels.

- **Retail & Premier Banking:** delivers retail products and services to a wide base of individual customers including its Premier customer segment.
- **Wealth Management:** delivers retail products and services as well as wealth management advisory to high-net-worth individuals (HNWI).

Wholesale Banking:

Wholesale banking offers its diversified customer base a wide range of products and services including loans, working capital facilities, term deposits, trade financing, cash management, custodial services, treasury, investment banking and funds management, delivered through its dedicated and specialised customer and product groups:

- **Corporate Banking:** delivers wholesale products and services to large corporates as well as small and medium sized enterprises (SME).
- **Investment Banking:** provides debt capital markets advisory, custodial services, and funds management across all wholesale banking customers in addition to managing the Bank's proprietary investment portfolio.
- **Government & Private Banking**: provides customised value-added products and services to the unique needs of government ministries, public enterprises, NGOs, and ultra-high net worth individuals (UHNWI).
- **Priority Banking:** 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.
- **Global Markets:** provides money market, foreign exchange, and derivative products to wholesale banking customers. The treasury team also manages the Bank's overall balance sheet funding, liquidity, and market risk position.

Islamic Banking:

The Islamic Banking Window ("Sohar Islamic") offers a full range of Islamic banking services and products to individuals and corporates. 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).

KSA Branch:

The Bank established a Branch in the Kingdom of Saudi Arabia (KSA) in 2023. The KSA Branch currently provides Wholesale Banking services.

Head Office:

Head office includes all assets, liabilities, and equity not directly attributable to business segments. Profit and Loss includes those items that are not directly attributable to business segments.
Transfer pricing between business segments is on an arm's length basis in a similar manner to transactions with third parties.

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	33,508	58,038
Investment properties	-	-	-	-	2,900	2,900
Property and equipment	-	-	2,387	2,667	69,310	74,364
Intangible assets	-	-	-	-	71,929	71,929
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
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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

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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 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 represents the difference between purchase consideration and fair value of identifiable net assets.

The fair value of identifiable assets and liabilities of HBON as at the merger date 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
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 identified in 2024 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.

SOHAR ISLAMIC
(ISLAMIC BANKING WINDOW OF SOHAR INTERNATIONAL BANK SAOG)

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2024

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2024

	Note	**31 December 2024 RO'000**	31 December 2023 RO'000
ASSETS			
Cash and balances with Central Bank	*5*	**23,304**	38,232
Receivables from financial institutions	*6*	**71,774**	18,777
Investment securities	*7*	**45,244**	24,552
Murabaha receivables	*8.a*	**22,850**	31,466
Ijarah muntahia bittamleek	*8.b*	**87,850**	93,587
Istisna followed by ijarah muntahia bittamleek	*8.c*	**116,931**	101,142
Diminishing musharka	*8.d*	**220,724**	251,012
Qard hasan financing	*8.e*	**26**	33
Wakala bil istithmar	*8.f*	**204,846**	20,695
Property and equipment	*9*	**2,387**	2,361
Other assets	*10*	**30,753**	22,155
TOTAL ASSETS		**826,689**	604,012
LIABILITIES			
Current and other accounts	*11*	**58,590**	65,647
Due to financial institutions	*12*	**5,304**	4,233
Other liabilities	*13*	**5,789**	3,275
TOTAL LIABILITIES		**69,683**	73,155
QUASI-EQUITY			
Participatory investment accounts	*14*	**666,640**	462,100
TOTAL QUASI-EQUITY		**666,640**	462,100
OWNERS' EQUITY			
Allocated capital	*15.a*	**66,500**	51,500
Legal reserve	*15.b*	**134**	134
General reserve	*15.c*	**988**	988
Fair value reserve	*15.d*	**(452)**	44
Impairment reserve	*15.e*	**2,555**	1,641
Retained earnings		**20,641**	14,450
TOTAL OWNERS' EQUITY		**90,366**	68,757
TOTAL LIABILITIES, QUASI-EQUITY AND OWNERS' EQUITY		**826,689**	604,012
CONTINGENT LIABILITIES AND COMMITMENTS	*16*	**110,409**	99,714

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

Chairman *Board member*

The accompanying notes 1 to 30 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2024

	Note	31 December 2024 RO'000	31 December 2023 RO'000
Income from financing activities	*19*	**31,484**	24,720
Income from investing activities	*20*	**5,318**	2,286
Net income from financing and investing activities		**36,802**	27,006
Other operating income	*22*	**5,035**	3,210
TOTAL OPERATING INCOME		**41,837**	30,216
Staff costs		**(4,255)**	(3,408)
Other operating expenses	*23*	**(2,070)**	(1,913)
Depreciation	*9*	**(208)**	(231)
TOTAL OPERATING EXPENSE		**(6,533)**	(5,552)
NET OPERATING INCOME BEFORE IMPAIRMENT		**35,304**	24,664
Impairment charges (net)	*24*	**(1,096)**	(1,064)
NET OPERATING INCOME		**34,208**	23,600
Profit attributed to quasi-equity	*21*	**(25,849)**	(19,581)
PROFIT FOR THE YEAR BEFORE TAX		**8,359**	4,019
Income tax expense		**(1,254)**	(603)
PROFIT FOR THE YEAR		**7,105**	3,416
Items that will not be reclassified to profit and loss			
Revaluation loss on equity instruments held at fair value through other comprehensive income (FVOCI)		**(496)**	(161)
OTHER COMPREHENSIVE LOSS FOR THE YEAR		**(496)**	(161)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX		**6,609**	3,255

The accompanying notes 1 to 30 form an integral part of these financial statements.

STATEMENT OF INCOME AND ATTRIBUTION RELATED TO QUASI-EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2024

	Note	**31 December 2024 RO'000**	31 December 2023 RO'000
Profit for the year before profit attributed to quasi-equity after tax		**32,954**	22,997
Less: income not attributed to quasi-equity		**(15,717)**	(10,361)
Add: expenses not attributed to quasi-equity		**8,883**	7,219
Profit attributed to quasi-equity before Mudaraba income		**26,120**	19,855
Mudarib's share		**(271)**	(274)
Profit attributed to quasi-equity	*21*	**25,849**	19,581

The accompanying notes 1 to 30 form an integral part of these financial statements.

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

	Allocated capital RO'000	Legal reserve RO'000	General reserve RO'000	Impairment reserve RO'000	Fair value reserve RO'000	Retained earnings RO'000	Total RO'000
Balance as at 1 January 2024	**51,500**	**134**	**988**	**1,641**	**44**	**14,450**	**68,757**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**7,105**	**7,105**
Other comprehensive loss for the year	**-**	**-**	**-**	**-**	**(496)**	**-**	**(496)**
Total comprehensive income for the year, net of income tax	**-**	**-**	**-**	**-**	**(496)**	**7,105**	**6,609**
	-	**-**	**-**	**-**	**-**	**-**	**-**
Transfer to Impairment reserve	**-**	**-**	**-**	**914**	**-**	**(914)**	**-**
Capital allocation	**15,000**	**-**	**-**	**-**	**-**	**-**	**15,000**
Balance as at 31 December 2024	**66,500**	**134**	**988**	**2,555**	**(452)**	**20,641**	**90,366**

	Allocated capital RO'000	Legal reserve RO'000	General reserve RO'000	Impairment reserve RO'000	Fair value reserve RO'000	Retained earnings RO'000	Total RO'000
Balance as at 1 January 2023	41,500	134	988	472	205	12,203	55,502
Profit for the year	-	-	-	-	-	3,416	3,416
Other comprehensive loss for the year	-	-	-	-	(161)	-	(161)
Total comprehensive income for the year, net of income tax	-	-	-	-	(161)	3,416	3,255
Transfer to Impairment reserve	-	-	-	1,169	-	(1,169)	-
Capital allocation	10,000	-	-	-	-	-	10,000
Balance as at 31 December 2023	51,500	134	988	1,641	44	14,450	68,757

The accompanying notes 1 to 30 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2024

	Note	31 December 2024 RO'000	31 December 2023 RO'000
OPERATING ACTIVITIES			
Profit before tax		**7,105**	4,019
Adjustments for:			
Depreciation	*9*	**208**	231
Impairment charges (net)	*24*	**1,096**	1,064
Income from investment activities	*20*	**(1,530)**	(1,532)
Cash from operating activities before changes in operating assets and liabilities		**6,879**	3,782
Murabaha receivables		**8,617**	(6,520)
Ijarah muntahia bittamleek		**5,860**	6,248
Istisna followed by ijarah muntahia bittamleek		**(14,023)**	(7,207)
Diminishing musharka		**30,306**	(106,607)
Qard hasan financing		**7**	10
Wakala bil istithmar		**(183,914)**	24,566
Current and other accounts		**(7,057)**	24,425
Other assets		**(8,031)**	(5,928)
Other liabilities		**(658)**	(321)
Net cash used in operating activities		**(162,014)**	(67,552)
INVESTING ACTIVITIES			
Purchase of investment securities		**(32,374)**	(5,044)
Sale / matured investment securities		**11,117**	8,008
Acquisition of property and equipment		**(235)**	(1,310)
Income received on investments		**953**	1,859
Net cash from investing activities		**(20,539)**	3,513
FINANCING ACTIVITIES			
Quasi-equity participatory investment accounts		**205,622**	77,060
Proceed from allocation of capital		**15,000**	10,000
Net cash from financing activities		**220,622**	87,060
NET CHANGE IN CASH AND CASH EQUIVALENTS		**38,069**	23,021
CASH AND CASH EQUIVALENT AT BEGINNING OF YEAR		**57,009**	33,988
CASH AND CASH EQUIVALENTS AT END OF YEAR		**95,078**	57,009
REPRESENTING:			
Cash and balances with Central Bank	*5*	**23,304**	38,232
Receivables from financial institutions with maturity up to 90 days	*6*	**71,774**	18,777
		95,078	57,009

The accompanying notes 1 to 30 form an integral part of these financial statements.

1 Legal Status and Principal Activities

Sohar International Bank SAOG (the Owner / Head Office / the Bank) (previously 'Bank Sohar SAOG) under an Islamic Banking License issued by the Central Bank of Oman (CBO) on 30 April 2013, carries out Islamic banking operations and other financial trading activities in accordance with Islamic Shari'a rules and regulations under the name of "Sohar Islamic" (the Window). The Window's Shari'a Supervisory Board is entrusted to ensure the Window's adherence to Shari'a rules and principles in its transactions and activities. As required under clauses 3.5.1.2 and 3.5.1.3 of Title 1,'*Licensing Requirements*' of Islamic Banking Regulatory Framework (IBRF) issued by CBO, the head office assigned RO 66.5 million (refer note 15.a) to the Window as Share capital.

The Window does not operate as a separate legal entity. The separate financial statements of the Window has been prepared to comply with the requirement of Articles 1.5.1.2 to 1.5.1.4 of Title 2 'General Obligations and Governance' of IBRF issued by CBO.

The Window offers a full range of Islamic banking services and products. The principal activities of the Window include accepting Shari'a compliant customer deposits, providing Shari'a compliant financing and undertaking investment activities and providing commercial banking services and other investment activities permitted under IBRF.

The Window employed 183 employees as of 31 December 2024 (31 December 2023: 103) the window has 20 branches within Sultanate of Oman.

2 Basis of Preparation

2.1 Statement of compliance

The financial statements for the Window are prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") as modified by CBO, the Islamic Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Window and Islamic Banking Regulatory Framework issued by CBO. In accordance with the requirement of AAOIFI, for matters not covered by FAS, the Window uses standards issued by the International Accounting Standards Board (IASB) and the interpretations released by the International Financial Reporting Interpretations Committee and will be replaced later by FAS when an applicable FAS is issued.

These financial statements pertain to the Window's operations only and do not include financial results of the Bank. Statement of changes in restricted investment amount, statement of sources of funds in zakah and statement of sources and uses of funds in Qard Fund have not been presented as these are not applicable / relevant to Window's operations. Complete set of financial statements of the Bank is presented separately.

2.2 Basis of measurement

The financial statements have been prepared under the historical cost basis except for derivative financial instruments and investments which have been measured at fair value. These financial statements are presented in Rial Omani, which is the Window's functional currency. All financial information presented in Rial Omani has been rounded off to the nearest thousands.

2.3 Use of Judgments and estimates

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

2 Basis of Preparation (continued)

2.3 Use of Judgments and estimates (continued)

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Estimates considered by the Window to have a significant risk of material adjustment in subsequent periods are discussed in note 4.

2.4 New standards, amendments, and interpretations effective for annual periods beginning on or after 1 January 2024

For the year ended 31 December 2024, Sohar Islamic has adopted all the new and revised amendments in standards issued by the AAOIFI that are relevant to its operations and effective for periods beginning on 1 January 2024.

2.4.1 FAS 1 General presentation and disclosures in the financial statements

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

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

During the period the Window has adopted FAS 1 (revised). As a result of this adoption following changes made to the primary statements of the Window:

- Primary statements introduced
- Statement of Comprehensive income
- Statement of income and attribution related to quasi equity

As a result of adoption of FAS 1 certain figures have been regrouped or represented to be consistent with the current year presentation. Such regrouping did not affect previously reported net profits, total assets, total liabilities and total equity of the Window.

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

The new and amended standards and interpretations that are issued before the issuance of financial statement but not yet effective are disclosed below. The Window intends to adopt these new and amended standards and interpretations, if applicable, when they became effective.

2.5.1 FAS 46 Off-Balance-Sheet Assets Under Management

AAOIFI has issued Financial Accounting Standard ("FAS") 46 "Off-Balance-Sheet Assets Under Management" during 2023. The objective of this standard is to establish principles and rules for recognition, measurement, disclosure, and derecognition of off-balance-sheet assets under management, based on Shari'a and international best practices. The standard aims to improve transparency, comparability, accountability, and governance of financial reporting related to off-balance-sheet assets under management.

This standard is applicable to all IFIs with fiduciary responsibilities over asset(s) without control, except for the following:

- The participants' Takaful fund and / or participants' investment fund of a Takaful institution; and
- An investment fund managed by an institution, being a separate legal entity, which is subject to financial reporting in line with the requirements of the respective AAOIFI FAS.

2 Basis of Preparation (continued)

2.5. New standards, interpretations and amendments issued but not effective (continued)

2.5.1 FAS 46 Off-Balance-Sheet Assets Under Management (continued)

This standard shall be effective for the financial reporting periods beginning on or after 1 January 2026 with an option to early adopt.

The Window does not expect any significant impact on the adoption of this standard.

2.5.2 FAS 47 Transfer of Assets Between Investment Pools

AAOIFI has issued Financial Accounting Standard ("FAS") 47 "Transfer of Assets Between Investment Pools" during 2023. The objective of this standard is to establish guidance on the accounting treatment and disclosures for transfers of assets between investment pools that are managed by the same institution or its related parties. The standard applies to transfers of assets that are not part of a business combination, a disposal of a business, or a restructuring of an institution.

The standard defines an investment pool as a group of assets that are managed together to achieve a common investment objective, such as a fund, a portfolio, or a trust. The standard also defines a transfer of assets as a transaction or event that results in a change in the legal ownership or economic substance of the assets, such as a sale, a contribution, a distribution, or a reclassification.

The transfer of assets between investment pools should be accounted for based on the substance of the transaction and the terms and conditions of the transfer agreement. The standard classifies transfers of assets into three categories: transfers at fair value, transfers at carrying amount, and transfers at other than fair value or carrying amount. The standard also specifies the disclosure requirements for transfers of assets between investment pools.

This standard shall be effective for the financial periods beginning on or after 1 January 2026 with an option to early adopt.

The Window does not expect any significant impact on the adoption of this standard.

2.5.3 FAS 48 Promotional Gifts and Prizes

This standard prescribes accounting and financial reporting requirements applicable to promotional gifts and prizes awarded by the Islamic financial institutions. The standard categorizes them into a) promotional gifts where entitlement occurs instantly; b) promotional prizes that are announced in advance to be awarded at a future date and c) loyalty programs where the obligation is accumulated over the period.

This standard is effective for the financial periods beginning on or after 1 January 2026, with an option to early adopt.

The Window does not expect any significant impact on the adoption of this standard.

2.5.4 FAS 49 Financial Reporting for Institutions Operating in Hyperinflationary Economies

This standard establishes the principles of financial reporting for the institutions operating in hyperinflationary economies. This standard is applicable to the institutions whose functional currency is the currency of a hyperinflationary economy, and on consolidated financial statements of an institution to the extent of impacts relating to a subsidiary(ies) whose functional currency(ies) is the currency(ies)of a hyperinflationary economy(ies).

The standard prescribes pertinent factors for determination of hyperinflationary economy(ies).

This standard is effective for the financial periods beginning on or after 1 January 2026, with an option to early adopt.

AAOIFI recommended that all institutions operating in the same hyperinflationary economy shall apply this standard from the same date to ensure that comparability between their results is possible.

3 Material accounting policies

The material accounting policies adopted in the preparation of the financial statements are set out below.

3.1 Cash and cash equivalents

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

3.2 Foreign currency transactions

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

3.3 Financing assets

Financing assets comprise shari’a compliant financing provided by the Window with fixed or determinable payments. These include financing provided through murabaha, mudaraba, musharaka, musawama, ijarah, istisna and other modes of islamic financing. Financing assets are stated at their amortised cost less expected credit loss allowance (if any).

Murabaha receivables

Murabaha receivables are sales on deferred terms. The Window arranges a murabaha transaction by buying a commodity (which represents the object of the murabaha) and selling it to the murabeh (a beneficiary) at a margin of profit over cost. The sales price (cost plus the profit margin) is repaid in instalments by the murabeh over the agreed period. murabaha receivables are stated net of deferred profits and expected credit loss allowance (if any). Any promise made by potential murabeh is considered obligatory.

Mudaraba

Mudaraba is stated at the fair value of consideration given less any expected credit loss allowance.

Mudaraba is a form of partnership between work and capital in which the Window contributes capital. mudaraba capital provided by the Window at inception in kind (if other than cash) is measured at the fair value of the assets. If the valuation of assets results in difference between fair value and book value, such difference is recognised as profit or loss to the Window.

In case mudaraba capital is lost or damaged prior to the inception of work without misconduct or negligence on the part of mudarib, then such losses are deducted from mudaraba capital and are treated as loss to the Window. In case of termination or liquidation, unpaid portion by mudarib is recognised as receivable due from mudarib.

Musharaka

Musharaka contracts represents a partnership between the Window and a customer whereby each party contributes to the capital in equal or varying proportions to establish a new project or share in an existing one, and whereby each of the parties becomes an owner of the capital on a permanent or declining basis and shall share profits or losses. These are stated at the fair value of consideration given less any amounts written off and provision for expected credit loss allowance, if any. In diminishing musharaka based transactions, Window enters into a musharaka based on shirkat-ul-milk for financing an agreed share of fixed asset (e.g. house, land, plant or machinery) with its customers and enters into period profit payment agreement for the utilisation of Window’s musharaka share by the customer.

3 Material Accounting Policies (continued)

3.3 Financing assets (continued)

Ijarah muntahia bittamleek

These are initially recorded at cost including initial direct costs. Ijarah muntahia bittamleek is a lease whereby the legal title of the leased asset passes to the lessee at the end of the ijarah (lease term), provided that all ijarah installments are settled.

Depreciation is charged on ijarah muntahia bittamleek assets at rates calculated to write off the cost of each asset over its lease term.

Ijarah income receivables represent outstanding rentals at the end of the year less any expected credit loss allowance. The ijarah income receivable is classified under other asset.

Istisna followed by Ijarah muntahia bittamleek

Istisna followed by ijarah muntahia bittamleek is construction finance product in which property is developed under istisna` contract between customer and the Window. The Window develops the property and then after completion of construction the property is leased to customer under ijarah muntahia bittamleek contract. During construction customer pays the advance rentals.

Salam

In a salam contract a buyer pays in advance for a specified quantity and quality of a commodity, deliverable on a specific date, at an agreed spot price. Salam is particularly applicable to seasonal agricultural purchases and can be used as a means of financing production. The price is paid at the time of the contract but the delivery would take place at a future date which enables an entrepreneur to sell his output to the Window at a price determined in advance. However, at the time of sale all specifications, quality and quantity of the commodity must be determined to avoid any ambiguity which could become a cause of dispute. Furthermore, date and time of delivery must also be agreed upon but can be changed with mutual consent of the parties. Salam contracts are recognised on the date at which they are originated and are carried at their cost less expected credit loss allowance, if any.

Diminishing Musharakah

In diminishing musharakah financing, the Window enters into musharakah based on shirkat-ul-milk for financing an agreed share of fixed asset (e.g. house, land, plant or machinery) with its customers and enters into period profit payment agreement for the utilisation of the Window's musharakah share by the customer.

Wakala Bil Istithmar

An agreement between two parties whereby one party is a fund owner (the "Muwakkil") who provides a certain amount of money (the "Wakala capital") to an agent (the "Wakeel"), who invests the Wakala capital in a Shari'a compliant manner and according to the feasibility study/investment plan submitted to the Muwakkil by the Wakeel. In financing contracts, the Window is Muwakkil and the corresponding party is agent of the Window.

3.4 Investment securities

(i) Classification

Unless the irrevocable initial recognition choices provided below are exercised, the Window shall classify investments subject to this standard as subsequently measured at either (i) amortised cost, (ii) fair value through other comprehensive income or (iii) fair value through income statement, on the basis of both the Window's business model for managing investments and the expected cash flow characteristics of the investment in line with the nature of the underlying Islamic contracts.

Investment in a monetary debt-type instrument, as it reflects a debt at the back-end, shall be initially classified and measured at cost, till the time the transaction at the back-end is executed, and at amortised cost thereafter.

3 Material Accounting Policies (continued)

3.4 Investment securities (continued)

(i) Classification (continued)

Investment in a non-monetary debt-type instrument or other investment instrument, may be classified under any of the three categories ((i) amortised cost, (ii) fair value through other comprehensive income or (iii) fair value through income statement) depending on the Window's business model.
Investment in equity-type instrument is carried as investment at fair value through income statement unless the Window make an irrevocable classification choice at initial recognition to classify this as investment at fair value through other comprehensive income. An investment held for trading purposes shall always fall in fair value through income statement classification.

(ii) Recognition and Initial measurement

All investment shall be initially recognized at their value plus transaction costs except for investments at fair value through income statement. Transaction costs relating to investments at fair value through income statement are charged to the statement of income when incurred. A regular way purchase of investments shall be recognized upon the transfer of control to investor.

(iii) Subsequent measurement

a) Investments at amortised cost

Investments carried at amortised cost shall be re-measured as such using the effective profit rate method. All gains or losses arising from the amortization process and those arising from de-recognition or impairment of the investment, are recognized in the consolidated statement of income. Investment carried at amortised cost shall be tested for impairment at each reporting period in accordance with FAS 30 "Impairment, credit losses and onerous commitments".

b) Investments at fair value through income statement

Investment carried at fair value through income statement shall be re-measured at fair value at end of each reporting period. The resultant re-measurement gain or loss, if any being the difference between the carrying amount and the fair value shall be recognized in the consolidated statement of income.

c) Investments at fair value through other comprehensive income

Investment carried at fair value through other comprehensive income shall be re-measured at fair value at the end of each reporting period. The resultant re-measurement gain or loss, if any, being the difference between the carrying amount and the fair value shall be directly recognized in equity under "fair value through other comprehensive income". Investment carried at fair value through other comprehensive income shall be tested for impairment at each reporting period in accordance with **FAS 30 "Impairment, credit losses and onerous commitments".**

(iii) De-recognition

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

3.5 Other financial assets and liabilities

(i) Recognition and initial measurement

The Window initially recognises receivables from financial institutions, financing assets, customers' current accounts, due to financial institutions and certain other assets and other liabilities on the date at which they are originated. All other financial assets and liabilities are initially recognised on the settlement date at which the Window becomes a party to the contractual provisions of the instrument.

3 Material Accounting Policies (continued)

3.5 Other financial assets and liabilities (continued)

(i) Recognition and initial measurement (continued)

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through income statement, transaction costs that are directly attributable to its acquisition or issue.

After initial measurement, other financial assets and liabilities are subsequently measured at amortised cost using the effective profit rate method net of any amounts written off and provision for impairment.

(ii) De-recognition of financial assets and financial liabilities

The Window derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Window neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any profit in transferred financial assets that qualify for de-recognition that is created or retained by the Window is recognised as a separate asset or liability in the consolidated statement of financial position. On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred) and consideration received (including any new asset obtained less any new liability assumed) is recognised in statement of income.

The Window enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions in which the Window neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Window continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Window retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the de-recognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing. The Window derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

3.6 Offsetting of financial assets and financial liabilities

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

3.7 Modification of financial assets and liabilities

Financial assets

If the terms of a financial asset are modified, the Window evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value, and recalculates a new effective profit rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purpose, including for the purpose of determining whether a significant increase in credit risk has occurred.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in de-recognition of the financial asset. In this case, the Window recalculates the gross carrying amount of the financial asset based on the revised cash flows of the financial assets and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the consolidated income statement.

3 Material Accounting Policies (continued)

3.7 Modification of financial assets and liabilities (continued)

If such a modification is carried out because of financial difficulties of the financed counterparty, then the gain or loss is presented together with impairment losses. In other cases, it is presented as net income from financing activities.

Financial liabilities

The Window derecognises a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in the consolidated income statement.

3.8 Impairment of financial assets

Financial assets consist of cash and balances with banks and financial institution, receivables and musharaka financing, investments - debt type instruments at amortised cost, ijarah muntahia bittamleek and certain other assets. Balances relating to these contracts are stated net of allowance for expected credit losses.

Impairment of financial assets
The Window applies three-stage approach to measure ECL on financial assets carried at amortised cost. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: twelve months ECL
For exposures where there has not been a Significant Increase in Credit Risk ("SICR"), since initial recognition, a portion of the lifetime ECL's that represent the ECL that result from default events on a financial contract that is possible within 12 months after the reporting date (or a shorter period if the expected life of the financial instrument is less than 12 months).

Stage 2: Lifetime ECL - not credit impaired
For credit exposures where there has been a SICR since initial recognition but that are not credit impaired, a lifetime ECL is recognised. Lifetime ECL is the loss that results from all possible default events over the expected life of the financial contract. Lifetime ECL (Stage 2) is a probability-weighted estimate of credit losses and is determined based on the difference between sum of the present value of all cash shortfalls and the carrying value. The cash shortfall is the difference between all contractual cash flows that are due to the Window and the present value of the recoverable amount, for financial assets that are not credit-impaired at the reporting date.

Stage 3: Lifetime ECL – credit impaired
Financial contracts are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.

For Stage 3 financial contracts, the losses for credit-impairment are determined based on the difference between the net carrying amount and the recoverable amount of the financial contract. In this respect, the Window recognises the lifetime expected credit losses for these financing with the PD set at 100%.

Credit-impaired financial assets
At each reporting date, the Window assesses whether financial assets carried at amortised cost are credit- impaired. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the obligor or issuer;
- a breach of contract such as a default or past due event; or
- Probability that the borrower will enter bankruptcy or other financial reorganization.

3 Material Accounting Policies (continued)

3.8 Impairment of financial assets (continued)

Measurement of ECL:

Following are the key inputs into the measurement of ECL:

- Probability of Default (PD);
- Loss Given Default (LGD); and
- Exposure At Default (EAD).

These parameters are generally derived from internally developed models and other historical data. These are adjusted to reflect forward-looking information as follows.

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

Probability of default
Credit risk grades are a primary input into the determination of the term structure of Probability of Default (PD) for exposures. The Window collects performance and default information about its credit risk exposures analysed by credit risk grading for corporate and days-past-due for retail portfolio. The Window employs statistical models for analysing the data collected and generates estimates of PD of exposures and how these are expected to change as a result of the passage of time. This analysis Includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, across various geographies in which the Window operates.

Types of PDs used for ECL computation
- 12-month PDs – This is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months). This is used to calculate 12-month ECLs.
- Lifetime PDs – This is the estimated probability of a default occurring over the remaining life of the financial instrument. This is used to calculate lifetime ECLs for ‘stage 2’.

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

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

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

3 Material Accounting Policies (continued)

3.8 Impairment of financial assets (continued)

Loss Given Default
LGD is a magnitude that determines the amount of loss that will arise if the obligor was to default. This is calculated by looking at the collateral and other recourses available to the Window that can be used to recover the asset in case of default.

The Window estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties, based on historical data using both internal and external factors. For Estimation of LGD, the Window considers use of any of the following methods:

Internal default history: When data is available LGD can be estimated using the historical default information and corresponding recovery data.

Basel LGD: local regulatory recommended Basel LGD adjusted depending on the available collateral.

Collateral-based LGD: for secured financing the Window uses collateral-based LGD, where the Window has effective collateral management framework that is able to assess and provide up to date collateral valuation and establish legal charge and enforceability.

Exposure At Default (EAD)
EAD represents the expected exposure in the event of a default. The Window derives the EAD from the current exposure to the counterparty and potential changes to the current amounts allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For financing commitments and financial guarantees, the EAD is converted to on balance sheet equivalents.

On-balance sheet EADs
EADs for on-balance sheet items are the amount that is outstanding at the time of default. Outstanding of an on-balance sheet exposure shall be directly taken subject to inclusion of its repayment structure.

Prepayments have to be estimated using previous trends and deducted from EAD while calculating ECL. Off-balance sheet EADs Off-balance sheet exposures do not have fixed pay-out date; thus, the EAD for off-balance sheet is calculated after applying the Credit Conversion Factor (CCF) to the nominal amount of the Off-balance sheet exposure. The Window uses following method to work out CCF for off- balance sheet EADs.

Regulatory CCFs - In absence of internal data, The Window uses same as Basel CCF that are used for calculating the Capital Adequacy Ratio (CAR) as per the CBB regulations. These rates are 20% for exposures with maturity equal to or less than 1 year and 50% for exposures with maturity of more

Collective ECL computation and staging
ECL on individually large exposures and credit-impaired finances are generally measured individually. For retail exposures and other exposures to small sized enterprises, where less client-specific information is available, ECL is measured on a collective basis. This incorporates obligor-specific information, such as delinquency, collective historical experience of losses and forward-looking macroeconomic information.

To assess the staging of exposures and to measure a loss allowance on a collective basis, the Window combines its exposures into segments on the basis of shared credit risk characteristics, such as geography, type of customer, industry, rating, date of initial recognition, maturity and collateral value.

Significant Increase in Credit Risk
When determining whether the risk of default on a financial contracts has increased significantly since initial recognition, the Window considers reasonable and supportable information that is relevant and available without undue cost and efforts. This includes both quantitative and qualitative information and analysis, based on the Window’s historical experience and expert credit assessment including forward- looking information, including days past due and risk rating.

3 Material Accounting Policies (continued)

3.8 Impairment of financial assets (continued)

The assessment is carried out for specific facility rather than a counterparty. As each facility may have had different credit risk at initial recognition.

The application of above requirements of SICR to various locations of the Window varies depending on a number of circumstances faced by each location and each location applies a robust risk assessment methodology that is commensurate with the size, complexity, structure, economic significance and risk profile of its portfolio.

Renegotiated financial assets
The contractual terms of a financing may be modified for a number of reasons including changing market conditions, and other factors not related to the current or potential credit deterioration of a customer. When the terms of a financial asset are modified and the modification does not result in a de-recognition, the determination of whether the asset's credit risk has

increased significantly reflects a comparison of its remaining lifetime PD at the reporting date based on modified terms, with the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Window renegotiates financing to customers in financial difficulties to maximize collection opportunities and minimize the risk of default. This may involve extending the payment arrangements and documenting the agreement of new conditions for providing finance. Management continuously reviews renegotiated facilities to ensure that all criteria are met and that future payments are likely to occur.

The accounts which are performing prior to restructuring but restructured due to financial difficulty are categorised under stage 2. The accounts that are non-performing or meet any criteria for classifying as non-performing, then such restructured accounts are categorized under stage 3.

Backward transition
FAS 30 staging model is of symmetrical nature as movement across stages is a "Two Way" phenomenon. However, backward movement across stages are not immediate once SICR indicators are no longer triggered. Once such indicators are no longer triggered, movement back to Stage 1 or Stage 2 has to be calibrated and cannot be automatic or immediate. Certain criteria like cooling off period, SICR indicators and payment history are considered for migrating customers backwards to Stage 2 or Stage 1. Following factors including cure period are considered for any backward transition:

From Stage 2 to stage 1
- The criteria to classify the exposure into Stage 2 (criteria covered in SICR section above) is no longer present;
- Up to date payment with no arrears;
- A minimum cool-off/cure period of 6 months for any stage 2 accounts; and
- A minimum cool-off/cure period of 12 months for restructured accounts.

From stage 3 to stage 2
- The criteria to classify the exposure into Stage 3 (criteria covered in default section above) is no longer present;
- Up to date payment with no arrears; and
- A minimum cool-off/cure period of 12 months for non-performing and restructured facilities.

Credit Conversion Factor
The estimation of EAD takes into account any unexpected changes in the exposure after the assessment date, including estimation of expected drawdowns on committed facilities through the application of a credit conversion factor (CCF). The EAD is estimated using the outstanding exposure adjusted by CCF multiplied by the undrawn portion of the facilities.

The outstanding exposure is calculated as principal plus profit less expected prepayments. The undrawn portion refers to the portion of the unutilized credit limit. CCF applied to the facilities would be the higher of average behavioural utilization over the last five years or capital charge.

3 Material Accounting Policies (continued)

3.8 Impairment of financial assets (continued)

Write-offs

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

3.9 Fair value measurement

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

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

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

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

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

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

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

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

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

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

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

3 Material Accounting Policies (continued)

3.10 Acceptances

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

3.11 Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or trading liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

The treatment of changes in their fair value depends on their classification into the following categories:

(i) Fair value hedge

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

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

(ii) Cash flow hedge

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

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

(ii) Other non-trading derivative

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

3 Material Accounting Policies (continued)

3.12 Property and equipment

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

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

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

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

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

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

3.13 Taxation

The tax return of the Window is filed at head office level and the Window is not required to file a separate return on the activities of the Islamic Banking operations. A flat corporate tax rate of 15% is applied to the Window's profit. Deferred tax assets and liabilities are recognised only at head office level.

3.14 Ijarah - Leases

FAS 32 "Ijarah" standard supersedes FAS 8 "ljarah and Ijaran Muntahia Bittamleek". FAS 32 sets out the principles for the classification, recognition, measurement, presentation and disclosure of ijarah type transactions including their different forms entered into by an institution, in both the capacities of lessor and lessee.

Under this standard, an institution, in its capacity either as lessor or lessee shall classify each of its ijarah into

a) Operating ljarah

b) ljara Muntahia Biltamleek with expected transfer of ownership after the end of the ijarah term - either through sale or hiba; and

c) ljarah Muntahia Biltamleek with gradual transfer — with gradual transfer of ownership during the ljarah term including diminishing musharaka ilijarah.

The standard includes two recognition exemptions for lessees — leases of "low-value" assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of the lease, a lessee will recognize an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset) and a net ijarah liability, duly comprising of a) gross ijarah liability and b) deferred ijarah cost (shown as contra-liability).

a) Right-of-use asset

The Window recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use asset is measured at cost, less any accumulated amortisation and impairment losses, and adjustment for any effect of ljarah modification or reassessment.

3 Material Accounting Policies (continued)

3.14 Ijarah – Leases (continued)

a) Right-of-use asset (continued)

The cost of right-of-use assets represents the fair value of total consideration paid/ payable and includes initial direct costs and any dismantling or decommissioning costs. The Window amortises the right-of-use asset from the commencement date to the end of the useful economic life of the right-of use assets which coincides with the end of the ljarah term using a systematic basis that is reflective of the pattern of utilization of benefits from the right-of-use asset. Right-of-use asset is also subject to impairment in line with FAS 30 requirements. The carrying value of right-of-use asset is recognised under "Premises and equipment" in the statement of financial position.

b) Ijarah liability

At the commencement date of the lease (i.e., the date the underlying asset is available for use), the Window recognises ljarah liability measured at the fair value of total rentals payable for ljarah term. Subsequently the ljarah liability is increased to reflect return on the ljarah liability — by way of amortisation of deferred ljarah cost and reduced to reflect the ljarah rentals made. In addition, the carrying amount of ljarah liability is re-measured if there is a modification, a change in the ljarah term or change in the in-substance fixed lease payments. The carrying value of ljarah liability is recognised under "Other liabilities" in the interim consolidated statement of financial position.

3.15 Employee benefits

(i) End of service benefits

End of service indemnity for Omani employees are contributed in accordance with the terms of the Social Securities Law of 1991.

Provision for end of service indemnity for non-Omani employees has been made in accordance with the terms of the Oman Labour Law 2003 and its amendments and is based on current remuneration rates and cumulative years of service at the statement of financial position date. Employees' entitlements to annual leave and leave passage are recognised when they accrue to the employees up to the reporting date. These accruals are included in current liabilities, while that relating to end of service benefits is disclosed as a non-current liability.

Contributions to a defined contribution retirement plan for Omani employees in accordance with the Omani Social Insurance Law of 1991 are recognised as an expense in the statement of comprehensive income as incurred.

(ii) *Short term benefits*

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

3.16 Current and other accounts

Balances in current deposits and other accounts are recognised when received by the Window. The transactions are measured as the amount received by the Window at the time of contracting. At the end of the reporting period, these accounts are measured at amortised cost.

3.17 Quasi-equity

Quasi-equity is an element of the financial statements that represents participatory contributions received by an institution on a profit sharing or participation basis. It has:

- primary characteristics of equity i.e., in case of loss (unless negligence / misconduct / breach of contractual terms is proved), the institution is not liable to return the lost funds to the fund providers and the fund providers share the residual interest in the underlying assets or business;
- certain characteristics of a liability i.e., it has a maturity or a put option of redemption / liquidation; and

3 Material Accounting Policies (continued)

3.17 Quasi-equity (continued)

- certain specific features i.e., the rights of the fund providers are limited only to the underlying assets or business and not on the whole of the institution, as well as, they do not have certain rights associated only with owners' equity.

All contributions of quasi-equity holders are measured by the amount received during the time of contracting. At the end of the financial period, the equity of quasi-equity holders is measured at the amount received plus accrued profit and related reserves less amounts settled.
Quasi-equity holders include participatory investment accounts (unrestricted investment accounts and other on-balance-sheet investment accounts), quasi-equity-type Sukuk and other quasi-equity.

The Window charges a management fee (Mudarib fee) to the unrestricted investment account holders. Of the total income from investments of funds, the income attributable to the unrestricted investment account holders is allocated to them after setting aside provisions, reserves (profit equalisation reserve and investment risk reserve), if any, and deducting the Window's share of income as a Mudarib. The allocation of income is determined by the management of the Window within the allowed profit sharing limits as per the terms and conditions of the unrestricted investment accounts.

a) Wakala as Muwakkil (Principal)

At inception of Wakala agreement, the standard requires the window as a principal to evaluate the nature of the investment as either a) a pass-through investment; or b) wakala venture.

b) Pass-through investment

A pass-through investment is an investment in which the involvement of the agent, as well as, the options for transferability of the instrument are limited and the investor principally takes a direct exposure on the underlying assets. An investor shall apply the pass-through investment approach for its investments in investment agency instruments; unless it opts to apply the Wakala venture approach.

Under this approach, the principal shall initially recognise the assets underlying the Wakala arrangement in its books of account applying the initial recognition principles as applicable in line with the respective FASs.

c) Wakala venture

These are investments, under a Wakala agency contract, in transferable instruments or the investment made in a single asset (or pool of assets) where such asset(s) are subject to frequent changes throughout the term of the contract i.e. there are routine changes or replacements over the term of arrangement (unless it constitutes a business) at the discretion of the agent; or the role of the agent is not limited whereby the agent performs a day-to-day asset management function and, where applicable, is also responsible for replacement of assets or recoveries against them. On initial recognition, these assets will be recognised at cost in Wakala venture. Subsequently, the carrying amount is adjusted to incorporate gains/losses net of agent's remuneration and impairments, if any.

d) Wakala as Wakeel (Agent)

These transactions will be recognised as an agency arrangement under an off-balance sheet approach, at inception of arrangement, since the Window does not control the related assets / business, it does not record the assets and related income and expenditure in its books of account.

The agency remuneration, including fixed and variable components thereof, will be recognised on an accrual basis i.e. when the relevant services are provided. Any expenses, including losses reimbursable will be recognised when due.

e) Multi level arrangements

The Window maintains multi-level investment arrangements to invest funds received under "Wakala" as "Mudaraba" under express authority from Wakala account holders in its financing and investment assets. Profit is allocated to Wakala funds on the basis of their contribution in the commingled assets. An agent may maintain multi-level investment arrangements.

3 Material Accounting Policies (continued)

3.17 Quasi-equity (continued)

f) Multi level arrangements (continued)

Under such arrangement, the Window is reinvesting Wakala funds into a secondary contract. Such secondary contracts are accounted for in line with the requirements of respective FASs in the books of the agent.

From the principal perspective, the Window has opted to use the Wakala venture approach instead of a pass-through approach given the difficulties for the Window as principal to identify in which assets the funds are invested in, and hence, the investment is accounted for applying the equity method of accounting.

From the agent perspective, a multi-level investment arrangement is maintained, whereby the Window invests funds under the investment agency into unrestricted investment arrangements, under a separate Mudaraba contract which is accounted for accordingly based on the relevant accounting standard.

3.18 Due to and receivables from financial institutions

Due to and receivables from financial institutions comprise of Nostro balances and Wakala placements. Nostro balances and Wakala placements are initially recognised at cost, being the fair value of consideration exchanged. Subsequently, they are carried at amortised cost less amounts repaid.

3.19 Income recognition

(i) Murabaha

Profit on Murabaha is recognised on an accrual basis. Profit on Murabaha transactions for the period from the date of disbursement to the date of culmination of Murabaha.

(ii) Mudaraba

Income on Mudaraba financing is recognised when the right to receive payment is established or on distribution by the Mudarib. Losses on the other hand are charged to the income statement on declaration by the Mudarib.

(iii) Musharaka

Income on musharaka is recognised when the right to receive payment is established or on distribution. In case of losses in musharaka, the Window's share of loss is recognised to the extent that such losses are being deducted from its share of the musharaka capital.

(iv) Diminishing Musharakah

Profit on Diminishing Musharakah financings is recognised on an accrual basis.

(v) Profit on sukuks

Profit on Sukuks is recognized on an accrual basis. Where Sukuks are purchased at a premium or discount and are classified at amortised cost, those premiums / discounts are amortised over the remaining maturity, using the effective profit rate method.

(vi) Ijarah

Ijarah rental income is recognised over the term of the lease on accrual basis and is stated net of depreciation and impairment. Income related to non performing ijarah muntahia bittamleek accounts and ijarah installments that are above 90 days is excluded from the statement of income.

3 Material Accounting Policies (continued)

3.19 Income recognition (continued)

(vii) Istisna followed by Ijarah muntahia bittamleek

Income for Istisna followed by Ijarah muntahia bittamleek is booked on receipt of the rentals.

(viii) Fees and commission income

Fees and commission income that are integral to the effective profit rate of a financial asset carried at amortised cost are included in the measurement of the effective profit rate of the financial asset. Other fees and commission income, including account servicing fees, sales commission, management, arrangement and syndication fees, are recognised as the related services are performed.

(ix) Window's share of income from equity of investment accountholders (as Rabalmal and Mudarib)

Income is allocated proportionately between equity of investment accountholders and shareholders on the basis of their respective investment in the pool before allocation of the Mudarib fees. The Window’s share as a Mudarib for managing the equity of investment accountholders is accrued based on the terms and conditions of the related Mudaraba agreements.

(x) Salam

Income from salam is determined by using the percentage of completion method.

(xi) Wakala

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

(xii) Dividend income

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

(xiii) Profit on amounts receivables from financial institutions

Profit on amounts receivables from financial institutions is recognised on a time apportioned basis over the period of the contract based on the principal amounts outstanding and the profit agreed with clients.

3.20 Expense recognition

Profit attributed to quasi-equity is calculated based on the income generated from joint investment accounts after deducting the expenses related to investment pool i.e. "mudarib expenses". Mudarib expenses include all expenses incurred by the Window, but excluding staff costs and other administrative expenses. The Window's "mudarib profit" is deducted from the investors' share of income before distributing such income.

3.21 Earnings or expenditures prohibited by Sharia

The Window records these amounts in a separate account in the other payables and is not included in the Window’s income; these amounts are distributed to charities according to the Sharia Supervisory Board directions.

3.22 Contingent liabilities

Contingent liabilities include guarantees, letter of credit, the Window’s obligations with respect to unilateral promise to buy/sell currencies and others. Contingent liabilities are not recognized in the statement of financial position but are disclosed in the notes to the financial statements, unless they are remote.

3 Material Accounting Policies (continued)

3.23 Shari'a supervisory board

The Window's business activities are subject to the supervision of a Shari'a supervisory board consisting of members appointed by the general assembly of shareholders.

3.24 Zakah

In accordance with the article of association Zakah is payable by individual shareholders of the Window and Zakah on unrestricted investment and other accounts is the responsibility of investment accountholders.

3.25 Provisions

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

3.26 Profit equalisation reserve

Profit equalisation reserve, this is the amount appropriated out of Mudaraba income before allocating the Window’s share as investment manager (Mudarib), in order to maintain a certain level of return on investment for Quasi-equity participatory investment accounts and increase share equity.

3.27 Investment risk reserve

Investment risk reserve is the amount appropriated out of profit share of the Quasi-equity participatory investment accounts after allocating the Mudarib share, in order to cushion the effects of the risk of future investment losses. The terms and conditions whereby investment risk reserve can be set aside and utilised are determined and approved by the Shari’a Supervisory Board of the Window.

4 Critical Accounting Estimates and Judgements

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

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

4.1 Impairment losses on Financings and advances

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

4 Critical Accounting Estimates and Judgements (continued)

4.1 Impairment losses on Financings and advances (continued)

- The Window's internal credit grading model, which assigns PDs to the individual grades;
- The Window's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

4.2 Fee and commission income

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

4.3 Determination of Lease term

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

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

5. Cash and balances with Central Bank

	31 December 2024 RO'000	31 December 2023 RO'000
Balances with Central Bank	**15,720**	33,733
Cash	**7,584**	4,499
	23,304	38,232

6. Receivables from financial institutions

	31 December 2024 RO'000	31 December 2023 RO'000
Local currency:		
Wakala Inter-bank placements	**3,500**	-
Foreign currency:		
Wakala Inter-bank placements	**59,681**	-
Demand balances	**8,593**	18,777
	71,774	18,777

The analysis of changes in the gross carrying amount on receivables from financial institutions is as follows:

Gross carrying amount	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
As at 1 January 2024	**18,777**	-	-	**18,777**
Net change in assets	**52,997**	-	-	**52,997**
At 31 December 2024	**71,774**	-	-	**71,774**

Gross carrying amount	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
As at 1 January 2023	7,321	-	-	7,321
Net change in assets	11,456	-	-	11,456
At 31 December 2023	18,777	-	-	18,777

7. Investment securities

	31 December 2024 RO'000	31 December 2023 RO'000
Sukuk investment (amortized cost)		
Carrying amount at amortized cost	**41,662**	23,889
Expected credit loss allowance	**(70)**	-
Held at amortized cost	**41,592**	23,889
Equity investment (FVOCI)		
Carrying amount at FVOCI	**4,104**	619
Fair value gain	**(452)**	44
Held at FVOCI	**3,652**	663
Total Investment securities	**45,244**	24,552

The Sukuk certificates are for a period of 7 years and carry profit rate of 4.40% - 5.75% per annum.

7. Investment securities (continued)

Movement in expected credit loss allowance is as given below:

	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Balance at beginning of the year	-	-	-	-
Expected credit losses recognised	**70**	**-**	**-**	**70**
Recoveries from expected credit losses	-	-	-	-
At 31 December 2024	**70**	**-**	**-**	**70**

	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Balance at beginning of the year	-	438	-	438
Expected credit losses recognised	-	(438)	-	(438)
Recoveries from expected credit losses	-	-	-	-
At 31 December 2023	-	-	-	-

8. Financing advances and other receivables

	31 December 2024 Total RO'000	31 December 2023 Total RO'000
Book value		
Murabaha receivables	**23,051**	31,666
Ijarah muntahia bittamleek	**88,376**	93,990
Istisna followed by Ijarah muntahia bittamleek	**120,158**	102,603
Diminishing Musharka	**222,924**	253,194
Qard Hasan Financing	**26**	33
Wakala Bil Istithmar	**205,140**	20,752
	659,675	502,238
Expected credit loss allowance	**(5,074)**	(4,061)
Contractual profit not recognised	**(1,374)**	(242)
	653,227	497,935

Additional disclosures on non-performing financing coverage as per CBO circular BM 1149 is given below:

December 2024	As per CBO RO'000	As per Window's policy RO'000	Difference RO'000
Impairment loss charged to statement of income	**1,965**	**1,096**	**(869)**
Provisions	**7,937**	**5,221**	**(2,716)**
Gross NPL ratio (percentage)*	**0.94**	**0.94**	**-**

*NPL ratios are calculated on the basis of funded non-performing financing and advances.

8. Financing advances and other receivables (continued)

The below table provides a comparison of provision held as per Window's policy and required as per CBO norms:

31 December 2024 **CBO classification**	**Window's policy classification**	**Gross carrying amount**	**CBO Provision**	**Window's policy Provisions**	**Difference between CBO and Window's policy**	**Net carrying amount**	**CBO Reserve profit**
1	2	3	4	5	(6)=(4)-(5)	(7)=(3)-(5)	8
		RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
	Stage 1	**532,140**	**5,391**	**443**	**4,948**	**531,697**	**-**
Standard	**Stage 2**	**7,535**	**56**	**88**	**(32)**	**7,447**	**-**
	Stage 3	**-**	**-**	**-**	**-**	**-**	**-**
Sub Total		**539,675**	**5,447**	**531**	**4,916**	**539,144**	**-**
	Stage 1	**46,433**	**464**	**1,803**	**(1,339)**	**44,630**	**-**
Special mention	**Stage 2**	**67,381**	**672**	**2,797**	**(2,125)**	**64,584**	**976**
	Stage 3	**-**	**-**	**-**	**-**	**-**	**-**
Sub Total		**113,814**	**1,136**	**4,600**	**(3,464)**	**109,214**	**976**
	Stage 1	**-**	**-**	**-**	**-**	**-**	**-**
Substandard	**Stage 2**	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 3	**3,261**	**401**	**292**	**109**	**2,969**	**12**
Sub Total		**3,261**	**401**	**292**	**109**	**2,969**	**12**
	Stage 1	**-**	**-**	**-**	**-**	**-**	**-**
Doubtful	**Stage 2**	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 3	**560**	**173**	**203**	**(30)**	**334**	**23**
Sub Total		**560**	**173**	**203**	**(30)**	**334**	**23**
	Stage 1	**-**	**-**	**-**	**-**	**-**	**-**
Loss	**Stage 2**	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 3	**2,365**	**780**	**822**	**(42)**	**1,543**	**363**
Sub Total		**2,365**	**780**	**822**	**(42)**	**1,543**	**363**
	Stage 1	**578,573**	**5,855**	**2,246**	**3,609**	**576,327**	**-**
Gross Financing, Advance	**Stage 2**	**74,916**	**728**	**2,885**	**(2,157)**	**72,031**	**976**
	Stage 3	**6,186**	**1,354**	**1,317**	**37**	**4,846**	**398**
Total		**659,675**	**7,937**	**6,448**	**1,489**	**653,204**	**1,374**
Receivables from financial	**Stage 1**	**227,427**	**-**	**148**	**(148)**	**227,279**	**-**
institutions, Investment	**Stage 2**	**-**	**-**	**-**	**-**	**-**	**-**
securities and financial guarantees	**Stage 3**	**-**	**-**	**-**	**-**	**-**	**-**
Sub Total		**227,427**	**-**	**148**	**(148)**	**227,279**	**-**
	Stage 1	**806,000**	**5,855**	**2,394**	**3,461**	**803,606**	**-**
Total	**Stage 2**	**74,916**	**728**	**2,885**	**(2,157)**	**72,031**	**976**
	Stage 3	**6,186**	**1,354**	**1,317**	**37**	**4,846**	**398**
Total		**887,102**	**7,937**	**6,596**	**1,341**	**880,483**	**1,374**

Additional disclosures on non-performing financing coverage as per CBO circular BM 1149 is given below:

December 2023	As per CBO RO'000	As per Window's policy RO'000	Difference RO'000
Impairment loss charged to statement of income	1,140	1,064	(76)
Provisions	5,973	4,126	(1,847)
Gross NPL ratio (percentage)*	0.59	0.59	-

*NPL ratios are calculated on the basis of funded non-performing financing and advances.

8. Financing advances and other receivables (continued)

The below table provides a comparison of provision held as per Window's policy and required as per CBO norms:

31 December 2023 CBO classification	Window's policy classification	Gross carrying amount	CBO Provision	Window's policy Provisions	Difference between CBO and Window's policy	Net carrying amount	CBO Reserve profit
1	2	3	4	5	(6)=(4)-(5)	(7)=(3)-(5)	8
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
	Stage 1	391,361	3,974	879	3,095	390,482	-
Standard	Stage 2	7,385	73	86	(13)	7,299	-
	Stage 3	-	-	-	-	-	-
Sub Total		398,746	4,047	965	3,082	397,781	-
	Stage 1	47,046	470	1,036	(566)	46,010	-
Special mention	Stage 2	53,494	532	1,595	(1,063)	51,899	-
	Stage 3	-	-	-	-	-	-
Sub Total		100,540	1,002	2,631	(1,629)	97,909	-
	Stage 1	-	-	-	-	-	-
Substandard	Stage 2	-	-	-	-	-	-
	Stage 3	657	164	103	61	554	2
Sub Total		657	164	103	61	554	2
	Stage 1	-	-	-	-	-	-
Doubtful	Stage 2	-	-	-	-	-	-
	Stage 3	739	191	137	54	602	72
Sub Total		739	191	137	54	602	72
	Stage 1	-	-	-	-	-	-
Loss	Stage 2	-	-	-	-	-	-
	Stage 3	1,556	569	467	102	1,089	168
Sub Total		1,556	569	467	102	1,089	168
	Stage 1	438,407	4,444	1,915	2,529	436,492	-
Gross Financing, Advance	Stage 2	60,879	605	1,681	(1,076)	59,198	-
	Stage 3	2,952	924	707	217	2,245	242
Total		502,238	5,973	4,303	1,670	497,935	242
Receivables from financial institutions, Investment securities and financial guarantees	Stage 1	143,043	-	64	(64)	142,979	-
	Stage 2	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-
Sub Total		143,043	-	64	(64)	142,979	-
	Stage 1	581,450	4,444	1,979	2,465	579,471	-
Total	Stage 2	60,879	605	1,681	(1,076)	59,198	-
	Stage 3	2,952	924	707	217	2,245	242
Total		645,281	5,973	4,367	1,606	640,914	242

8. Financing advances and other receivables (continued)

The analysis of changes in the gross carrying amount and corresponding ECL allowance on financing advances and other receivables is as follows:

Gross carrying amount	**Stage 1 RO'000**	**Stage 2 RO'000**	**Stage 3 RO'000**	**Total RO'000**
As at 1 January 2024	**438,407**	**60,879**	**2,952**	**502,238**
New assets originated / added	**225,050**	**19,335**	**-**	**244,385**
Assets derecognised or repaid-net	**(74,921)**	**(11,941)**	**(86)**	**(86,948)**
Transfers to Stage 1	**996**	**(966)**	**(30)**	**-**
Transfers to Stage 2	**(8,774)**	**8,774**	**-**	**-**
Transfers to Stage 3	**(2,185)**	**(1,165)**	**3,350**	**-**
At 31 December 2024	**578,573**	**74,916**	**6,186**	**659,675**

	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
As at 1 January 2023	376,784	30,525	2,297	409,606
New assets originated / added	142,313	22,828	-	165,141
Assets derecognised or repaid-net	(71,509)	(745)	(255)	(72,509)
Transfers to Stage 1	623	(575)	(48)	-
Transfers to Stage 2	(9,504)	9,504	-	-
Transfers to Stage 3	(300)	(658)	958	-
At 31 December 2023	438,407	60,879	2,952	502,238

ECL	**Stage 1 RO'000**	**Stage 2 RO'000**	**Stage 3 RO'000**	**Total RO'000**
ECL allowance as at 1 January 2024	**1,915**	**1,681**	**465**	**4,061**
Expected credit losses recognised	**1,090**	**1,283**	**287**	**2,660**
Recoveries from expected credit losses	**(437)**	**(947)**	**(263)**	**(1,647)**
Transfers to Stage 1	**-**	**-**	**-**	**-**
Transfers to Stage 2	**(51)**	**51**	**-**	**-**
Transfers to Stage 3	**(271)**	**(159)**	**430**	**-**
At 31 December 2024	**2,246**	**1,909**	**919**	**5,074**

	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
ECL allowance as at 1 January 2023	1,020	1,212	327	2,559
Expected credit losses recognised	1,053	474	15	1,542
Recoveries from expected credit losses	(17)	(2)	(21)	(40)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(79)	79	-	-
Transfers to Stage 3	(62)	(82)	144	-
At 31 December 2023	1,915	1,681	465	4,061

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

8. Financing advances and other receivables (continued)

31 December 2024 **CBO classification**	**Window's policy classification**	**Gross carrying amount (1)**	**CBO Provision (2)**	**Window's policy Provisions (3)**	**Difference between CBO and Window's policy (4)=(2)-(3)**	**Net carrying amount (5)=(1)-(3)**
Classified as performing	Stage 1	**46,433**	**464**	**1,803**	**(1,339)**	**44,630**
	Stage 2	**23,940**	**239**	**1,557**	**(1,318)**	**22,383**
	Stage 3	**-**	**-**	**-**	**-**	**-**
Sub Total		**70,373**	**703**	**3,360**	**(2,657)**	**67,013**
Classified as non-performing	Stage 1	**-**	**-**	**-**	**-**	**-**
	Stage 2	**-**	**-**	**-**	**-**	**-**
	Stage 3	**-**	**-**	**-**	**-**	**-**
Sub Total		**-**	**-**	**-**	**-**	**-**
Total	Stage 1	**46,433**	**464**	**1,803**	**(1,339)**	**44,630**
	Stage 2	**23,940**	**239**	**1,557**	**(1,318)**	**22,383**
	Stage 3	**-**	**-**	**-**	**-**	**-**
Total		**70,373**	**703**	**3,360**	**(2,657)**	**67,013**

31 December 2023 CBO classification	Window's policy classification	Gross carrying amount (1)	CBO Provision (2)	Window's policy Provisions (3)	Difference between CBO and Window's policy (4)=(2)-(3)	Net carrying amount (5)=(1)-(3)
Classified as performing	Stage 1	44,538	445	1,033	(588)	43,505
	Stage 2	17,549	176	1,287	(1,111)	16,262
	Stage 3	-	-	-	-	-
Sub Total		62,087	621	2,320	(1,699)	59,767
Classified as non-performing	Stage 1	-	-	-	-	-
	Stage 2	-	-	-	-	-
	Stage 3	-	-	-	-	-
Sub Total		-	-	-	-	-
Total	Stage 1	44,538	445	1,033	(588)	43,505
	Stage 2	17,549	176	1,287	(1,111)	16,262
	Stage 3	-	-	-	-	-
Total		62,087	621	2,320	(1,699)	59,767

8.a. Murabaha receivables

	31 December 2024 RO'000	31 December 2023 RO'000
Book value	**25,139**	34,270
Deferred profit	**(2,088)**	(2,604)
Net book value	**23,051**	31,666
Expected credit loss allowance	**(168)**	(169)
Contractual profit not recognised	**(33)**	(31)
	22,850	31,466

8. Financing advances and other receivables (continued)

8.a. Murabaha receivables (continued)

Unamortized deferred profit

	31 December 2024 RO'000	31 December 2023 RO'000
Deferred profit at the beginning of the year	**2,604**	2,871
Profit deferred during the year on sales	**2,779**	2,640
Murabaha sales revenue during the year	**(3,295)**	(2,907)
Deferred profit at the end of the year	**2,088**	2,604

8.b. Ijarah muntahia bittamleek

	31 December 2024 RO'000	31 December 2023 RO'000
Cost	**113,876**	116,012
Accumulated depreciation / amortisation	**(25,500)**	(22,022)
Net book value	**88,376**	93,990
Expected credit loss allowance	**(316)**	(275)
Contractual profit not recognised	**(210)**	(128)
	87,850	93,587

8.c. Istisna followed by Ijarah muntahia bittamleek

	31 December 2024 RO'000	31 December 2023 RO'000
Book value	**120,158**	102,603
Expected credit loss allowance	**(2,177)**	(1,408)
Contractual profit not recognised	**(1,050)**	(53)
	116,931	101,142

8.d. Diminishing Musharka

	31 December 2024 RO'000	31 December 2023 RO'000
Book value	**222,924**	253,194
Expected credit loss allowance	**(2,119)**	(2,151)
Contractual profit not recognised	**(81)**	(31)
	220,724	251,012

8.e. Qard hasan financing

	31 December 2024 RO'000	31 December 2023 RO'000
Book value	**26**	33
Expected credit loss allowance	**-**	-
Contractual profit not recognised	**-**	-
	26	33

8. Financing advances and other receivables (continued)

8.f. Wakala bil istithmar

	31 December 2024 RO'000	31 December 2023 RO'000
Book value	**205,140**	20,752
Expected credit loss allowance	**(294)**	(57)
	204,846	20,695

9. Property and equipment

	Right to use RO'000	Software RO'000	Furniture and fixtures RO'000	Office equipment RO'000	Motor vehicle RO'000	Capital work in-progress RO'000	Total RO'000
Cost:							
At 1 January 2024	**2,845**	**1,356**	**1,390**	**770**	**128**	**1**	**6,490**
Additions / (Disposals)	**498**	**22**	**24**	**10**	**-**	**67**	**621**
As at 31 December 2024	**3,343**	**1,378**	**1,414**	**780**	**128**	**68**	**7,111**
Accumulated depreciation:							
At 1 January 2024	**(1,390)**	**(1,165)**	**(822)**	**(635)**	**(117)**	**-**	**(4,129)**
Depreciation	**-**	**(33)**	**(127)**	**(43)**	**(5)**	**-**	**(208)**
Amortization	**(365)**	**-**	**-**	**-**	**-**	**-**	**(365)**
Disposals	**(22)**	**-**	**-**	**-**	**-**	**-**	**(22)**
As at 31 December 2024	**(1,777)**	**(1,198)**	**(949)**	**(678)**	**(122)**	**-**	**(4,724)**
Net book value as at 31 December 2024	**1,566**	**180**	**465**	**102**	**6**	**68**	**2,387**

	Right to use RO'000	Software RO'000	Furniture and fixtures RO'000	Office equipment RO'000	Motor vehicle RO'000	Capital work in-progress RO'000	Total RO'000
Cost:							
At 1 January 2023	1,487	1,313	980	721	140	12	4,653
Additions / (Disposals)	1,358	37	405	49	(12)	-	1,837
Transfers	-	6	5	-	-	(11)	-
As at 31 December 2023	2,845	1,356	1,390	770	128	1	6,490
Accumulated depreciation:							
At 1 January 2023	(1,070)	(1,065)	(736)	(597)	(134)	-	(3,602)
Depreciation	-	(100)	(86)	(38)	(7)	-	(231)
Amortization	(320)	-	-	-	-	-	(320)
Disposals	-	-	-	-	24	-	24
As at 31 December 2023	(1,390)	(1,165)	(822)	(635)	(117)	-	(4,129)
Net book value as at 31 December 2023	1,455	191	568	135	11	1	2,361

10. Other assets

	31 December 2024 RO'000	31 December 2023 RO'000
Profit receivable	**26,511**	18,831
Rental receivable	**1,745**	1,547
Others	**2,497**	1,777
	30,753	22,155

11. Current and other accounts

	31 December 2024 RO'000	31 December 2023 RO'000
Current	**56,463**	63,389
Margin	**2,127**	2,258
	58,590	65,647

12. Due to financial institutions

	31 December 2024 RO'000	31 December 2023 RO'000
Local Currency:		
Demand Balances	**4,680**	287
Foreign Currency:		
Demand Balances	**624**	3,946
	5,304	4,233

13. Other liabilities

	31 December 2024 RO'000	31 December 2023 RO'000
Profit/fee payable	**1**	152
Staff entitlements	**646**	392
Payable to takaful company	**258**	40
Expected credit loss allowance on financing advance commitments and financial guarantees	**78**	64
Other accruals and provisions	**4,806**	2,627
	5,789	3,275

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

Gross carrying amount	**Stage 1 RO'000**	**Stage 2 RO'000**	**Stage 3 RO'000**	**Total RO'000**
Balance as at 1 January 2024	**99,714**	**-**	**-**	**99,714**
New assets originated or purchased	**37,982**	**-**	**-**	**37,982**
Assets derecognised or repaid	**(27,287)**			**(27,287)**
At 31 December 2024	**110,409**	**-**	**-**	**110,409**

Gross carrying amount	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Balance as at 1 January 2023	65,036	-	-	65,036
New assets originated or purchased	15,939	-	-	15,939
Assets derecognised or repaid	18,739	-	-	18,739
At 31 December 2023	99,714	-	-	99,714

13. Other liabilities (continued)

ECL amount	**Stage 1 RO'000**	**Stage 2 RO'000**	**Stage 3 RO'000**	**Total RO'000**
Balance as at 1 January 2024	**65**	**-**	**-**	**65**
Expected credit losses recognised	**13**	**-**	**-**	**13**
Recoveries from expected credit losses	**-**	**-**	**-**	**-**
At 31 December 2024	**78**	**-**	**-**	**78**

ECL amount	Stage 1 RO'000	Stage 2 RO'000	Stage 3 RO'000	Total RO'000
Balance as at 1 January 2023	64	-	-	64
Expected credit losses recognised	-	-	-	-
Recoveries from expected credit losses	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
At 31 December 2023	64	-	-	64

14. Quasi-equity participatory investment accounts

	31 December 2024 RO'000	31 December 2023 RO'000
Mudaraba accounts	**33,828**	32,247
Wakala funds	**632,812**	429,853
	666,640	462,100

14.1. Mudaraba accounts

	31 December 2024 RO'000	31 December 2023 RO'000
Saving accounts	**33,828**	32,247
	33,828	32,247

Term deposits are deposits which can be withdrawn with no loss of capital subject to certain conditions.

The share, as Mudarib, in the profits of equity of investment accountholders is up to a maximum of 70% (2023: 70%) as per the terms of investment account holder agreements.

During the year, the Window has not charged any administrative expense to the pool.

Product	**Participation factor**	**Rate earned**
Mudaraba Saving-OMR	20	0.609%
Mudaraba Saving-SAR	20	0.608%
Mudaraba Saving-AED	20	0.609%
Mudaraba Saving-USD	20	0.649%
Mudaraba Saving-GBP	20	0.609%
Mudaraba Saving-EUR	20	0.609%
Wakala Interbank Borrowing	74	5.629%
Wakala Term Deposits	74	5.629%
Wakala Call Deposits	76	5.781%
Wakala Saving Deposits	65	4.945%

14. Quasi-equity participatory investment accounts (continued)

14.1. Mudaraba accounts (continued)

Participatory investment accounts are monies invested by customers under Mudaraba to form a pool of funds. Participatory investment account's funds are commingled with the Banks's funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits.

14.2. Wakala Funds

	31 December 2024	31 December 2023
	RO'000	RO'000
At 1 January	**429,853**	341,522
Addition during the year	**383,250**	368,529
Less: Redemption during the year	**(180,291)**	(280,198)
At 31 December	**632,812**	429,853

14.2.a. Concentration of Wakala Funds

By currency type	31 December 2024	31 December 2023
	RO'000	RO'000
Local currency:		
- Banks	**3,500**	17,080
- Corporates & retail	**536,770**	387,047
Foreign currency:		
- Banks	**31,358**	3,853
- Corporates & retail	**61,184**	21,873
	632,812	429,853

By Counterparty type	31 December 2024	31 December 2023
	RO'000	RO'000
Personal	**222,756**	120,552
Corporates	**169,155**	157,602
Government	**240,901**	151,699
	632,812	429,853

By Geographical Region	31 December 2024	31 December 2023
	RO'000	RO'000
Oman	**631,647**	426,000
Africa	**1,165**	3,853
	632,812	429,853

By Counterparty Type	31 December 2024	31 December 2023
	RO'000	RO'000
Banks	**34,858**	20,933
Non-Banks	**597,954**	408,920
	632,812	429,853

14. Quasi-equity participatory investment accounts (continued)

14.2. Wakala Funds (continued)

14.2.b. Maturity of Wakala Funds

Wakala Funds includes various facilities with a fixed profit rate ranging from 0.5% – 6.25%. The maturity of the Wakala payables ranges from 1 week to over 5 years.

31 December 2024	Upto 1 month	1 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
Wakala Inter-bank Borrowing	31,918	-	1,155	-	-	33,073
Wakala Term Deposits	23,018	21,812	203,668	56,195	5,720	310,413
Wakala Call Deposits	17,650	29,416	11,766	29,416	29,416	117,664
Wakala Saving Deposits	5,312	10,618	10,618	106,176	44,242	176,966

31 December 2023	Upto 1 month	1 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Total
Wakala Inter-bank Borrowing	21,313	-	-	3,853	-	25,166
Wakala Term Deposits	16,043	41,216	76,752	137,336	6,214	277,561
Wakala Call Deposits	11,975	20,957	11,975	-	14,969	59,876
Wakala Saving Deposits	3,574	7,149	7,149	35,741	17,870	71,483

15 Owners' equity

15.a. Allocated capital

During the year allocated capital was increased by RO 15 million to RO 66.5 million (2023: RO 51.5 million).

15. b. Legal reserve

Legal reserve of RO 134 thousands (31 December 2023: RO 134 thousands) represents the net excess amount of the issue proceeds collected by the Bank during Window's inception in the year 2013.

15.c. General reserve

General Reserve of RO 988 thousands (31 December 2023: RO 988 thousands) represents the losses incurred for the year 2013 and 2014.

15.d. Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of the investment securities held as FVOCI until the investment is derecognised, sold or impaired. As at 31 December 2024 the fair value on FVOCI investments is a loss of RO 452 thousand, (31 December 2023: gain of RO 44 thousand).

15.e. Impairment reserve

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

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

15 Owners' equity (continued)

15.e. Impairment reserve (continued)

Accordingly, for the year ended December 2024, the Window made additional RO 914 million transfer to impairment reserve. The balance as on 31 December 2024: RO 2,555 million (31 December 2023: RO 1,641 thousand).

16. Contingent liabilities and commitments

16.a. Contingent liabilities

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

	31 December 2024	31 December 2023
	RO'000	RO'000
Guarantees	**39,867**	35,806
Letter of credit	**20,752**	17,691
	60,619	53,497

16.b. Commitments

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

	31 December 2024	31 December 2023
	RO'000	RO'000
Credit related commitments	**49,790**	46,217

17. Related parties

In the ordinary course of business, the Window conducts transactions with certain of its Directors, shareholders, senior management, head office, Sharia Supervisory Board (SSB), Sharia reviewer and companies in which they have a significant influence and control. These transactions are conducted on an arm's length basis and are approved by the Window's management and Board of Directors.

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

Directors & Senior management	**31 December 2024 RO'000**	31 December 2023 RO'000
Financing and advances (balance at end of year)	**301**	-
Financing and advances disbursed during the year	**355**	-
Financing and advances repaid during the year	**54**	-
Profit on financing and advances (during the year)	**10**	-
Deposits (balance at end of year)	**1,069**	2
Deposits received during the year	**12,381**	96
Deposits paid during the year	**(13,090)**	(98)
Profit expense (during the year)	**(13)**	-

17. Related parties (continued)

Directors' sitting fees and remuneration		
Shari'a Supervisory Board members	**51**	39
Transaction with head office		
Profit paid on wakala borrowings	**(210)**	(1,326)
Fee paid on committed line	**(493)**	(200)

The Window considers 8 (2023: 7) senior management to be key management personnel for the purposes of IAS 24 Related Party Disclosures.

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

	31 December 2024 RO'000	31 December 2023 RO'000
Financing and advances	**51**	81
Deposits	**79**	115

Key management compensation

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

	31 December 2024 RO'000	31 December 2023 RO'000
Profit on financing and advances (during the year)	**2**	2
Profit expense (during the year)	**(3)**	(4)
Salaries and other short term benefits	**981**	1,028
Post-employment benefits	**32**	30

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

18. Derivatives

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

Currency forward (Wa'ad), is a unilateral agreement between parties to buy one currency against selling another currency at an agreed price for settlement at forward / future value date. The exchange rate used for the transaction is called the forward exchange rate.

It is done to hedge from exchange rate volatility risk and to manage liquidity efficiently by allowing window to place / invest excess liquidity with offshore banks or to take funds from offshore banks in case of liquidity shortage.

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

18. Derivatives (continued)

As at 31 December 2024	Notional amount	Notional amounts by term to maturity		
		Within 3 months	*3 - 12 months*	*1 - 5 years*
	RO'000	***RO'000***	***RO'000***	***RO'000***
Forward foreign exchange purchase contracts	**299,441**	**255,138**	**9,624**	**34,679**
Forward foreign exchange sales contracts	**299,382**	**255,107**	**9,625**	**34,650**

As at 31 December 2023	Notional amount	Notional amounts by term to maturity		
		Within 3 months	*3 - 12 months*	*1 - 5 years*
	RO'000	*RO'000*	*RO'000*	*RO'000*
Forward foreign exchange purchase contracts	88,544	55,773	13,481	19,290
Forward foreign exchange sales contracts	88,494	55,769	13,475	19,250

Main counter party to forward contracts is the head office.

19. Income from financing activities

	31 December 2024	31 December 2023
	RO'000	RO'000
Murabaha receivables	**3,295**	2,907
Ijarah muntahia bittamleek	**5,474**	5,684
Istisna followed by Ijarah muntahia bittamleek	**6,441**	6,312
Diminishing Musharka	**11,430**	8,302
Wakala Bil Istithmar	**4,844**	1,515
	31,484	24,720

20. Income from investing activities

	31 December 2024	31 December 2023
	RO'000	RO'000
Income from inter-bank placements with financial institutions	**3,788**	754
Income from investment in debt-type instruments	**1,530**	1,532
	5,318	2,286

21. Profit attributed to quasi-equity

	31 December 2024	31 December 2023
	RO'000	RO'000
On Mudaraba accounts (after deducting Mudarib share)	**398**	463
On Wakala accounts -		
- Customers	**24,523**	17,480
- Banks	**928**	1,638
	25,451	19,118
	25,849	19,581

22. Other operating income

	31 December 2024	31 December 2023
	RO'000	RO'000
Foreign exchange gains – net	**827**	430
Fees and commissions – net	**4,092**	2,761
Dividend income	**116**	19
	5,035	3,210

23. Other operating expenses

	31 December 2024 RO'000	31 December 2023 RO'000
Operating and administration costs	**1,482**	980
Amortisation of right-to-use assets	**365**	320
Rent and utility expenses	**172**	564
SSB remuneration and sitting fees	**51**	49
	2,070	1,913

24. Impairment charges (net)

	31 December 2024 RO'000	31 December 2023 RO'000
Impairment charges provided / (released) on:		
Investments & balances with banks	**(70)**	438
Off balance sheet	**(13)**	-
Financing assets	**(1,013)**	(1,502)
	(1,096)	(1,064)

25. Financial risk management

25.1. 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 profit obligations in accordance with the set redemption schedule or terms of contract.

25.1.a. Credit risk in financing products

Credit risk originates from the financing of receivables and leases (including but not limited to, Murabaha, Diminishing Musharaka, Istisna and Ijarah) and financing of working capital (including but not limited to Salam). Window acts as financier, supplier, Rabb-ul-Mal and contributor of capital in Musharaka agreement. The window is exposed to the risk of counterparty's failure to meet their obligations in terms of receiving deferred payment and making or taking delivery of an asset.

Sohar Islamic credit risk management follows a robust framework with clearly defined lending policies that articulate the requirements for credit approvals. System of delegation of authorities ensures strong governance on approvals while an independent risk management department reviews and provides an independent opinion the credit/lending requests. Risk Ratings for eligible borrowers are generated through Moody's Credit lens.

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 financings and advances are:

- charges of assets under Murabaha agreements
- ownership / title of assets under Ijarah and Istisna financing
- ownership / title under Istisna arrangement
- title of assets under Diminishing Musharka

The Bank has deployed Moodys Credit Lens tool which assigns risk ratings to match the client's risk profile. Risk ratings are subject to annual review by the Business units and approval from the Credit Risk Team.

25. Financial risk management (continued)

25.1. Credit risk (continued)

25.1.a. Credit risk in financing products (continued)

Exposure limits are based on the aggregate exposure to counterparty and any connected entities. Corporate contracts / facilities are reviewed on an annual basis by the approving authorities as per the delegation of authorities approved by the Board of Directors.

25.1.b. Management of credit risk

All finances of the Window are regularly monitored to ensure compliance with the stipulated terms and conditions. Those finances are classified into one of the 5 risk classification categories: Standard, Special Mention, Substandard, Doubtful and Loss – as stipulated by CBO regulations and guidelines. The responsibility for identifying problem accounts and classifying them rests with the business line with an oversight from the independent risk management function.

The credit exposure of the Window as on the reporting date is as follows:

31 December 2024 In (RO'000)	**Murabaha receivables**	**Ijarah muntahia bittamleek**	**Istisna followed by Ijarah muntahia bittamleek**	**Diminishing Musharka**	**Qard Hasan Financing**	**Wakala Bil Istithmar**	**Receivables from financial institutions**	**Debt type securities**	**Total**
Stage 1	**20,314**	**79,090**	**97,897**	**184,567**	**26**	**196,679**	**71,774**	**41,662**	**692,009**
Stage 2	**2,421**	**7,561**	**20,839**	**35,634**	**-**	**8,461**	**-**		**74,916**
Stage 3	**316**	**1,725**	**1,422**	**2,723**	**-**	**-**	**-**	**-**	**6,186**
Total	**23,051**	**88,376**	**120,158**	**222,924**	**26**	**205,140**	**71,774**	**41,662**	**773,111**

31 December 2023 In (RO'000)	Murabaha receivables	Ijarah muntahia bittamleek	Istisna followed by Ijarah muntahia bittamleek	Diminishing Musharka	Qard Hasan Financing	Wakala Bil Istithmar	Receivables from financial institutions	Debt type securities	Total
Stage 1	28,168	84,082	86,374	225,796	33	13,955	18,777	23,889	481,074
Stage 2	3,203	8,640	15,448	26,790	-	6,797	-	-	60,878
Stage 3	295	1,268	781	608	-	-	-	-	2,952
Total	31,666	93,990	102,603	253,194	33	20,752	18,777	23,889	544,904

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

The table below presents an analysis of debt securities, placements and other eligible bills by rating agency designation at 31 December 2024, based on Moody's ratings or equivalent.

	31 December 2024 RO'000	31 December 2023 RO'000
Aaa to Aa3	**-**	1,040
A1 to A3	**7,107**	15,571
Baa1 to Baa3	**1,486**	2,165
Ba1 to Ba3	**63,181**	-
B1 to B3	**-**	-
Caa1 to Caa3	**9,217**	-
Unrated securities	**3,652**	663
Sovereign securities	**32,375**	23,889
	117,018	43,328

25. Financial risk management (continued)

25.1. Credit risk (continued)

25.1.b. Management of credit risk (continued)

The Window performs an independent assessment based on quantitative and qualitative factors in cases where a counter party is unrated.

25.1.c Credit rating analysis

The Window's internal rating and PD estimation process

The Window's independent Credit Risk Department operates its internal rating models. The Window runs separate models for its key portfolios in which its customers are rated from 1 to 10 using 22 internal grades. Granular scales were implemented in 2022 as a part of the overall enhancement to the Obligor Risk Rating framework within the bank.

The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilize supplemental external information that could affect the borrower's behavior. Where practical, they also build on information from Good Rating Agency. These information sources are first used to determine the PDs within the Window's Basel III framework. The internal credit grades are assigned based on these Based III grades.

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

Internal rating 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%

25. Financial risk management (continued)

25.1. Credit risk (continued)

25.1.c Credit rating analysis (continued)

The table below shows the credit quality by class of financial asset, based on internal credit ratings:

31-Dec-24	**Murabaha receivables**	**Ijarah muntahia bittamleek**	**Istisna followed by Ijarah muntahia bittamleek**	**Diminishing Musharka**	**Qard Hasan Financing**	**Wakala Bil Istithmar**	**Receivables from financial institutions**	**Debt type securities**	**Total**
Gross Amount (RO'000)									
Performing financing assets (Grades 1-5)									
Performing	**20,388**	**79,067**	**56,861**	**180,873**	**26**	**196,952**	**71,774**	**41,662**	**647,603**
Past due but not impaired	**82**	**670**	**210**	**595**	**-**	**5**	**-**	**-**	**1,562**
Total	**20,470**	**79,737**	**57,071**	**181,468**	**26**	**196,957**	**71,774**	**41,662**	**649,165**
Performing financing assets (Grade 6)									
Performing	**-**	**-**	**-**	**3,702**	**-**	**-**	**-**	**-**	**3,702**
Past due but not impaired	**-**	**-**	**-**	**244**	**-**	**-**	**-**	**-**	**244**
Total	**-**	**-**	**-**	**3,946**	**-**	**-**	**-**	**-**	**3,946**
Performing financing assets (Grade 7)									
Past due but not impaired	**2,265**	**6,914**	**61,665**	**34,787**	**-**	**8,183**	**-**	**-**	**113,814**
Total	**2,265**	**6,914**	**61,665**	**34,787**	**-**	**8,183**	**-**	**-**	**113,814**
Non-performing financing assets (Grades 8-10)									
Credit impaired	**316**	**1,725**	**1,422**	**2,723**	**-**	**-**	**-**	**-**	**6,186**
Total	**316**	**1,725**	**1,422**	**2,723**	**-**	**-**	**-**	**-**	**6,186**
Total financing assets									
Performing	**20,388**	**79,067**	**56,861**	**184,575**	**26**	**196,952**	**71,774**	**41,662**	**651,305**
Past due but not impaired	**2,347**	**7,584**	**61,875**	**35,626**	**-**	**8,188**	**-**	**-**	**115,620**
Credit impaired	**316**	**1,725**	**1,422**	**2,723**	**-**	**-**	**-**	**-**	**6,186**
Total	**23,051**	**88,376**	**120,158**	**222,924**	**26**	**205,140**	**71,774**	**41,662**	**773,111**

25. Financial risk management (continued)

25.1. Credit risk (continued)

25.1.c Credit rating analysis (continued)

31-Dec-23 Gross Amount (RO'000)	Murabaha receivables	Ijarah muntahia bittamleek	Istisna followed by Ijarah muntahia bittamleek	Diminishing Musharka	Qard Hasan Financing	Wakala Bil Istithmar	Receivables from financial institutions	Debt type securities	Total
Performing financing assets (Grades 1-5)									
Performing	27,908	78,398	41,767	215,979	31	14,029	18,777	23,889	420,778
Past due but not impaired	410	6,858	4,050	1,600	2	-	-	-	12,920
Total	28,318	85,256	45,817	217,579	33	14,029	18,777	23,889	433,698
Performing financing assets (Grade 6)									
Performing		8	0	6,460					6,468
Past due but not impaired		0	807	438					1,245
Total	-	8	807	6,898	-	-	-	-	7,713
Performing financing assets (Grade 7)									
Past due but not impaired	3,053	7,458	55,198	28,109		6,723			100,541
Total	3,053	7,458	55,198	28,109		6,723			100,541
Non-performing financing assets (Grades 8-10)									
Credit impaired	295	1,268	781	608					2,952
Total	295	1,268	781	608					2,952
Total financing assets									
Performing	27,908	78,406	41,767	222,439	31	14,029	18,777	23,889	427,246
Past due but not impaired	3,463	14,316	60,055	30,147	2	6,723	-	-	114,706
Credit impaired	295	1,268	781	608	-	-	-	-	2,952
Total	31,666	93,990	102,603	253,194	33	20,752	18,777	23,889	544,904

25.1.d. Write-off policy

The Window writes off a financing and advances/security balance (and any related allowances for impairment losses) when the Window determines that the financing and advances/security is uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer repay the obligation, or that proceeds from the collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized financings, charge off decisions generally are based on a product specific past due status. The write off mechanism, approving authorities and the governance on the same is duly elaborated in the bank's wholesale lending policy.

25. Financial risk management (continued)

25.1. Credit risk (continued)

25.1.d. Write-off policy (continued)

An estimate of the fair value of collateral and other security enhancements held against financings and advances is shown below:

	31 December 2024 RO'000	31 December 2023 RO'000
Property	**765,775**	654,418
Vehicles	**15,271**	15,286
Fixed deposits	**2,700**	2,964
	783,746	672,668

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

In foreign exchange trades, though there is fulfilment of both the legs of the transaction on the settlement date as is common practice between trading partners (free settlement), there will be risk on account of different time zones. In these cases,

daily settlement limits shall control the aggregate size of FX notional amounts permitted to settle with a counterparty on any given settlement date.

25.1.e. Concentrations

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

In order to avoid excessive concentrations of risk, the Window's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed through regulatory caps and internal risk appetite thresholds where ever applicable.

	Dec 2024							
	Murabaha receivables	**Ijarah muntahia bittamleek**	**Istisna followed by Ijarah muntahia bittamleek**	**Diminishing Musharka**	**Qard Hasan Financing**	**Wakala Bil Istithmar**	**Receivables from financial institutions**	**Debt type securities**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Concentration by sector								
Corporate	**10,589**	**14,169**	**87,835**	**173,939**	**-**	**205,140**	**-**	**41,662**
Personal	**12,462**	**74,207**	**32,323**	**48,985**	**26**	**-**	**-**	**-**
Banks	**-**	**-**	**-**	**-**	**-**	**-**	**71,774**	**-**
Total	**23,051**	**88,376**	**120,158**	**222,924**	**26**	**205,140**	**71,774**	**41,662**
Concentration by location								
Middle east	**23,051**	**88,376**	**120,158**	**222,924**	**26**	**205,140**	**64,508**	**41,662**
Europe	**-**	**-**	**-**	**-**	**-**	**-**	**7,266**	**-**
Total	**23,051**	**88,376**	**120,158**	**222,924**	**26**	**205,140**	**71,774**	**41,662**

25. Financial risk management (continued)

25.1. Credit risk (continued)

25.1.e. Concentrations (continued)

	Dec 2023							
	Murabaha receivables	Ijarah muntahia bittamleek	Istisna followed by Ijarah muntahia bittamleek	Diminishing Musharka	Qard Hasan Financing	Wakala Bil Istithmar	Receivables from financial institutions	Debt type securities
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Concentration by sector								
Corporate	19,971	14,857	69,207	225,405	-	20,752	-	23,889
Personal	11,695	79,133	33,396	27,789	33	-	-	-
Banks	-	-	-	-	-	-	18,777	-
Total	31,666	93,990	102,603	253,194	33	20,752	18,777	23,889
Concentration by location								
Middle east	31,666	93,990	102,603	253,194	33	20,752	1,508	23,889
Europe	-	-	-	-	-	-	17,269	-
Total	31,666	93,990	102,603	253,194	33	20,752	18,777	23,889

25.1.f. Sensitivity of impairment estimates

	31 December 2024		31 December 2023	
Sensitivity of impairment estimates	**ECL RO 000's**	**Impact on ECL RO 000's**	ECL RO 000's	Impact on ECL RO 000's
ECL on non-impaired financing under Window's policy	**4,155**	**NA**	3,595	NA
Simulations				
Upside case - 100% weighted	**3,600**	**555**	2,867	728
Base case - 100% weighted	**4,005**	**150**	3,378	217
Downside scenario - 100% weighted	**4,867**	**(712)**	4,593	(998)

25.2 Liquidity risk

Liquidity risk is the risk that the Window will encounter difficulty in meeting its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The objective of the Window's liquidity risk management framework is to ensure that the Window's will always have sufficient liquidity to meet all its payment obligations as and when it is due, under both normal and stressed conditions without incurring unacceptable losses or risking damage to the Window's reputation.

Window's central treasury receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Central treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, finances and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the window as a whole. The liquidity requirements of business units are met through short-term financing and advances from central treasury to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements. The Window has also laid down a comprehensive liquidity contingency plan for effective management of liquidity. In this process due care is taken to ensure that the Window complies with all the CBO regulations.

All liquidity policies and procedures are subject to review and approved by Asset Liabilities Committee (ALCO). Computation of liquidity gap on maturity of assets and liabilities is provided. The computation has been prepared in accordance with guidelines provided by the regulator.

25. Financial risk management (continued)

25.2 Liquidity risk (continued)

The lending ratio, which is the ratio of the total financing to customer deposits and capital, is monitored in line with the regulatory guidelines. The Window also manages its liquidity risk on regular basis and by monitoring the liquid ratio which is a ratio of net liquid assets to total assets on a monthly basis. For this purpose, net liquid assets are considered as including cash and cash equivalents and investment grade debt investments for which there is an active and liquid market.

Details of the reported lending and liquid ratio as at 31 December 2024 were as follows:

	31 December 2024	
	Lending ratio	**Liquid ratio**
Average for the year	**84.85%**	**16.85%**
Maximum for the year	**86.81%**	**24.70%**
Minimum for the year	**82.33%**	**11.40%**

	31 December 2023	
	Lending ratio	Liquid ratio
Average for the year	86.14%	15.90%
Maximum for the year	88.70%	21.29%
Minimum for the year	83.65%	12.78%

The Window also monitors the liquidity through Liquidity Coverage ratio (LCR) and Net Stable Funding Ratio (NSFR). Current levels of these ratios are given below

31 December 2024		31 December 2023	
LCR	**NSFR**	LCR	NSFR
114.72%	**113.16%**	254.37%	111.65%

The table below summarizes the maturity profile of the Window’s liabilities as on the reporting date based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Window’s deposit retention history and the availability of liquid funds.

	Carrying amount	**Within three months**	**Four months to 12 months**	**One to three years**	**More than three years**	**Total**
Dec 2024	**RO’000**	**RO’000**	**RO’000**	**RO’000**	**RO’000**	**RO’000**
Customer deposit and other accounts	**58,590**	**18,791**	**11,417**	**5,759**	**22,623**	**58,590**
Due to financial institutions	**5,304**	**5,304**	**-**	**-**	**-**	**5,304**
Other liabilities	**5,789**	**-**	**-**	**-**	**5,789**	**5,789**
Total Liabilities	**69,683**	**24,095**	**11,417**	**5,759**	**28,412**	**69,683**
Quasi-equity participatory investment accounts	**666,640**	**105,034**	**262,219**	**122,450**	**176,937**	**666,640**
	736,323	**129,129**	**273,636**	**128,209**	**205,349**	**736,323**

25. Financial risk management (continued)

25.2 Liquidity risk (continued)

Dec 2023	Carrying amount RO'000	Within three months RO'000	Four months to 12 months RO'000	One to three years RO'000	More than three years RO'000	Total RO'000
Customer deposit and other accounts	65,647	26,617	22,680	380	15,970	65,647
Due to financial institutions	4,233	4,233	-	-	-	4,233
Other liabilities	3,275	-	-	-	3,275	3,275
Total Liabilities	73,155	30,850	22,680	380	19,245	73,155
Quasi-equity participatory investment accounts	462,100	71,708	151,065	141,502	97,825	462,100
	535,255	102,558	173,745	141,882	117,070	535,255

The Window prepares a liquidity gap report to monitor the Window's short term liquidity position on the Omani Rial denominated assets and liabilities in a time horizon spanning one month. The gap is adjusted for availability of instruments for repo or refinance and also for unutilized committed lines of credit, if any. This statement of short term liquidity is to be reported to the ALCO every month.

In addition to the above measures of liquidity, the window also monitors the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio as per the regulator in line with Basel-III standards.

25.3. Market risk

Market risk is defined as potential losses on account of changes in market variables. The sources of market risk include changes in profit 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 One of the primary objectives of the Market Risk Management is to ensure that the business units do not expose the bank to unacceptable exposures outside of the bank's Board approved risk appetite.

Sohar Islamic proactively measures and monitors the market risk in its portfolio using appropriate measurement techniques such as limits on intraday and overnight net open foreign exchange positions.

25.3.a. Market risk in financing products

Financing contracts mainly comprise 'Murabaha receivables' and 'Ijara Muntahia Bittamleek'. Following are the financing related market risk:

(i) Murabaha receivables

In the case of an asset in possession for a Murabaha transaction and an asset acquired specifically for resale to a customer in a non-binding Murabaha to the purchase ordered (MPO) transaction, the asset would be treated as inventory of the Window and is subject to price risk.

(ii) Ijara Muntahia Bittamleek (IMB)

In the case of Non-binding Promise to lease an asset acquired and held for the purpose of either operating Ijarah or IMB. The asset would be treated as asset owned by the Window and is subject to price risk from its acquisition date until its disposal.

25. Financial risk management (continued)

25.3. Market risk (continued)

25.3.a. Market risk in financing products (continued)

(iii) Musharaka Investments

Musharaka is a form of partnership between the Window and its clients whereby each party contributes to the capital of partnership in equal or varying degrees to establish a new project, whereby each of the parties become an owner of the capital on a permanent or declining basis. Profits are shared in agreed ratio, but losses are shared in proportion to the amount of capital contributed.

25.3.b. Measurement of market risk

The Window is mainly engaged in Currency forward (Wa'ad). Such positions are mainly undertaken for customer transactions. The Window measures and controls the risk by using a limit framework. As and when the Window enters into more complex derivatives (subject to approval), it will have more sophisticated models and techniques to measure market risk, supported by a suitable mechanism.

25.3.c. Management of market risks

The Window separates its exposure to market risk between trading and non -trading portfolios. Trading portfolios include all positions arising from market making and proprietary position, together with financial assets and liabilities that are managed on a fair value basis.

The Market Risk Function covers the assessment of the market risk for treasury portfolio and non-treasury positions, evaluate / validate methods for monitoring market risk, prescribe the control processes and define the framework for risk appetite in form of limits/trigger levels. They also conduct review of the valuation models, and the conventions for various market risk factors in the valuation and risk system that are proposed by Treasury department.
The window works with an independent Market risk (Middle Office) function within the bank's Risk Management Department (RMD) which is responsible for the day-to-day monitoring of treasury limit. Investment banking and FIG. The Middle- office reports adherence to set risk thresholds and escalates breaches, if any, for timely remedial action. The process ensures that the risks assumed by various front office desks are within the Board approved risk appetite and related policies of the Bank.

The market risk management monitors the following limits and thresholds:

- Exposure limits, variation margin limits with counterparties and credit risk equivalent (CRE) for derivatives
- Permitted derivative structure
- Stop loss thresholds for investments
- Open currency position thresholds
- Regulatory limits for investments under various categories
- Dealer Limits
- Nostro Balances

Overall authority for market risk is vested in ALCO. The risk management function is responsible for development of detailed risk management policies (subject to approval by ALCO and Risk Management Committee of the Board). The Policy is periodically reviewed to keep it up to date with the market developments.

25.3.d. Exposure to profit rate risk

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of funding due to the sources of finance. Senior management identifies the sources of profit rate risk exposures based upon the current as well as forecasted balance sheet structure of Window.

25. Financial risk management (continued)

25.3. Market risk (continued)

25.3.d. Exposure to profit rate risk (continued)

The profit rate risk in the Window may arise due to the following transactions:

- Murabaha transactions;
- Wakala transactions;
- Isitisna followed by Ijara Muntahia Bittamleek;
- Ijara Muntahia Bittamleek;
- Diminishing Musharka;
- Sukuk.

The Window manages short term profit rate impact through earnings based measures and long term profit rate impact through economic value based measures. The Window measures the change in Economic Value of Equity (“ΔEVE”) as the maximum decrease of the banking book economic value under the 6 standard scenarios prescribed by Basel guidelines. The Window maintains economic capital for profit rate risk in the banking book (PRRBB) under Pillar II based on the outcome.

Window is not exposed to material profit rate risk as a result of mismatches in the profit rate re-pricing of assets, liabilities and equity of investment account. The profit distribution to equity of investment accountholders is based on profit sharing agreements. Therefore, Window is not subject to any significant profit rate risk.

(i) Sources of Profit Rate Risk

The different profit rate risks faced by the Window can be classified broadly into the following categories.

- Re-pricing risk which arises from timing differences in the maturity (for fixed rate) and re-pricing (for floating rate) of assets, liabilities and off balance sheet positions. As profit rates vary, these re-pricing mismatches expose Window’s income and underlying economic value to unanticipated fluctuations;
- Yield curve risk which arises when unanticipated shifts of the yield curve have adverse effects on Window’s income and/or underlying economic value;
- Basis risk which arises from imperfect correlation in the adjustment in the rate earned on products priced and the rate paid on different instruments with otherwise similar re-pricing characteristics. When profit rates change, these differences can give rise to unexpected changes in the cash flows and earnings spread between assets, liabilities, and off balance sheet instruments of similar maturities or re-pricing frequencies; and
- Displaced Commercial Risk refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared with competitor’s rates.

(ii) Profit rate risk measurement tools

Window uses Re-pricing gap analysis for profit rate risk measurement in its book which measures the arithmetic difference between the profit-sensitive assets and liabilities of banking book in absolute terms.

25. Financial risk management (continued)

25.3. Market risk (continued)

25.3.e. Exposure to profit rate risk – non trading portfolios

The Window's profit sensitivity position based on contractual re-pricing arrangements at 31 December 2024 was as follows:

	Effective annual Profit Rate	Within three months	Four months to 12 months	Over one year	Non sensitive to profit rate	Total
	%	RO'000	RO'000	RO'000	RO'000	RO'000
At 31 December 2024						
Assets						
Cash and balances with central banks		-	-	-	23,304	23,304
Receivables from financial institutions		-	-	-	71,774	71,774
Investment securities	6.28	-	3,018	38,574	3,652	45,244
Murabaha receivables	5.18	-	-	-	22,850	22,850
Ijarah muntahia bittamleek	5.54	79,075	7,496	1,279	-	87,850
Istisna followed by Ijarah muntahia bittamleek	5.54	96,089	19,640	1,202	-	116,931
Diminishing Musharka	6.32	184,469	34,034	2,221	-	220,724
Qard Hasan Financing	-	26	-	-	-	26
Wakala Bil Istithmar	5.74	196,386	8,460	-	-	204,846
Property and equipment		-	-	-	2,387	2,387
Other assets		-	-	-	30,753	30,753
Total assets		556,045	72,648	43,276	154,720	826,689
Liabilities and equity						
Customer current accounts		-	-	-	58,590	58,590
Due to financial institutions		-	-	-	5,304	5,304
Other liabilities		-	-	-	5,789	5,789
Total liabilities		-	-	-	69,683	69,683
Quasi-equity participatory investment accounts	4.69	385,652	223,248	57,739	-	666,640
Total liabilities and Quasi-Equity		385,652	223,248	57,739	69,683	736,324
Total profit rate sensitivity gap		170,392	(150,600)	(14,463)	85,037	-
Cumulative profit rate sensitivity gap		170,392	19,792	5,329	90,366	-

25. Financial risk management (continued)

25.3. Market risk (continued)

25.3.e. Exposure to profit rate risk – non trading portfolios (continued)

	Effective annual Profit Rate %	Within three months RO'000	Four months to 12 months RO'000	Over one year RO'000	Non sensitive to profit rate RO'000	Total RO'000
At 31 December 2023						
Assets						
Cash and balances with central banks		-	-	-	38,232	38,232
Receivables from financial institutions		-	-	-	18,777	18,777
Investment securities	5.60	-	11,121	12,768	663	24,552
Murabaha receivables	5.01	-	-	-	31,466	31,466
Ijarah muntahia bittamleek	5.42	81,860	9,717	2,010	-	93,587
Istisna followed by Ijarah muntahia bittamleek	6.56	46,976	51,734	2,432	-	101,142
Diminishing Musharka	6.00	106,249	143,956	807	-	251,012
Qard Hasan Financing		7	-	26	-	33
Wakala Bil Istithmar	4.47	15,509	5,186	-	-	20,695
Property and equipment		-	-	-	2,361	2,361
Other assets		-	-	-	22,155	22,155
Total assets		250,601	221,714	18,043	113,654	604,012
Liabilities and equity						
Customer current accounts		-	-	-	65,647	65,647
Due to financial institutions		4,233	-	-	-	4,233
Other liabilities		-	-	-	3,275	3,275
Total liabilities		4,233	-	-	68,922	73,155
Quasi-equity participatory investment accounts	4.58	200,730	137,283	124,086	-	462,100
Total liabilities and Quasi-Equity		204,963	137,283	124,086	68,922	535,255
Total profit rate sensitivity gap		45,638	84,431	(106,043)	44,732	-

Cumulative profit rate sensitivity gap	45,638	130,069	24,026	68,758	-

25. Financial risk management (continued)

25.3. Market risk (continued)

25.3.f. Currency risk

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

	31 December 2024			31 December 2023		
	Assets	**Liabilities & Quasi-Equity**	**Net assets**	Assets	Liabilities & Quasi-Equity	Net assets
Rial Omani	**200,523**	**454,452**	**(253,929)**	409,590	438,114	(28,524)
United States Dollar	**601,498**	**270,547**	**330,951**	176,043	88,840	87,203
Euro	**7,575**	**6,328**	**1,247**	6,640	4,203	2,437
UAE Dirhams	**16,617**	**4,913**	**11,704**	11,717	4,099	7,618
Pound Sterling	**59**	**35**	**24**	22	-	22
Japanese Yen	**348**	**8**	**340**	-	-	-
Other currencies	**69**	**41**	**28**	-	-	-

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

Changes in the non-parity foreign currency prices as at 31 December 2024 and 2023 on net assets are considered negligible.

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

In this regard, the primary responsibility for development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall 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;

25. Financial risk management (continued)

25.4. Operational risk (continued)

- Ethical and business standards; and
- Risk mitigation through insurance, wherever desirable.

In this regard, it has put in place a Board approved operational risk management policy & framework which ensures compliance with all applicable regulatory guidelines. 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 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 the 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 all key control measures necessary to mitigate operational risk have been implemented, 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, a structured operational risk loss event reporting process has been implemented to promptly identify and mitigate any control deficiencies / process lapses. In addition, comprehensive risk control self-assessment (RCSA) process is in place which is conducted on a 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, comprehensive operational risk incident / internal loss database is maintained, to study the loss trends and for preparing towards higher approaches for operational risk management.

With respect to management and Board oversight, strong governance framework is instituted through formulation of committees at different levels, for effective management and implementation of operational risk management framework

(ORMF). In this regard, at Board level, the Board Risk Committee (BRC), has been delegated the task of implementing and effective ORMF within the Bank, while at the executive management level, the management risk committee (MRC) is responsible to periodically review, monitor and provide suitable guidance / instruction on bank's non-financial risk areas, namely operational risk, compliance risk, information security risk and legal risk and further ensure appropriate management actions are undertaken where necessary. For the purpose, the operational risk management department submits periodic reports to both MRC and BRC and discusses various key issues, incidents and emerging risks along with mitigation measures which are in place.

25.4.a. Displaced commercial risk

Displaced commercial risk ("DCR") refers to the magnitude of risks that are transferred to shareholders in order to cushion the Investment Account Holder ("IAH") from bearing some or all of the risks to which they are contractually exposed in Mudaraba contracts.

25. Financial risk management (continued)

25.4. Operational risk (continued)

25.4.a. Displaced commercial risk (continued)

Under a Mudaraba (profit sharing and loss-bearing) contract, Quasi-equity IAH are exposed to aggregate impact of risks arising from the assets in which their funds are invested, but this is managed by Sohar Islamic Window through DCR.

This risk-sharing is achieved by constituting and using various reserves such as PER, and by adjusting the Sohar Islamic Window's profit share in order to smooth the returns payable to the IAH from exposure to the volatility of aggregate returns arising from banking risks, and thereby to enable payment of returns that are competitive in the marketplace.

Sohar Islamic Window manages its displaced commercial risk as outlined in its Profit Distribution Policy. The Window foregoes its fee in case displaced commercial risk arises. The Window manages profit rates with other Islamic Windows and full-fledged Islamic/ Conventional Banks operating in Oman.

25.5. Business Continuity Management

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

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

26. Capital management

26.1. Regulatory capital

The Window's lead regulator, CBO, sets and monitors capital requirements for the Window as a whole. In implementing current capital requirements CBO requires the Window to maintain a prescribed ratio of total capital to total risk-weighted assets.

The Window calculates capital requirements for market risk and operational risk based upon the model prescribed by CBO as follows:

- Sovereign entities – Nil for Oman
- Window's placements – Risk weighting based upon ratings by external credit assessment institutions as approved by CBO
- Retail and Corporate financings - As per credit conversion factors and risk weightage prescribed by CBO.
- Off balance sheet items – As per credit conversion factors and risk weightage prescribed by CBO.

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

- Tier 1 capital, which includes allocated capital and reserves, retained earnings and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

- Tier 2 capital, which includes qualifying collective impairment allowances

Various limits are applied to elements of the capital base. The amount of innovative tier 1 investments cannot exceed 15 percent of total tier 1 capital; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated financing and advances capital may not exceed 50 percent of tier 1 capital. There are also restrictions on the amount of collective impairment allowances, PER and IRR that may be included as part of tier 2 capital.

26. Capital management (continued)

26.1. Regulatory capital (continued)

Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of Windows and certain other regulatory items.

Window's operations are categorized as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

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

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

	31 December 2024 RO'000	31 December 2023 RO'000
Tier 1 capital		
Allocated capital	**66,500**	51,500
Legal reserve	**134**	134
General reserve	**988**	988
Retained earnings	**20,641**	14,450
Fair value losses	**(473)**	-
Total tier 1 capital	**87,790**	67,072
Tier 2 capital		
Fair value gains	**10**	20
Impairment allowance on portfolio basis	**2,753**	2,609
Total tier 2 capital	**2,763**	2,629
Total regulatory capital	**90,553**	69,701
Risk-weighted assets		
Credit risk	**663,259**	496,053
Market risk	**22,250**	15,450
Operational risk	**24,150**	19,433
Total risk-weighted assets	**709,659**	530,936
Capital adequacy ratio		
Total regulatory capital expressed as a percentage of total risk-weighted assets	**12.76%**	13.13%
Total tier 1 capital expressed as a percentage of total risk-weighted assets	**12.37%**	12.63%

The capital adequacy ratio given above is calculated in accordance with the Basel II norms as adopted by CBO and IBRF.

27. Segmental information

The activities of the Window are performed as one unit. Reporting to management is made by business unit. The Window operates solely in the Sultanate of Oman and as such no geographical segment information is presented.

28. Source and use of charity fund

	31 December 2024 RO	31 December 2023 RO
Sources of Charity Fund		
Undistributed charity funds at beginning of the year	**-**	-
Shari'a non-compliant income	**8,051**	1,560
Total sources of funds during the year	**8,051**	1,560
Uses of Charity Fund		
Distributed to charity organizations:		
Al Rahma Association for Motherhood and child welfare	**(1,000)**	(1,560)
Zakah AL Kaborah Committee	**(1,000)**	-
Zakah AL Mussanah Committee	**(1,000)**	-
Zakat Barka Committee	**(1,000)**	-
Dar AL Atta'a	**(1,000)**	-
Al Manahil Foundation	**(1,000)**	-
Ihsaan Association	**(1,051)**	-
Omani Association for the care of Holy Quaran	**(1,000)**	-
Total uses of funds during the year	**(8,051)**	(1,560)
Undistributed charity funds at end of the year	**-**	-

29. Other disclosures

Following are the disclosures required under Islamic Banking Regulatory Framework:

- There has been no comingling of the funds.
- As of 31 December 2024, and amount of RO 1.213 million is payable to head office.
- During the year head office has allocated RO 800 thousand (2023: RO 800 thousand) for shared support services.
- Proposed remuneration and sitting fee of SSB board is as follows:

Name	**Remuneration RO**	**Sitting Fee RO**	**Total RO**
Sheikh Al Muatasim Said Al Maawali	15,400	1,925	17,325
Sheikh Nasser Al Azri	13,475	1,925	15,400
Dr. Mohammed Al Olama	11,550	1,925	13,475
	40,425	**5,775**	**46,200**

30. Comparative figures

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