HSBC Bank Oman S.A.O.G

Annual Report and Account 2022

HSBC

Opening up a world of opportunity

Welcome to
HSBC Bank Oman's
Annual Report for
2022

His Majesty Sultan Haitham bin Tarik

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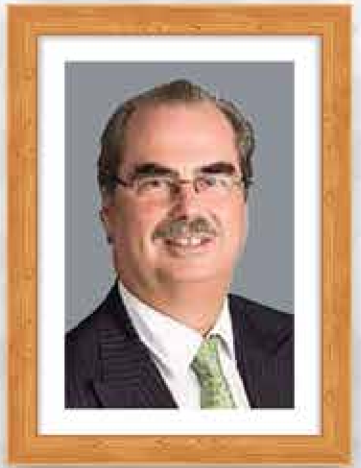
BOARD OF DIRECTORS

Sir Sherard Cowper-Coles
Chairman

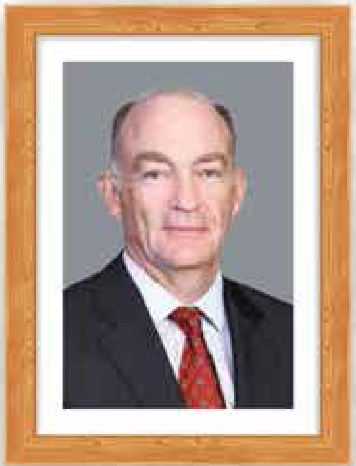
Aimen Al Hosni
Deputy Chairman

Saleh Al Zakwani
Director



James Madsen
Director

Abdulfattah Sharaf
Director



Robert Adrian Underwood
Director

Christine Lynch
Director

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MANAGEMENT TEAM

Melika Betley
Chief Executive Officer

Thomas De Montmarin
General Manager and
Chief Risk Officer

Ali Al Abri
General Manager and
Head of Human Resources &
Government Affairs

Simon R Adcock
General Manager and
Head of Commercial Banking

Muntadhar Al Lawati
General Manager and
Chief Financial Officer

Abdul Qader Al Sumali
General Manager and Head of
Wealth & Personal Banking

Saud Al Shidhani
General Manager &
Chief Operating Officer

Hussain Al Lawati
Assistant General Manager &
Head of Legal

Faisal Al Lawati
Assistant General Manager & Head of Global Banking

Khalid Al Mahari
Assistant General Manager & Head of Regulatory Compliance

Pierre El Ahmar
General Manager & Head of Treasury

Ibrahim Al Nadabi
Assistant General Manager & Head of Financial Crime Compliance

Sameh Al Wahaibi
Assistant General Manager & Head of Communications and Corporate Sustainability

Rahma Al Busaidi
Company Secretary

Noman Jalib
Assistant General Manager & Head of Internal Audit

Board of Directors' Report for the year ended 31 December 2022

Dear Shareholders,

On behalf of the Board of Directors, I would like to present your Bank's full year financial results for 2022.

Performance Summary_

I am delighted to share with you the positive results achieved by the Bank during 2022. Our performance shows a 45.9% increase in net profit for the year ended 31 December 2022 to RO26.7 M. This compares with RO18.3 M for 2021, the increase being driven primarily by a 10.2% growth in net operating income and lower operating expenses.

Net interest income was up 9.4% to RO57.0 M for the year compared with RO52.1 M in 2021 mainly due to higher interest income from the favourable interest rate environment, partly offset by higher interest expense on deposits. Net fee income increased by 13.8% to RO10.7 M for the year ended 31 December 2022 compared with RO9.4 M in 2021 mainly due to higher fees from cards.

Net trading income increased by 4.9% to RO6.4 M, an increase of RO0.3 M compared to 2021, due to higher FX volumes.

A net release of RO7.0 M has been reported to the Bank's Expected Credit Loss (ECL) and other credit impairment charges compared with a net release of RO7.5 M in 2021. The Bank released RO6.4 M of Wholesale ECL and RO0.6 M of Retail ECL. The ECL release was largely driven by an improvement in the macroeconomic variables (GDP growth and oil price) which are the key inputs for our IFRS 9 model.

Operating expenses fell by 5.5% to RO50.1 M, primarily due to lower IT related recharges and lower staff cost owing to a lower number of full time employees.

Loans and advances to customers decreased by 7.4% to RO1,247.4 M compared with RO1,347.2 M as at 31 December 2021.

Customer deposits decreased by 7.1% to RO1,765.3 M compared with RO1,901.1 M as at 31 December 2021. Our liquidity remains strong, as shown by an Advances to Deposit ratio (ADR) of 70.7% at the end of 2022.

HBON's Capital Adequacy Ratio (CAR) stood at 24.3% for the year ended 31 December 2022 compared with 22.7% as at 31 December 2021.

The Board of Directors proposes a total cash dividend of RO16.0 M, with a dividend pay-out ratio of 59.9%.

Delivering the best customer experience

In Wealth and Personal Banking, we launched key initiatives focused on customer acquisition throughout the year, including a new to bank customer acquisition campaign offering all Premier and Advance new to bank clients an upfront cash back reward. We also launched a campaign offering a chance to win 1 million rewards points for cardholders based on their usage of their credit cards.

As part of our Employee Banking Solutions program, we held a number of virtual meetings and open days with our top corporate employers in order to grow business from our top 120 employers.

During the year, we deployed technology that enables the identification of customers through voice biometrics. This allows customers to access our banking services through our contact centre by phone using their voice as their unique identifier. Our digital penetration increased to around 55% (6% higher YoY).

In the Wholesale business, we continued to support our clients on their transition journeys with sustainable financing and investment to help their businesses develop sustainably. During the year we held sessions for Government related entities on Sustainable Finance as this topic increasingly becomes a priority for the Sultanate and our clients.

We also extended our latest payments solution, Global Disbursements, to Oman Air, which will allow it to make international payments in various currencies from its centralised treasury location in Oman.

The annual HSBC Economist Roadshow came to Oman in October with an optimistic forecast for the region's economic outlook in 2023. More than 150 clients and business leaders in Oman attended the presentations made by the HSBC economist team.

Board of Directors' Report for the year ended 31 December 2022

Throughout 2022, we were proud to receive several awards from Euromoney. We were voted by our corporate clients as the Best Bank for Trade Finance services in in 2022 and also won Best Investment Bank for the third consecutive year and the Best Bank in the Environmental, Social and Governance (ESG) category.

The Bank was also voted as "Market Leader" by corporates in the Sultanate of Oman for the 11th consecutive year in the annual Euromoney Cash Management Survey 2022.

Investing in our people and community

We continued to make progress in supporting the country's Omanization agenda, achieving a 94% Omanization rate by 31 December 2022. During 2022 we have appointed more Omani nationals into senior positions in the Bank as part of our ongoing commitment to develop our local talent.

We continued to invest in our staff training programmes. Our learning activities focused on helping our people to understand their aspirations and build the skills needed to achieve their goals.

Another area of focus was the wellbeing and mental health of our people. We delivered a number of learning sessions and activities to support our employees to make positive choices about their personal and professional priorities.

As part of the Summer internship program, 30 interns joined the bank during the summer in different areas of our business.

Under Corporate Sustainability, we rolled out a number of initiatives throughout the year in cooperation with local and international NGOs. We signed an agreement with the Environment Society of Oman to support its efforts towards implementing alternative solutions to harmful marine practices that threaten the survival of whales. The agreemenent included a capacity building programme that focuses on developing the next generation of marine researchers.

We also partnered with the UK based organization "Debate Mate' in a programme that seeks to empower youth with key employability and financial skills.

Potential Merger with Sohar International Bank

As disclosed by the Bank in Muscat Stock Exchange on 5th February 2023, HSBC Bank Oman has received approval from the Central Bank of Oman for its proposed merger with Sohar International Bank SAOG. There will be no immediate change for customers as a result of this announcement. Both banks will remain independent and continue to operate a business as usual service until the merger has completed.

The merger is expected to complete in the second half of 2023, if approved by other relevant regulatory bodies as well as by the respective shareholders of the two entities at their Extraordinary General Meetings.

If the merger goes ahead, all of the assets and liabilities of HBON would be transferred to Sohar International Bank SAOG at carrying amounts and HBON would be dissolved.

Conclusion

On behalf of the Board of Directors, I would like to thank all of our customers for their trust in us, our staff and management for what they have achieved so far, as well as the Central Bank of Oman and the Capital Market Authority for their continued support and guidance.

Sir Sherard Cowper-Coles
Chairman

The Board of Directors
HSBC Bank Oman SAOG
PO Box 1727
Postal code 111, Seeb
Sultanate of Oman

Dear Member of the Board,

Agreed-upon procedures report on factual findings in connection with the Corporate Governance report

Purpose of this Agreed-upon Procedures Report

Our report is solely for the purpose of assisting the directors of HSBC Bank Oman SAOG (the "Bank") in determining whether their Corporate Governance Report is in compliance with the Code of Corporate Governance (the "Code") of the Capital Market Authority of the Sultanate of Oman ("CMA"), as prescribed in the CMA Circular No. E/10/2016 dated 1 December 2016 (together the "Governance Code") and may not be suitable for another purpose.

Responsibilities of the directors

The directors of the Bank have prepared the Corporate Governance Report ("the Report") and remain solely responsible for it, and are also responsible for identifying and ensuring that the contents of the Report comply with the Code. The directors are also responsible for determining that the scope of the agreed-upon procedures is appropriate and sufficient for the purposes of the engagement.

Our Responsibilities

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

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

Had we performed additional procedures, or had we performed an audit or assurance engagement on the Report, other matters might have come to our attention that would have been reported.

Professional Ethics and Quality Control

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

Agreed-upon procedures report on factual findings in connection with the Corporate Governance report (continued)

Professional Ethics and Quality Control

We apply the International Standard on Quality Management (ISQM) 1, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Procedures and Findings

We have performed the procedures described below, which were agreed with the Bank in the terms of our engagement letter dated 29 January 2023, on the compliance of the Report with the Code for the year ended 31 December 2022.

No.	Procedures	Findings
(a)	We obtained the Corporate Governance Report issued by the Board of Directors and compared its contents to the minimum requirements of the CMA as set out in Annexure 3 of the Code.	We did not find any exception
(b)	We obtained from the Bank details of the areas of non-compliance with the Code identified by the Bank, as set out in its Board minutes and in its non-compliance checklist, and compared these with those included in the Report in the section "Details of non-compliance and penalties, together with the reasons for such non-compliance for the year ended 31 December 2022". Additionally, we obtained written representations from the directors that there were no other areas of non-compliance with the Code for the year ended 31 December 2022, of which they were aware.	We did not find any exception

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

This report relates only to the accompanying Corporate Governance Report of the Bank to be included in its annual report for the year ended 31 December 2022 and does not extend to the Bank's financial statements taken as a whole.

Yours faithfully,

Muscat, Sultanate of Oman
05 March 2023

Corporate Governance Report
For the Annual Report 2022

Opening up a world of opportunity – explains why we exist. We're here to use our unique expertise, capabilities, breadth and perspectives to open up new kinds of opportunity for our customers. We're bringing together the people, ideas and capital that nurture progress and growth, helping to create a better world – for our customers, our people, our investors, our communities and the planet we all share.

HBON mission and vision (purpose) statement

1. Governance philosophy

1.1 HBON's governance philosophy is based on the following principles:

- An effective and accountable Board of Directors;
- A clear and strategic direction for business development;
- Prudent accounting principles and information;
- Sound decision-making mechanisms;
- Strategy-linked performance evaluation; and
- Human resource development.

1.2 HBON's governance philosophy is embodied in the way HBON works and in how good corporate governance is applied to ensure that HBON:

- Has robust structures and procedures;
- Takes account of the needs and interests of all stakeholders; and
- Takes decisions in a balanced and transparent manner.

1.3 HBON seeks to apply best practice in corporate governance through clear values based on sound business principles, a governance philosophy embodied in the way HBON works and through complying with the letter and spirit of:

- The law;
- The Capital Market Authority ('CMA') Oman Code of Corporate Governance for Public Listed Companies, as amended from time to time, ('Code');
- The regulations for Corporate Governance of Banking and Financial Institutions issued by the Central Bank of Oman ('CBO'); and
- The HSBC Group global standards, including the HSBC Corporate Governance Code.

1.4 The Board has implemented a Corporate Governance Framework ('Framework') which meets all local Oman regulations, embodies international best practice and encompasses HSBC Group global standards. The Framework is reviewed annually and periodically updated as required. The Framework sets out the matters reserved to the shareholders, to the Board and to the executive management team ('Management').

2. Board of Directors - nominations & duties

2.1 At year end the Board consisted of six members owing to the resignation of one independent director on 18th October 2022 (two independent directors and all non-executive). To fill the vacant seat, the HBON Board appointed an interim director (James Madsen) on 11th January 2023. On 29th January 2023, two independent directors resigned from the HBON Board. On 23 February 2023, the Board appointed two interim independent directors (Saleh Al Zakwani and Aimen Al Hosni) to fill (2) vacant seats. Currently, the Board consists of seven directors, three directors are independent and all are non-executive.

2.2 The term of the current Board commenced on 28 March 2021 for a period of three years. The next Board election will be in 2024.

2.3 Any vacancy arising due to the resignation of any Director may be filled temporarily by the Board, subject to election at the next Annual General Meeting ('AGM'). During 2022, the Board exercised this right and appointed one director. Anyone wishing to be nominated for the position of Director must:

- Meet all legal requirements, including those set out in the Commercial Companies Law and the Articles; and
- Submit an application form (in the pro-

forma template issued by the Capital Market Authority) at least five days before the General Meeting at which the election of Directors will take place.

2.4 The Board shall recommend suitable names to the shareholders for election as Directors in the context of the perceived needs of the Board. This does not affect the freedom of shareholders to vote for any candidate(s).

2.5 The HBON Legal Advisor shall review eligibility and correctness of the applications and compliance with laws and regulations. As required by Ministerial Decision No. E/53/2008, HBON shall file the elected Directors' forms together with the Minutes of the AGM with the CMA within the period specified by the law.

2.6 The duties and function of the Board are defined in the Framework and are governed by all relevant laws, regulations and the Articles, to include the Banking Law, the CBO regulations, the Commercial Companies Law, and Principles 2 and 3 of the Code.

2.7 The Chairman of the Board and the CEO are separate and their roles clearly defined.

2.8 During 2022, the Board had complied with the Code of Conduct which is an integral part of the Corporate Governance Framework.

3. Board of Directors - characteristics and core competency

3.1 HBON is committed to ensuring that each of the seven Directors on the Board possesses the following characteristics:

- High ethical standards and integrity in their personal and professional dealings;
- High intelligence and wisdom, which is applied to make sound decisions;
- Capacity to read and understand financial statements;
- Potential to contribute towards the effective stewardship of HBON;
- The ability to perform to a high standard during periods of short and long term pressure;
- Capacity to approach others assertively, responsibly and cooperatively; and
- Capacity to activate and consult employees of HBON to reach high standards of management.

3.2 The Board as a whole strives to achieve the following core competency, with each candidate contributing in at least one domain:

- Skills to motivate high performing talent;
- Strategic insight and ability to direct by encouraging innovation and continuously challenging the organisation to sharpen its vision;
- Expertise in financial and corporate finance;
- The ability to understand management trends in general and to understand the banking industry locally and globally;
- Acquire and maintain appropriate and relevant industry specific knowledge; and
- Acquire and maintain business expertise in international markets.

3.3 The following table sets out the qualifications and biography of the Board members.

Name & Category	Biography
Directors in office	
Sir Sherard Cowper-Coles KCMG LVO Group Head of Public Affairs, HSBC Holdings plc Chairman & Non – Independent, non-executive director Qualification(s): Hertford College, Oxford (Degree in Classics, Scholar, Honorary Fellow)	Sherard has been at HBON since 2013, working as Senior Adviser to the Group Chairman and Group Chief Executive, and more recently heading the Group's global government and public affairs functions. He also chairs HSBC Bank Oman. Earlier he spent over 30 years in the British Diplomatic Service, finishing his career as Ambassador to Israel, Saudi Arabia and then Afghanistan. Sherard is Chair of the China-Britain Business Council, the Saudi British Joint Business Council, and the Omani British Business Council; Honorary Vice President of the UK Financial Inclusion Commission; an Ambassador for the Money Advice Trust, and for the Winston Churchill Memorial Trust; a Committee Member of the Hong Kong Association; and a Board Member of Asia House. He is the author of two books: Cables from Kabul and Ever the Diplomat.
Najla Al Jamali Deputy Chair & Independent Director (resigned on 29th January 2023) Qualifications(s): MSc. Financial Management – University of London, UK. BSc. (Hons) in Maths with Mathematical Physics Applied Maths – Imperial College, UK	Najla Joined HBON as Deputy Chair in 2021. Najla has been a Board member, member of the Audit Committee and chairman of NR committee in Musandam Power Company since 2020. Najla was also a Board member for a number of companies including Qingdao Lidong Chemical Company from 2016 – 2019, Mining Development Oman from 2018 – 2019 and Oman India Fertilizer Company from 2013 – 2016. Najla was also SC Chairman for a number of companies including Salalah Methanol from 2018 - 2019, and steering committee member from 2019 – 2020, Oman Aluminium Company from 2018 – 2019 and Salalah Ammonia from 2017 – 2019. Najla was a shareholder representative and committee member in Oman Aluminium Processing Industries from 2016 – 2019. Prior to Najla's appointment as Deputy Chair at HBON, she acted as CEO in Alternative Energy Workstream, OQ, Oman, acted as Executive Managing Director in Takamul Investment Company, worked as Director of Planning for Oman Oil Company, held the role of Head of Strategy in Oman Oil Company, took on the role of acting Deputy CEO in Vale Oman Pelletizing Company, worked as a Manager in Schlumberger Business Consulting in London and Abu Dhabi, worked as a Senior Consultant in HIS Energy in the UK, and worked for both Shell UK and Petroleum Development Oman.
Abdulfattah Sharaf Non- Independent, non-executive director and Chair of the NRC. Qualification(s): Graduate of the University of Denver, USA	Abdulfattah Sharaf is the Chief Executive Officer of HSBC United Arab Emirates. He is also Head of International which covers Bahrain, Kuwait and Algeria. Abdulfattah is a Board Member of HBON, and HSBC Private Bank (Suisse) SA (PBRS). Prior to his appointment as CEO UAE, he was the CEO of Personal Financial Services, Middle East and North Africa, and responsible for all of HSBC's Retail Banking business in the MENA region. He was also a Board member of HSBC Bank Middle East Limited (HBME), HSBC Saudi Arabia Limited (IBSA), and Emirates Telecommunication Company (Etisalat). Before joining HSBC Bank Middle East Limited, Abdulfattah was Chief Executive Officer of NBD Securities, a subsidiary of Emirates NBD. Abdulfattah is currently a member of the Higher Board of the Dubai International Financial Centre (DIFC), the Noor Dubai Foundation, the Mastercard MEA Advisory Board, the Advisory Council of Dubai Chamber of Commerce and a member of the Board of Trustees of the American University of Sharjah. Abdulfattah is a graduate of the University of Denver, USA.

Corporate Governance Report (continued)
For the Annual Report 2022

Name & Category	Biography
Directors in office	
Christine Lynch Non-Independent, non-executive director and Chair of the Risk Committee. Qualification(s): BA (First Class) Hons degree in Modern Languages & European Studies from the University of Bath BSc (First Class) Hons in Financial Services awarded by University of Manchester Institute of Science.	Christine is a senior Chief Risk Officer with over 25 years of broad experience in international banking. She joined HSBC as a graduate trainee and since then has held managerial and leadership roles across the lines of business in the UK, Germany, Switzerland and the UAE. In her current role as Chief Risk Officer Wholesale & Markets & Securities Services, and Head of Enterprise Risk Europe, Christine is responsible for independent oversight of the enterprise wide risks of HSBC Europe. Prior to this, she was HSBC Regional Chief Risk Officer for the Middle East where she led a team of over 250 Risk professionals and was responsible for the enterprise wide risk management of HSBC's activities across Global Banking & Markets, Commercial Banking and Retail Banking & Wealth Management in the UAE, Egypt, Turkey, Oman, Saudi Arabia, Qatar, Kuwait, Bahrain and Algeria.
Robert ('Rob') Underwood Non-Independent Director - non executive Audit Committee & Nomination and Remuneration Committee member Qualification(s): BSc Economics and Politics, Bath University, UK Associate of Chartered Institute of Bankers, London, Uk Corporate Finance Programme, London Business School, Uk	Rob has been part of the HSBC Group since January 1987 up to March 2018, where he undertook various roles including Regional Chief Risk Officer MENAT, Dubai; Regional Head of Wholesale and Market Risk, MENA, Dubai; Head of Wholesale Risk, Latin America, Mexico; CEO of HSBC Chile; and Senior Manager, International Resourcing, Group HR, London. Rob also worked at Williams & Glyn's Bank from September 1982 to December 1986. Rob is also Director and Audit Committee Member at HSBC Bank, Turkey; Chairman and Board Member, MENA Infrastructure Fund, DIFC, Dubai; and Non-Board Member of the Audit Committee of HSBC SA, Kingdom of Saudi Arabia.

Corporate Governance Report (continued)
For the Annual Report 2022

Name & Category	Biography
Directors in office	
Ranjit ('Raj') Singh Independent Director Chair of Audit Committee (resigned on 29th January 2023) Qualification(s): IMD Executive Program (Allianz SE), Lausanne, Switzerland Thunderbird – School of Global Management, Arizona, USA, Master of Business Administration in International Management/International Finance Winona State University, Minnesota, USA, BSc in Business Administration	He joined HBON's Board on 8th December 2021. Globally networked (re)insurance, banking and asset management business leader who is passionate about technology. Developer of strong global and local businesses and turnarounds. Brings both business commerciality and technical risk experience-based gravitas, challenge and balance to the scaling of businesses and understanding of adoption challenges. Ensures risk/reward/tolerance transparency to all key stakeholders to support risk-aware decisioning and actions. Crosscultural, cross-sectoral business, Board and Executive governance and technical experience brings strong diversity of thought and discussion to a team. Raj Singh is the CEO and Founder of Accredere AG, a Switzerland-based advisory firm. He is also a Non-Executive Director of AIB PLC, a major Dublin-based Irish LSE and Irish Exchange-listed financial services firm, focused on banking and insurance/wealth management and has served on their Risk and Sustainability Committees of the Board since 2019, where is appointed by the Irish Minister of Finance Department of Finance under their framework agreement with AIB PLC. Additionally, since 2012 he serves as Chairman of Hoerner College Society, a charitable society that runs a college in Lucknow, India. His prior professional experience spans serving on the executive boards of major global FTSE, SMI, NYSE and DAX listed financial services companies with a focus on risk, governance, culture, business development, sustainability and ESG. Most recently, he has actively been involved in screening and advising fintech, insurtech, and liquidity solutions related blockchain start-ups to select a final candidate(s) to personally engage/invest with under R3's venture development program. Through 2020, Raj had been a member of the Group Executive and the Group Chief Risk Officer of EFG Bank International, a leading Zurich-based, SMI listed wealth and asset manager with around $150 billion in AuM, which he joined in 2018. Prior to this, he had been a Member of the Executive Committee of Standard Life Aberdeen PLC, a FTSE 45 and LSE listed insurance and asset management financial services provider focused on its Aberdeen Standard Investments asset management, Standard Life wealth and pension platform and Standard Life life insurance businesses with operations in 32 countries and £670 billion in AuM based out of London and Edinburgh, since 2012. During his time at Standard Life Aberdeen PLC, he served as the Group Chief Risk Officer and Group Executive and Senior Advisor Financial Institutions.

	Before joining Standard Life, Raj acquired extensive experience in financial services worldwide. From 2007 to 2011, Raj was Group Chief Risk Officer at Swiss Re, the global SMI listed reinsurer in Zurich, where he was a member of the Executive Board and Committee covering its (re)insurance and corporate insurance, Conning asset management and Reassure closed life businesses. Through 2007, he was Group Chief Risk Officer at Allianz SE, a global DAX and then NYSE listed insurance, asset management and banking focused financial services leader with over a trillion balance sheet and multi-trillion in AuM, in Munich, a position he held from 2002 covering their retail and wholesale insurance, Euler Hermes credit insurance, Dresdner Kleinwort Wasserstein investment banking and Dresdner Bank corporate, wealth management and consumer banking businesses as well as Allianz Global Investors and PIMCO asset management businesses in over 90 countries. Prior to this, he held various executive and senior investment banking, sales/relationship management, and risk positions at Citibank NA in the corporate, institutional, real estate, and private banking businesses from 1988 to 2002 in New York, London, Brussels, and Düsseldorf. He has also served on the boards of listed European and Middle Eastern financial institutions as well as Schufa AG, the German credit bureau. He has also been a board member at many principal banking, insurance, and reinsurance subsidiaries of employer companies worldwide. Raj is a globally recognized risk management leader and strong risk culture proponent and practitioner with broad cross sectoral technical risk and front office experience across the industry and volunteers considerable time to various developing industry topics. He has led and maintained strong regulatory relationships in his varied assignments with key global home and host regulators. Most recently, Raj has been a member of the House of Finance Advisory Board at the International Centre for Insurance Regulation at Wilhelm Goethe University in Frankfurt, Germany, for the past eight years. He has been Chairman of the Swiss Market Advisory Group at TheCityUK, the representative body for the UK's financial and professional services industry. Raj was also the founding Chairman of the Netherlands-based Chief Risk Officers Forum, the professional forum for global insurance CROs. He is also a past Chairman of the International Finance Risk Institute, the Swiss-based CRO association for the top 40 global financial institutions. He also represented his respective firms as a delegate to the World Economic Forum, IMF, BIS, IAIS, EIOPA, IIF and other global venues. Raj resides in Rüschlikon, Switzerland with his family.

Corporate Governance Report (continued)
For the Annual Report 2022

<table>
<tr><th>Name & Category</th><th>Biography</th></tr>
<tr><th>Directors in office</th><th></th></tr>
<tr><td>Loizos Christodoulides
Independent Director
- non executive
(resigned on 18th October 2022)
Qualification(s):
M.Eng., University of Southampton, United Kingdom
Ph.D University of Southampton, United Kingdom</td><td>Dr Loizos has extensive and diversified experience in Telecoms, IT and Real Estate Development, as well as being a business owner with a career spanning 28 years. He has an accomplished international corporate background with multinationals. In the past he has held various senior positions in Inmarsat (UK) and Vodafone Group (UK & Germany). He currently maintains a portfolio of companies based in Oman.</td></tr>
<tr><td>James Madsen
Independent Director
- non executive

Risk Committee Member
(temporary director effective 11th January 2023)
Qualification(s):
BA Economics & Social Studies, Manchester University</td><td>James worked internationally for the HSBC Group from October 1981 until April 2015 in the UK, Hong Kong, Singapore, the Solomon Islands, the Philippines, Ukraine, Mexico and the United Arab Emirates.
His roles have included, in the UK, Head of Global Business Strategy for Payments & Cash Management, Head of Trade and International Services for the UK and Europe and Managing Director Global Transactional Banking from November 2000 to November 2007. In the later role he was a Board member of Wells Fargo HSBC Trade Bank, a U.S. incorporated joint venture. He then went to the Ukraine where he was Head of the Representative Office and CEO Designate at HSBC Bank Ukraine until March 2009, when HSBC decided not to proceed with its banking license there.
James moved to Mexico to be Regional Head of Global Internal Audit – Latin America and Mexico until February 2011 and then on to Dubai to undertake the Regional Head of Global Internal Audit for HSBC in the Middle East until April 2015, when he retired from the HSBC Group.
He was a member of the Board Audit & Risk committees for the Saudi British Bank from February 2011 to December 2019, and a member of the Board Audit & Risk committees for HSBC Saudi Arabia Ltd from February 2011 to December 2017.
James joined HBON's Board on 11th January 2023.</td></tr>
<tr><td>Saleh Al Zakwani

Independent- non executive Director

Audit Committee member

(temporary director effective 23rd February 2023)
Qualification:
Higher Diploma in Business Studies</td><td>Saleh Al Zakwani is the Chairman and founder of Apex Press and Publishing established in 1980. He began his career as the Oman representative of a British publishing house and has served on the board of several companies including as the Chairman of Alliance Housing Bank and a Director of Gulf Hotels Co SAOG (under which the Crowne Plaza Muscat operates). In 2015 he was appointed as a member of the State Council of Oman and is a founding member of the Oman British Friendship Association, which he has chaired since May 2022..
Other past and present memberships include:
• Oman Business Forum – Member
• Vision 2020: Economic and Tourism Committee – Member (Past)
• Oman Inward Investment Working group – Founding Member (Past)
• Tourism Committee at the Oman Chamber of Commerce – Member (Past)
• Oman Awards for Excellence – Sponsor and Committee Member (Past)</td></tr>
</table>

Name & Category	Biography
Directors in office	
Aimen Ahmed Sultan Al Hosni Independent, non-executive director Risk Committee member effective 23rd February 2023. (temporary director effective 23rd February 2023) Qualification(s): Master's in Public Administration, Bachelor in Political Science	Aimen Al Hosni is a visionary and well recognized personality in the aviation and travel industry across the globe. He is the Chief Executive Officer of Oman Airports, Transom Ground Handling and Cargo SATS. Aimen had a major contribution in leading the historical transition and airport opening of Muscat, Salalah, Duqm and Sohar airports within only three years from 2015 to 2018. Under his leadership, Oman Airports transformed into one of the world's leading airport operators managing 7 airports in Oman. In November 2021 Aimen was voted as the Chairman of the Airport Council International World Governing Board, which came in effect in January 2022 for a two-year term. He is also a member and advisor of the ACI Asia Pacific Regional Board which has the mission to promote and maximize the strategic position of airports within the aviation industry enabling sustainable growth in the Asia Pacific region In addition to his current role at Oman Airports, Aimen Al Hosni is also a board member of Omantel Telecommunication, Chairman of Oman National Investment Engineering and Chairman of Oman Cargo Sats.

3.4 The composition of the Board and its skill base is kept under continual review and a Board Evaluation is conducted on an annual basis. Board induction and training is provided on a regular basis, and includes training on relevant legal, regulatory and financial affairs.

3.5 It should be noted that due to personal reasons Loizos Christodoulides resigned on 18th October 2022 and in order to comply with local laws and fill the vacant seat, James Madsen was appointed on 11th January 2023, on a temporary basis until the next AGM on 29th March 2023.

3.6 With the stepping down of Najla Al Jamali (Independent) and Ranjit Singh (Chair – Independent) on 29th January 2023, the composition of the Audit Committee comprises of James Madsen (Chair Independent), Saleh Al Zakwani (independent) and Rob Underwood (non-independent) and is compliant with the Code.

4. Information given to the Board

4.1 The Framework sets out the matters reserved to the Board, and to the shareholders.

4.2 All Board members receive comprehensive and timely information to enable them to perform their duties.

4.3 All annual and interim financial statements, price sensitive public reports and the reports to the regulators prepared by the Board contain a balanced and understandable assessment.

4.4 The Board is aware of its responsibilities for preparing the accounts.

4.5 The Board ensures effective internal control in all areas of HBON's operations, including financial, operations-related, compliance and risk management.

4.6 The Board has adopted a transparent policy in the matter of relationship with the external auditors, particularly in relation to any award of non-audit related work. The overriding principle is that the external auditors are (and are seen to be) independent in exercising their duties.

4.7 HBON follows internal policies to ensure fair disclosure of all public information released in relation to HBON, and in particular, to ensure that any such information is timely, honest, correct, straightforward, not misleading, and complete.

5. Board & Committee Meetings

5.1 As at 31st December 2022, the Board of Directors had three standing committees, the Audit Committee, the Risk Committee and the Nomination & Remuneration Committee ('NRC') and had delegated day to day business matters and conduct to the HBON Management through the Executive Committee ('EXCO').

5.2 The Board has appointed a legally qualified Company Secretary to carry out the duties set out in the Fifth Principle of the Code, and in addition, to advise on best international governance practice, and local governance requirements.

5.3 The Board and the three Board Committees met on the following dates during 2022 and a comprehensive agenda and Board pack (covering the matters set out in Annexure 3 of the Code) were tabled for information and (where applicable) approval.

2022 Dates	Board & Committee
27 & 30 January	Board, Audit, Risk, NRC, Strategy
3 March	Board, Audit
23 March	NRC
28 March	Board
28 April	Board, Audit, Risk
18 June	Board
25 July	Board, Audit, Risk, Strategy
30 October	Board, Audit, Risk, NRC
15 November	Board

5.4 The Board met 8 times, the Audit Committee met 5 times, the Risk Committee met 4 times, and the NRC met 3 times in 2022. The AGM was held on 28 March 2022. The composition, names of members, Chairperson, and attendance record of the Board and Committees and directorships are given in the table below:

Name	Board & Committee membership	Attendance at Board and Committee meetings				Attendance at the Shareholders Meeting	Director of any other SAOG/ SAOC company in Oman
		Board	Audit	Risk	NRC	AGM	
Sir Sherard Cowper-Coles	Board Chairman (effective 28 March 2021)	8	N/A	N/A	N/A	Yes	No
Abdulfattah Sharaf	Board, Risk and NRC NRC Chairman effective 28 March 2021	7	N/A	4	3	Yes	No
Christine Lynch	Board, Risk, and NRC. Risk Committee Chairperson effective from 28 March 2021	8	N/A	4	3	Yes	No
Najla Zuhair Al Jamali	Board Deputy Chair effective from 28 March 2021 Audit Committee member (as of October 2022) Risk Committee member (stepped down on 31 October 2022)	8	1	3	N/A	Yes	Yes
Ranjit Singh	Board effective from 28 March 2021 Risk Committee member (stepped down on 31 October 2021) Chair of Audit Committee effective 31 October 2021	8	4	N/A	N/A	Yes	No
Loizos Mamas Christodoulides	Board and NRC member effective from 28 March 2021	6	4	N/A	2	Yes	No
Robert Underwood	Board, Audit and Risk Committee member effective 28 March 2022	8	5	1	N/A	Yes	No

6. Remuneration

6.1 Board of Directors

6.1.1 The Directors are entitled to receive Board and Committee sitting fees in the following amounts, namely:

- RO 500 as a sitting fee payable for every Board meeting attended; and
- RO 500 as a sitting fee for every Committee meeting attended; subject always to local laws and regulations.

All directors are reimbursed expenses for attending the Board and committee meetings.

6.1.2 During 2022, Sir Sherard Cowper-Coles, Abdulfattah Sharaf, and Christine Lynch each waived their entitlement to be paid the whole or any part of their Board/Committee sitting fees and annual pay-out.

6.1.3 The eligible Directors are entitled to receive and annual pay-out remuneration which is subject to a maximum cap permitted by the CCL and according to the bank's internal policy. For 2022, it is proposed to distribute a total annual pay-out of RO 20,000 to the eligible director, subject to AGM approval.

6.1.4 The total Board/Committee expenses paid during 2022 amounted to RO 70,807 including sitting fees in accordance with the following table:

Name of the Director	Total Sitting fees in RO
Sir Sherard Cowper-Coles	-
Abdulfattah Sharaf	-
Christine Lynch	-
Najla Al Jamali	7,000
Loizos Mamas Christodoulides	7,500
Ranjit Singh	7,500
Robert Underwood	8,500
Total sitting fees	**30,500**

Staff & Senior Management

6.2.1 **Reward Framework –** The Bank's Reward Policy provides a Reward Framework which includes the following key elements:

- An assessment of performance with a reference to clear and relevant objectives set within a performance scorecard framework;
- A focus on the total compensation (fixed plus variable pay) with variable pay (namely bonus payments and the value of long-term incentives) differentiated by performance;
- The use of discretion to assess the extent to which performance has been achieved rather than applying a formulaic approach which, by its nature, cannot cover all scenarios and may encourage inappropriate risk taking or mis-selling;
- A significant proportion of variable pay for Top Management is to be deferred into HSBC Holdings Restricted Shares of HSBC, as well as deferred cash in certain instances, to tie recipients to the future performance, further align the relationship between Risk and Reward, meet the local regulatory requirements and aid employee retention.

6.2.2 **Fixed Pay Policy -** Fixed Pay is designed to attract and retain employees through market competitive pay for the role, skills and experience of the individual and as required for the business. This may include elements, such as salary, other cash allowances and benefits provided in accordance with the local market practices. These payments are fixed and do not vary with performance. Fixed pay is also not subject to malus and clawback provisions that are applicable to variable pay awards. Fixed pay elements are reviewed as a part of the annual pay review cycle or when there is a change in the role and organisational responsibilities of the individual. Incremental Fixed Pay spend for HBON as a result of the pay review will be OMR 543,699 reflecting a 3.6% increase over the December 2022 Fixed Pay bill, and within the parameters of the Fixed Pay Framework, HBON's Financial Resource Planning ('FRP') and statutory requirements.

The Fixed Pay Framework aims to provide clear and consistent guidance in respect of the HSBC approach to Fixed Pay, and to make decisions taking into account the following considerations; (a) Fixed Pay increases to be differentiated based on performance – with any increases targeted towards Top and Strong performers, (b) Considered as part of an appropriate mix of Fixed and Variable Pay as part of an employee's overall Total Compensation, (c) Mandatory Increase of (3%) on basic salary of Omani and GCC national employees only, localised attrition as well as Market pressures.

6.2.3 **Variable Pay Policy** - Variable Pay awards are designed to drive and reward performance based on annual financial and non-financial measures consistent with the Bank's medium to long-term strategy, shareholder interests and adherence to HSBC values. The Variable Pay awards are to be granted in accordance with the Sound Compensation Principles and Standards, including deferral and retention requirements. This includes any guaranteed Variable Pay that an employee may be entitled to. All Variable Pay awards granted to the employee for a performance year (PY) in which he/she was identified as a Material Risk Taker ('MRT') is subject to malus and clawback. All deferred Variable Pay is conditional upon the employee remaining employed with HSBC until the vesting date, save in circumstances where "good leaver" treatment applies.

6.2.5 **The PY 2022 Variable Pay Spend** – Variable Pay spend will be OMR 2,628,418/- representing an increase of 0.5 % over the PY 2021 spend with a headcount decrease from PY2021 to PY2022 of 2.6%. Aggregate Variable Pay spend reflects a payout ratio of 3.5 % of overall HBON revenue compared to 3.9% of overall HBON revenue in 2021 and 3.3% in 2020. Although the VP spend reflects an increase over the previous year it remains below than the year 2019 by 18.9 %

6.2.6 **Total Compensation of Material Risk Takers ('MRTs')** - The HBON Executive Committee and senior management members, all of whom are MRTs, as well as others classified as per the CBO definition (34 executives in total) were subject to the same recommendations, review and challenge process as the broader HBON employee population. The Pay Review for HBON was reviewed as a part of the Bank's governance process on annual reward reviews. Total remuneration paid in 2022 to MRTs, including salary, cash and non-cash benefits, proposed bonuses, stock options, gratuity and pensions, amounted to RO 3.55 million which reflects a decrease of 7% over previous year and remains 7.4% lower than that of 2020. The total remuneration paid in aggregate during 2022 to the top 5 officers amounted to RO 1.09 million which reflects 0.5 % increase over previous year and 4.5% increase from 2020.

6.2.7 **Compensation Deferment Policy** - In accordance with the CBO deferral rules, Variable Pay awards equal to or in excess of OMR 35,000/- are subject to a deferral of 45% and will be combined with HSBC Oman's existing matrix- based approach of a 10% deferral which will apply to VP values in excess of OMR 28,800/-. Every effort has been made to ensure continuous compliance with the relevant principles and standards on sound compensation practices.

6.2.8 The executive management has been appointed under formal contracts of employment. Employment contracts are for a period of two years for expatriates and are regulated by local labour laws for Omanis. The notice period is 3 months.

7. Board Committee and Management Committees

7.1 The Board has implemented three Board committees as required under the local laws, namely the Audit Committee, the Risk Committee and the NRC. The Board also has oversight for the HBON management committees, which include an Asset & Liability Management Committee ('ALCO'), a Risk Management Meeting ('RMM'), and an EXCO.

7.2 Each of these Board and Management committees is governed by formal Terms of Reference which set out their membership, scope, responsibilities and accountability.

7.3 According to the Committee's Terms of Reference, all three Committees, namely - the Audit Committee, the Risk Committee, and the Nomination & Remuneration Committee ('NRC') – must comprise of 3 members.

7.4 The Board has approved and delegated authority to executives within HBON. The executive management is accountable to the Board through the Chief Executive Officer ('CEO'). Clear delegations of authority and matters reserved to the Board are set out in the Framework.

7.5 The Board ensures that the decisions and policies which it approves under the 'reserved matters' set out in the Framework are implemented by Management. The CEO attends the Board meetings, and is accountable for ensuring that the Board decisions and policies are implemented effectively, and on time.

7.6 The Board keeps the systems of internal control of HBON under continuous review.

7.7 The Board keeps the training and development of Management, together with skills required and succession planning, under continual review.

8. Audit Committee

8.1 The Board has set up the Audit Committee in compliance with the Tenth Principle of the Code. Private sessions are held regularly between the Audit Committee on the one part (separately) with the Chief Financial Officer, Head of Internal Audit, External Auditors, Head of Compliance, and the statutory Legal Advisor.

8.2 The Terms of Reference of the Audit Committee set out the responsibility and authority of the Committee and are approved by the Board and reviewed annually.

8.3 The primary objective of the Audit Committee is to be accountable to the Board and to provide non-executive responsibility for oversight of, and advice to the Board on, matters relating to financial reporting; together also with all other matters set out in Annexure 3 of the Code.

9. Risk Committee

9.1 The Terms of Reference of the Risk Committee set out the responsibility and authority of the Committee and are approved by the Board and reviewed annually.

9.2 The primary objective of the Risk Committee is to be accountable to the Board and to provide non-executive responsibility for oversight of, and advice to the Board on, high level risk related matters, and risk governance. In addition, the Risk Committee provides credit decisions in accordance with the limits of credit sanction authority delegated by the Board or the Chairman of the Board from time to time.

10. Nomination & Remuneration Committee ('NRC')

10.1 The Board has set up the NRC in compliance with the Eleventh Principle of the Code. The Terms of Reference of the NRC set out the responsibility and authority of the Committee and are approved by the Board and reviewed annually.

10.2 The primary objective of the NRC is to be accountable to the Board and to review the over-arching principles, parameters and governance framework of the CMA's Code and HBON's remuneration policy covering the remuneration of (i) Senior Executives (HBON CEO, HBON General Managers and the HBON Company Secretary), (ii) Regulated Employees (Regulated employees are employees who perform a significant influence function), (iii) material risk takers, (iv) employees whose activities have or could have a material impact on the HBON's risk profile, and (v) any other employee as determined by the Committee from time to time in accordance with the requirements of HBON's regulators including implementation of the 9 Principles and 19 Standards of the Financial Stability Board as applicable and evidencing response to the papers on "Range of Methodologies for Risk and Performance Alignment of Remuneration" and "Pillar 3 Disclosure Requirements for Remuneration by the Basel Committee on Banking Supervision (BCBS) as may be applicable".

11. Means of Communication with Shareholders and Investors

11.1 HBON had 3,066 shareholders as at 31 December 2022.

11.2 HBON is ready, where practicable, to enter into dialogue with institutional investors, based on a mutual understanding of objectives.

11.3 The main source of information for the shareholders is the Annual Report which includes, amongst other things, the Board of Directors' statement, Management Discussion & Analysis report and the audited financial statements.

11.4 HBON financial information is uploaded onto the Muscat Stock Exchange ('MSX') in accordance with the local regulatory requirements. It is also uploaded onto the HBON website (www.hsbc.co.om).

11.5 In addition, the Interim Condensed Financial Report is posted on HBON's website (www.hsbc.co.om) and published in the local press. The Annual financial statements are posted on HBON's website at www.hsbc.co.om on the MSX and are published in the local press. The Annual Report (including the Annual financial statements) is also sent to the shareholders and filed with the CMA and MSX.

11.6 The website displays official news announcements and public presentations made to institutional investors and analysts.

12. Market Price and distribution of holdings

12.1 The following table sets out the HBON market price data during 2022:

Market price data - high and low
(Based on the daily closing prices on the MSX)

Month	RO High	RO Low	Average Index (MSX-Financial)
January	0.105	0.099	6,698.26
February	0.100	0.098	6,498.37
March	0.125	0.096	6,840.76
April	0.114	0.108	6,688.32
May	0.112	0.108	6,584.16
June	0.135	0.111	6,610.48
July	0.154	0.118	6,764.27
August	0.157	0.145	7,367.23
September	0.155	0.150	7,198.49
October	0.160	0.154	7,156.24
November	0.160	0.150	7,200.60
December	0.166	0.160	7,782.80

12.2 The following table sets out the distribution of HBON individual share ownership during 2022

% Shareholding	No of Individual shareholders
Less than 5%	**3,065**
Between 5 – 10%	**0**
More than 10%	**1**
Total	**3,066**

HBON has no GDRs (Global Depository Receipt), ADRs (American Deposit Receipts), warrants or convertible instruments in issue.

13. Details of non-compliance by HBON

13.1 During the last 3 years' 2019 - 2021, there was only one regulatory penalty imposed on HBON.

Year	Entity	Regulator	Brief Description	Amount of penalties RO
2019	**-**	**-**	-	**nil**
2020	**-**	**-**	-	**nil**
2021	**HBON**	**CBO**	**The Bank had not adhered to elements of the Anti-Money Laundering ('AML') regulatory instructions relating to identification and classification of all Politically Exposed Persons ('PEPs').**	**10,000**

14. Disclosure

14.1 Management is bound by a conflict of interest policy and also a share dealing policy.

14.2 Details of Directors' interests are maintained in order to identify any contracts or other interests held by any of the HBON Directors.

14.3 Effective 22 July 2016, all new Related Party Transactions ('RPTs'), (i) where RPTs are within the ordinary course of business, are being submitted to the Audit Committee for review and to the Board for approval and (ii) where RPTs are not within the ordinary course of business, are being submitted to the Board for review and recommendation and to the Shareholders for approval, prior to execution. The definition of 'Related Parties' has been defined in the Code. The details of Related Party Transactions carried in the ordinary course of business during 2022 have been (i) disclosed in the Notes to the Financial Statements as at 31 December 2022 (included in the Annual Report) and (ii) included in the notice to the AGM.

14.4 HBON complies with all other international standards relating to the disclosure of related party transactions.

14.5 HBON has implemented and follows a procurement policy.

15. Professional profile of the statutory auditor

15.1 PricewaterhouseCoopers ('PwC') were the statutory auditors of HBON in 2022.

15.2 The Shareholders of the Bank appointed PwC as the Bank's auditors for the year 2022.

15.3 About PwC, is a network of firms with more than 327,947 people operating from 152 countries in 688 cities across the globe, making us the largest professional services provider in the world. We are committed to delivering quality services in Assurance, Tax and Advisory (which includes our Consulting, Deals and Strategy& practices). In doing so we help to build trust in society, enable our clients to make the most of opportunities and solve important business problems.

PwC has operated in the Middle East region for more than 40 years. Collectively, our Middle East network employs in the region of almost 8,000 people including over 367 partners and 549 directors working from 24 offices (in 23 locations) across 12 countries: Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, the Palestinian territories, Qatar, Saudi Arabia and the United Arab Emirates and 40% of our Middle East workforce is female. We are one of the fastest growing PwC member firms worldwide and the largest professional services firm in the Middle East. (www.pwc.com/me).

PwC is strongly committed to Oman where it is recognised as one of the leading providers of quality business advisory services. We have had a local practice in Oman since 1971 and now have 8 partners, 1 of whom is Omani and 7 directors, 1 of whom is Omani and approximately 166 other members of staff operating from our office in the Sultanate. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.

16. Audit Fees

16.1 PwC charged fees of RO 99,000 for audit services and RO 14,000 for non-audit services,

totalling RO 113,000, towards their engagement as the external auditor of the Bank for the year 2022

17. Acknowledgment by the Board of Directors:

17.1 The Board confirms that to the best of its knowledge and belief:

- The financial statements have been prepared in accordance with the applicable standards and rules;
- The efficiency and adequacy of the internal control systems of HBON have been reviewed and are in compliance with internal rules and regulations; and
- There are no material things that affect the continuation of HBON and its ability to continue its operations during the next financial year.

For and on behalf of the Board of Directors

Sir Sherard Cowper-Coles

Chairman

Management Discussion and Analysis

HSBC Bank Oman at a glance

HSBC Bank Oman is a proud local bank and also part of one of the largest banking and financial services organisations in the world. We are part of the HSBC Group, which serves serve around 39 million customers worldwide through a network that covers 62 countries and territories.

In the Sultanate of Oman we provide a wide range of banking services to more than 130,000 retail customers and more than 1600 corporate clients through our 46 branches.

Our Values

Our values define who we are as an organisation and what makes us distinctive:

- **We value difference**
  Seeking out different perspectives
- **We succeed together**
  Collaborating across boundaries
- **We take responsibility**
  Holding ourselves accountable and taking the long view
- **We get it done**
  Moving at pace and making things happen

Highlights of 2022

- Profit for the year **RO26.7 M**
- Net operating income **RO74.6 M** (up 10.2% YoY)
- Return on average equity **7.6%**
- Loans and advances to customers **RO1,247.4 M** (down 7.4% YoY)
- Customer deposits **RO1,765.3 M** (down 7.1% YoY)
- Operating expenses **RO50.1 M** (down 5.5% YoY)
- Cost efficiency ratio **67%**
- Capital adequacy ratio **24.3%**
- Average Liquidity Coverage Ratio **403%**
- Dividend payout ratio **59.9%**
- Closing share price **RO0.166** (growth 59.6% YoY) (at 31December2022)

Financial Performance Analysis

Profit for the year: HSBC Bank Oman reported a 45.9% increase in net profit to RO26.7 M for 2022 compared with RO18.3 M for 2021. This increase has been primarily driven by a combination of growth in net operating income and lower operating expenses.

The Bank's performance in 2022 demonstrated the fundamental strength of our business. Our strong capital, prudent risk appetite and the favourable interest rate environment helped us to achieve positive revenue growth and profitability. The financial results are further analysed as follows:

Net Interest Income (NII): NII increased by 9.4% to RO57.0 M for the year compared with RO52.1 M in 2021 driven by higher interest income from the favourable interest rate environment, partly offset by higher interest expense on deposits.

Net fee, trading and other operating income: Net fee, trading and other operating income was RO17.6 M compared to RO15.7 M in 2021. Net trading income was up 4.9% to RO6.4 M largely due to higher FX volumes. Net fee income increased by RO1.3 M to RO10.7 M as a result of higher fees from cards.

Other operating income was RO0.4 M compared with RO0.1 M in 2021.

Change in Expected Credit Losses (ECL) and other credit impairment charges: A net release of RO7.0 M has been reported to the Bank's ECL and other credit impairment charges in 2022 compared with a net release of RO7.5 M for the same period last year. The Bank released RO6.4 M of Wholesale ECL and RO0.6 M in Retail ECL. The ECL release was largely driven by an improvement in the macroeconomic variables (GDP growth and oil price) which are the key inputs for our IFRS 9 model.

Operating expenses: Operating expenses fell by 5.5% to RO50.1 M mainly due to lower IT related recharges and lower staff cost owing to a lower number of full time employees.

The Cost Efficiency Ratio (CER) improved to 67.2% for 2022 compared to 78.3% for 2021.

Total assets: The Bank's total assets decreased from OMR2,349.2 M to OMR2,241.6 M. The majority of the reduction in assets comprised of (i) OMR159.7 M in cash and balances with central bank and (ii) OMR99.8 M in loans and advances to customers, which was partly offset by an increase in financial investments of OMR89.3 M and due from banks of OMR70.1 M.

Loans and advances: Customer lending decreased by 7.4% to RO1,247.4 M due to a reduction in Wholesale assets.

Customer deposits: Customer deposits decreased by 7.1% to RO1,765.3 M compared with 2021.

The Bank's liquidity remains one of the strongest in the market as evidenced by an Advances to Deposit ratio (ADR) of 70.7% at the end of 2022. The regulatory average Liquidity Coverage Ratio (LCR) of the Bank stood at 403% (2021: 224%) against the regulatory limit of 100%.

Capital Adequacy Ratio: The Bank's Capital Adequacy Ratio (CAR) was 24.3% as at 31 December 2022 compared with 22.7% as at 31 December 2021. The strong capital base supports the Bank's goal to remain one of the strongest capitalised banks in Oman.

Our approach to managing capital is designed to ensure that we exceed current regulatory requirements and are well placed to meet changes to such requirements which are expected in the foreseeable future.

The Bank's growth aspirations and conservative approach to managing its balance sheet require a strong and liquid capital base. Our financial performance in 2022 has meant that the Bank is well able to support these aspirations. We seek to position ourselves to deliver sustainable shareholder returns over the coming years.

Wealth & Personal Banking

Wealth and Personal Banking serves more than 130,000 active customers in Oman. We provide services to individuals under our HSBC Premier and Advance propositions, as well as for customers who have simple every day banking needs.

Key highlights:

- We launched a new to bank customer acquisition campaign in January 2022 offering all Premier and Advance new to bank clients an upfront cash back reward.
- We continued our Employee Banking Solutions program, which is a collaboration with our Wholesale business, through preferential pricing and personalized relationships with our top corporates.
- We launched an exciting campaign offering customers a chance to win 1 million rewards points for cardholders during 2Q and 3Q based on usage of their credit cards.
- As part of our commitment to digitalization, we launched the identification of customers through voice biometrics. This allows customers to access our banking services through our contact centre by phone using their voice as the unique identifier without needing to spend time inputting a phone banking code or answering questions to identify themselves.

Management Discussion and Analysis (continued)

Commercial Banking and Global Banking

Our Commercial Banking business serves more than 1600 active customers in Oman. Our customers range from small enterprises focusing mainly on the Oman market through to corporates operating globally.

Our Global Banking business supports major government, corporate and institutional clients in achieving their long-term strategic goals through tailored and innovative solutions.

Key highlights:

- We partnered with Oman Air to process their international payments in multiple currencies from a centralised treasury hub in Oman. HSBC's Global Disbursement solution will now allow Oman Air to simplify their banking relationships worldwide, with HSBC acting as their bank of choice for international payments.

The new payment solution enables Oman Air to process foreign currency payments through a single bank account, using HSBC's extensive global network and transparent FX rates. This reduces dependency on other third party banks, reducing the costs of processing these payments.

- In October 2022, Oman Telecommunications Company ("Omantel") announced a voluntary cash tender offer to buy back its two outstanding international US Dollar bonds via a fixed spread mechanism and with a priority order. The transaction marks Omantel's inaugural liability management exercise and is part of the Omantel's deleveraging strategy.

HSBC acted as Dealer Manager on the tender offer transaction, having led all buybacks in the region from MENA last year, a testimony to our wholesale franchise and our strength in providing the right advice under the dominating market sentiment and backdrop.

- We participated as a Mandated Lead Arranger (MLA) in the Ministry of Finance's 7 year USD4bn Syndicated Term Loan facility with an initial commitment of USD200m.
- We acted as a Dealer Manager on a voluntary cash tender offer by the Government of the Sultanate of Oman, represented by the Ministry of Finance, to buy back 8 series of its outstanding international US Dollar bonds via a Modified Dutch Auction structure. The transaction marks the first ever tender offer to utilize a Modified Dutch Auction mechanism by a MENA sovereign.
- We partnered with the Ministry of Commerce, Industry & Investment Promotion by sponsoring their 'Tejarah Talks' initiative, which is a series of informal and interactive discussions aiming to host thought leaders in the country to explore and discuss issues shaping the social and economic landscape in the country and potentially attracting investment.

Through this initiative, the ministry aims to showcase the dynamism of business and industry in Oman, highlighting how Oman Vision 2040 is creating the conditions where more than ever local and international businesses can grow, succeed and thrive.

- We had our annual HSBC Economist Roadshow in Oman and more than 150 clients and business leaders in Oman attended the presentations made by the HSBC economist team.

Awards

Best Bank for Trade Finance Services

Businesses across the Sultanate have voted HSBC Oman the best bank for trade finance services in the 2022 Euromoney trade finance survey, which reflects our continued commitment to delivering structured trade services to our clients wherever they chose to do business across the world.

Best Investment Bank & Best Bank in ESG category

We collected two awards at the 2022 Euromoney Middle East Awards for Excellence. The Bank was named Oman's Best Investment Bank for the third consecutive year while also winning the Best Bank in the Environmental, Social and Governance (ESG) category.

Market Leader in Euromoney Cash Management survey

We have been voted Market Leader by corporates in the Sultanate of Oman for the 11th consecutive year in the annual Euromoney Cash Management Survey 2022. In addition, the bank was also voted number one bank for cash management services in the Sultanate, being the fourth consecutive year it has secured this accolade.

Human Resources

We are pleased to have maintained an Omanisation rate of 94% as at 31 December 2022, noticeably ahead of the 90% target set by the Central Bank of Oman.

During the year, three Omanis were appointed to the HSBC Oman Executive Committee: General Manager, Chief Financial Officer; Assistant General Manager, Head of Financial Crime Compliance; and General Manager, Head of Global Bnaking.

In November 2022, 5 employees successfully completed the National Leadership Programme Etimad, which is set to upskill and empower Omani employees with identified potential for middle and senior management positions in the private sector.

As part of our learning activities, 11 Personal Development and CV Clinic sessions were conducted across the bank with the aim of expanding staff self-awareness and guiding employees on how to move forward in their careers.

Management Discussion and Analysis (continued)

In March 2022, the Degreed learning platform was launched. Degreed is a proof of concept learning platform linked to the HSBC University which allows users to access, share and track various learning resources, create learning pathways and curate content for specific learning journeys. In order to encourage registration and usage of the platform, the Learning team ran several introductory sessions across the bank, helping to increase registration from 16% to 75% by the end of 2022.

Wellbeing and mental health remain a focus and a number of learning sessions and activities were planned throughout the year to support this initiative, helping our employees make positive choices about their personal and professional priorities. As part of this important pillar, the bank organized a “Wellness Day” at its premises, where staff had the opportunity to listen and interact with experts about mental and physical wellbeing.

In 2022 we started a journey to adopt Hybrid working, which combines working from the office and home, as a long term approach to working arrangements wherever it can feasibly be implemented across the Bank.

Our objective was to create a culture that enables us to be at our best and deliver exceptional outcomes for our customers by adapting to flexible ways of working and accelerating the use of technology. We encouraged our staff to embrace this opportunity for change and try out different working models, norms and tools to create a working model that balances personal flexibility with team collaboration, and the office with the home.

As part of this learning journey we conducted workshops for line managers and nominated change champions. In order to make these changes a reality, and to support the staff during their journey, a one-time allowance was given to each member of staff to help purchase any additional equipment and peripherals needed for remote working. Feedback from our staff has been overwhelmingly positive.

Corporate Sustainability

We recognise our wider role in society and believe we can make a positive impact with how we do business. We understand that the global transition to a low-carbon economy is necessary to combat climate change and deliver a more sustainable future.

In 2022 we partnered with a number of local as well as international NGOs to deliver a number of programmes focused on the environment as well as future skills.

Key highlights:

– We partnered with the Environment Society of Oman (ESO) in a conservation and capacity building programme, that aims to tackle the issues threatening the survival of the endangered Arabian Sea humpback whales and prepare the next generation of local marine researchers.

This conservation and capacity building programme comes in line with one of the UN Sustainable Development Goals on building human and institutional capacity on climate change mitigation.

While many environmental efforts have focused on planting trees, researchers advocate for the importance of understanding the carbon sequestration potential of the planet’s largest animals—whales. Scientific researches continue to explore how these marine giants can influence the amount of carbon in our air and waters and potentially contribute to the overall reduction of atmospheric carbon dioxide.

– We have partnered with a number of Omani Universities and colleges to launch a new future skills programme, “Debate Mate”. Debate Mate seeks to empower youth with key employability and financial skills. The programme requires students to build their knowledge and understanding of topics around financial literacy and, through debate, challenge their colleagues and enhance their understanding of the topic.

Melika Betley

Chief Executive Officer

The Board of Directors
HSBC Bank Oman SAOG
PO Box 1727
Postal code 111, Seeb
Sultanate of Oman

Dear Sirs

Agreed-upon procedures report of factual findings to the Board of Directors of HSBC Bank Oman SAOG (the "Bank") in respect of Basel II - Pillar III and Basel III Disclosures (the "Disclosures") for the year ended 31 December 2022

Purpose of this Agreed-upon procedures report

This report is produced in accordance with the terms of our agreement dated 29 Jan 2023. The procedures, as set out in Circular No. BM 1027 dated 4 December 2007 were performed solely to assist the directors of HSBC Bank Oman SAOG ("the Bank") in evaluating the Bank's compliance with the disclosure requirements set out in the CBO's Circular No. BM 1009 dated 13 September 2006, BM 1114 dated 17 November 2013 and, Circular No. BM 1149 dated 13 April 2017 amended with letter BSD/CB/FLC/2018/17 dated 26 November 2018, letter BSD/CB/2020/001 dated 18 March 2020 and letter BSD/CB/2020/005 dated 3 June 2020 (the "Circulars) and may not be suitable for another purpose.

Your responsibilities

The directors of the Bank have prepared the disclosures in accordance with the circulars as issued by the CBO and remain solely responsible for it and for the creation and maintenance of all accounting and other records supporting its contents. The Bank's directors are also responsible for identifying and ensuring that the Bank complies with the disclosure requirements as set out in the circulars as issued by the CBO.

You are responsible for determining that the scope of the services is sufficient for your purposes and have confirmed that the procedures described herein are appropriate for the purpose for which the services were engaged.

Our responsibilities

We have performed the procedures agreed with you as set out in Circular No. BM 1027 dated 4 December 2007. Our work was performed in accordance with the International Standard on Related Services (ISRS) 4400 (Revised) 'Agreed-Upon procedures Engagements.'

An Agreed-upon procedures engagement involves performing the procedures that have been agreed with you, and reporting the findings, which are the factual results of the Agreed-upon procedures performed. We make no representation regarding the appropriateness of the Agreed-upon procedures.

Professional Ethics and Quality Management

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

Agreed-upon procedures report of factual findings to the Board of Directors of HSBC Bank Oman SAOG (the "Bank") in respect of Basel II - Pillar III and Basel III Disclosures (the "Disclosures") for the year ended 31 December 2022 (continued)

Professional Ethics and Quality Management (continued)

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

Procedures and findings

We performed the procedures agreed with you and as prescribed in the CBO Circular No. BM 1027 dated 4 December 2007 with respect to the disclosures of the Bank, set out on pages 30 to 49 as at and for the year ended 31 December 2022.

Based on the above procedures, we did not find any exceptions.

Our procedures, as stated in our agreement, did not constitute an audit or assurance engagement made in accordance with generally accepted auditing or assurance standards, the objective of which would be the expression of assurance on the contents of the disclosures. We do not express such assurance. Had we performed additional procedures or had we performed an audit or assurance engagement on the disclosures, other matters might have come to our attention that we would have reported to you. This report relates only to the disclosures and does not extend to any financial statements of the Bank taken as a whole.

Our obligations in respect of this report are entirely separate from, and our responsibility and liability is in no way changed by, any other role we may have (or may have had) as auditors of the Bank or otherwise. Nothing in this report, nor anything said or done in the course of or in connection with the services, will extend any duty of care we may have in our capacity as auditors of any financial statements of the Bank.

Restriction on distribution and use

This report is solely for your use in connection with the purpose specified above and as set out in our agreement and is not to be used for any other purpose. No part of this report is to be copied or distributed to any other party except as permitted under the terms of our agreement. We do not accept any liability or responsibility to any third party.

Yours faithfully,

Muscat, Sultanate of Oman
05 March 2023

C.R. No 1230865
PricewaterhouseCoopers LLC

Statutory Disclosure under Basel II - Pillar III and Basel III Framework

For the year ended 31 December 2022

1. Introduction

HSBC Bank Oman S.A.O.G. ('the Bank' or 'HBON') is an Omani joint stock company, which was incorporated on 1 January 1979, operating as a commercial bank through a network of branches in the Sultanate of Oman. The registered address of the Bank is P.O. Box 1727, CPO Seeb, Postal Code 111, and Sultanate of Oman. The Bank has its shares listed on Muscat Stock Exchange.

HSBC Middle East Holdings BV ('HMEH') holds 51% of the shares in HBON. The ultimate parent company of HBON is HSBC Holdings plc, which is incorporated in England.

The following qualitative and quantitative disclosures has been prepared in accordance to meet the minimum disclosure requirement as per Central Bank of Oman ('CBO') rules and regulations relating capital adequacy standards and Pillar III Disclosure requirements under Basel II and Basel III framework. The Basel II and Basel III framework is structured around three 'pillars': the Pillar 1 minimum capital requirements and Pillar 2 supervisory review process are complemented by Pillar 3 which concerns market discipline.

Disclosure Policy

The Bank has developed a formal policy on the disclosure requirements forming part of Basel II and Basel III Norms which is approved by the Board of Directors in line with the requirements of the Central Bank of Oman ('CBO') regulations.

2. Scope of Application

The information provided in this statement is for the Bank's operations in Oman. The Bank has no subsidiaries.

3. Capital Structure

Objectives and Strategy

CBO sets and monitors regulatory requirements. The Bank's objectives when managing capital are to:

- Safeguard the Bank's ability to continue as a growing entity and increase the returns for its ultimate shareholders;
- Comply with regulatory capital requirements set by the CBO;
- Maintain Capital Adequacy Ratios above the minimum specified by the CBO and Basel II Accord guidelines and Basel III framework;
- Manage the investments in short term money market placements in CBO instruments or above investment grade financial institutions.

Qualitative Disclosures

- The Bank uses Standardized Approach for estimating the Capital Charge for credit risk.
- The Bank uses Basic Indicator Approach for estimating the Capital Charge for Operational Risk.
- In implementing current capital requirements, the Bank calculates Risk Assets Ratio in accordance with the Capital Adequacy guidelines established by the CBO prescribing the ratio of total capital to total Risk Weighted Assets (RWA).

Quantitative disclosure

The regulatory capital is broadly classified into two categories – Tier 1 and Tier 2 capital. Tier 1 capital is further classified into Common Equity Tier 1 capital ('CET 1') and Additional Tier 1 Capital ('AT1'). The Bank's capital structure consists of Tier 1 and Tier 2 ('T2') capital.

CET1 capital

CET1 Capital is comprised of common shares issued by the bank, legal reserves and retained earnings. The book values of goodwill, intangible assets and cumulative unrealised losses on fair value through other comprehensive income ('FVOCI') financial investments are deducted in arriving at CET1 capital. Currently, the Bank does not have any goodwill in its book.

AT1 capital

AT 1 Capital consisting of the following:

- Perpetual capital instruments issued by the bank which should be subordinated to depositors, general creditors and subordinated debt/sukuk of the bank and meets the further criteria as specified under the Basel III framework;
- Share premium resulting from the issue of Additional Tier I instruments;
- Qualifying Additional Tier 1 capital instruments issued by consolidated subsidiaries of the bank held by third parties, on minority interest and which are not included in Common Equity Tier 1; and
- Less regulatory adjustments applied in the calculation of Additional Tier 1 Capital.

T2 capital

T2 capital comprises of the following:

- Cumulative fair value gains on FVOCI financial investments. The fair value gains are recognized after a haircut of 55% on the difference between the historical cost book value and market value and are applied in order to cushion against market volatility and tax charges.

Stage 1 and stage 2 expected credit loss ('ECL') allowances under IFRS 9. The stage 2 ECL allowances under IFRS 9 is required to be phased out from Tier 2 capital.

CBO issued the guidance on 3 June 2020 related to "Covid-19 - CBO Measures and IFRS-9 Application" where CBO introduced the "prudential filter" under interim adjustment arrangement for stage 1 and stage 2 ECL computed under IFRS9 to add as part of regulatory capital under Tier 2.

Accordingly, 100% Stage 1 ECLs shall continue to be added back to Tier 2 Capital. For stage 2 ECLs of base year (as of 31 December 2019) will continue to get earlier phase-out arrangement (i.e. 0% for 2022) and incremental Stage 2 ECLs of 2020, 2021 and 2022 to be added back 60% in 2022 and same will be phase-out by 2024.

The below table represents the revised phase-out arrangements for the Stage 2 ECL from Tier 2 capital

Year	Portion of stage 2 ECLs of base year (as of 31 December 2019) considered for tier 2 capital	Portion of incremental stage 2 ECLs post base year (31 December 2019) considered for tier 2 capital
2018	80%	-
2019	60%	-
2020	40%	100%
2021	20%	80%
2022	0%	60%
2023	-	40%
2024	-	20%
2025 Onwards	-	0%

The total stage 1 and permitted stage 2 ECL allowance included in Tier 2 capital is subject to the ceiling of 1.25% of credit risk weighted assets. The Incremental stage ECL is not subject to any ceiling for the time being.

In line with the CBO guidelines, non-strategic investments made in banks/financial entities up to either 5% of the capital of the investee bank/financial entity or 5% of the net worth of the investing bank, whichever is lower, has been risk weighted at 100%.

The Composition of the Capital structure is as follows:

	RO in 000
Paid up share capital	200,031
Legal reserve	50,448
Retained earnings	92,725
Regulatory adjustments to CET1	(3,208)
CET1 capital	**339,996**
Additional Tier 1 capital	-
Total Tier 1 capital	**339,996**
ECL allowance – Stage 1	2,504
ECL allowance – Stage 2	-
Tier 2 capital	**2,504**
Total regulatory capital	**342,500**

If the bank had not applied the prudential filter as explained above, the Capital structure as of 31 December 2022 would have been as below;

	RO in 000
Paid up share capital	200,031
Legal reserve	50,448
Retained earnings	92,725
Regulatory adjustments to CET1	(3,208)
CET1 capital	**339,996**
Additional Tier 1 capital	-
Total Tier 1 capital	**339,996**
ECL allowance – Stage 1	2,504
ECL allowance – Stage 2	-
Tier 2 capital	**2,504**
Total regulatory capital	**342,500**

4. Compensation policy

In line with the CBO guidelines on sound compensation practices, the Bank has outlined the relevant compensation policies as part of the pillar III disclosures requirement;

Qualitative Disclosures

The Bank has a Board constituted Nomination & Remuneration Committee ('NRC') whose primary objectives are;

- to review the over-arching principles, parameters and governance framework of the Capital Market Authority's Code; and
- to review the Bank's remuneration policy and the remuneration of (i) senior executives (HBON CEO, HBON General Managers and the HBON company secretary), (ii) regulated employees (regulated employees are employees who perform a significant influence function), (iii) material risk

takers, (iv) employees whose activities have or could have a material impact on the HBON's risk profile, and (v) any other employee as determined by the Committee from time to time in accordance with the requirements of HBON's regulators.

4.1 Remuneration policy

The scope of Bank's remuneration policy extends to all employees of the Bank. The Bank's remuneration policy includes the rewards framework, fixed pay policy and variable pay policy. The details of such policies are discussed in the Bank's Corporate Governance Report.

4.2 Material Risk Takers ('MRT')

The Bank has identified the members as material risk takers as their activities are considered to have a potentially material impact on the Bank's risk profile.

Quantitative Disclosures

The below table provide the details of compensation to the key management personnel;

	2022	2021
	RO'000	RO'000
Wages, salaries and other short term benefits	**1,454**	1,494
Post-employment benefits	**229**	111
	1,683	1,605

5. Capital Adequacy

The Bank's policy is to maintain a strong capital base so as to maintain investor, depositor and market confidence and to sustain future business developments.

The Bank is fully committed in implementing the Basel III Norms as adopted by the CBO and currently follows the Standardised approach for credit and market risk and the Basic Indicator Approach for operational risk.

The Bank has in place an Internal Capital Adequacy Process ('ICAAP') which evaluates Bank's position to meet the capital adequacy guidance as set out by CBO as well as further conservative internal targets the Bank sets for itself.

The capital to support current and future activities is discussed in the Bank's Asset Liability, and Capital Committee ("ALCO") and documented.

In line with CBO, Capital Adequacy regulations and HSBC Group practices we monitor the Capital Adequacy on a monthly basis. Further, a full Basel II Return in line with CBO format is submitted each quarter as per standard requirements.

Credit Risk

The Bank has implemented the Standardized Approach across its Banking Book.

Operational Risk

The Bank uses the Basic Indicator Approach for the allocation of operational risk capital. The Bank allocates capital for operational risk based on the average annual gross income for the past three years.

Market Risk

The Bank is using Value at Risk ('VaR') methodology in calculating market risk on exposures on the balance sheet. VaR methodology is set out in detail under note 32.5 of the financial statements.

The details of capital, risk weighted assets and capital adequacy ratio as at 31 December 2022 are as follows:

			RO '000
Details	**Gross balance (Book value)**	**Net balances (Book value)***	**Risk weighted assets**
On-balance sheet items	2,231,076	2,039,834	964,688
Off-balance sheet items	359,154	357,684	284,173
Derivatives	4,599	4,599	4,599
Total	**2,594,829**	**2,402,117**	**1,253,460**
Market risk			20,103
Operational risk			139,041
Total			**1,412,604**
CET 1 capital			339,996
Additional Tier 1 capital			-
Total Tier 1 capital			**339,996**
Tier 2 capital			**2,504**
Total regulatory capital			**342,500**
Capital requirement for credit risk			153,549
Capital requirement for market risk			2,463
Capital requirement for operational risk			17,033

Total required capital			**173,045**
CET1 / Tier 1 Capital ratio			**24.07%**
Total capital ratio			**24.25%**

*Net of eligible collaterals.

6. Risk Exposure and Assessment

All the Bank's activities involve, to varying degrees, the analysis, evaluation, acceptance and active management of risks or combinations of risks. The key financial risks that the Bank is exposed to are retail and wholesale credit risk (including cross-border country risk), market risk (predominantly foreign exchange and interest rate risks) and liquidity & funding risk and strategic risk (including reputational risk).The Bank is also exposed to non-financial risk in various forms (including Resilience risk, Financial Crime and Fraud Risk, People risk, Regulatory Compliance Risk, Legal Risk, Financial Reporting and Tax risks and Model Risks). There is a growing focus on the management of Climate Risk and its embedment in to how we do our business, conduct our operation and deal with all our stakeholders.

The risk management framework established by the Bank fosters continual monitoring, promotes risk awareness and encourages a sound operational and strategic decision making process. It also supports a consistent approach to identifying, assessing, managing and reporting the risks we incur and accept in our activities.

The Bank's Risk Management framework is set out in note 32 of the financial statements.

Credit Risk

Credit Risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from direct lending, trade finance but also from off-balance sheet products such as guarantees and credit derivatives. Credit risk generates the largest regulatory capital requirement of the risks the Bank incurs.

We have implemented Bank wide credit risk management and related IFRS9 processes. We continue to assess actively the impact of economic developments on specific customers, customer segments or portfolios. As credit conditions change, we take mitigating action, including the revision of risk appetites or limits and tenors, as appropriate. In addition, we continue to evaluate the terms under which we provide credit facilities within the context of individual customer requirements, the quality of the relationship, local regulatory requirements, market practices and our local market position.

Credit approval authorities are delegated by the Board to the Bank's CEO and with the authority to sub-delegate them. The Credit Risk sub-function is headed by the Chief Risk Officer and is responsible for key policies and processes for managing credit risk, which include formulating credit policies and risk rating frameworks, guiding the HSBC group's appetite for credit risk exposures, undertaking independent reviews and objective assessment of credit risk, and monitoring performance and management of portfolios.

The principal objectives of our credit risk management are:

- To maintain a strong culture of responsible lending, and robust risk policies and control frameworks
- To both partner and challenge our business in defining, implementing and continually re-evaluating our risk appetite under actual and scenario conditions; and
- To ensure there is independent, expert scrutiny of credit risk, their costs and their mitigation.

The Bank's credit risk rating systems and processes differentiate exposures in order to highlight those with greater risk factors and higher potential severity of loss. In the case of individually significant accounts, risk ratings are reviewed regularly and any amendments are implemented promptly. Within the Bank's retail business, risk is assessed and managed using a wide range of risk and pricing models to generate portfolio data.

Special attention is paid to problem exposures in order to accelerate remedial action. The Bank uses a specialist unit to manage non-performing accounts and provide customers with support in order to help them avoid default wherever possible.

The management of credit risk, credit approval process, credit quality of loans and advances, impaired loans, credit administration is set out in note 32.3 of the financial statements.

Past Dues

Past due but not impaired gross financial instruments are those loans where, although customers have failed to make payments in accordance with the contractual terms of their facilities, they have not met the impaired loan criteria. This is typically when a loan is less than 90 days past due and there are no other indicators of impairment. Further analysis of the past due financial instruments is set out in in note 32.3 of the financial statements.

Impairment of amortised cost and FVOCI financial assets

Expected credit losses ('ECL') are recognised for loans and advances to customers, due from banks, other financial assets held at amortised cost, debt instrument measured at fair value through other comprehensive income ('FVOCI'), and certain loan commitments, acceptances and financial guarantee contracts. At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is required for ECL resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit impaired are in 'stage 3'.

Impairment assessment

It is the Bank's policy to create allowances for impaired loans and advances promptly and consistently.

For details of impairment policies on loans and advances and financial investments, see note 2.2 of the financial statements.

The financial assets recorded in each stage have the following characteristics:

- **Stage 1:** Unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognised.
- **Stage 2:** A significant increase in credit risk has been experienced since initial recognition on which a lifetime ECL is recognised.
- **Stage 3:** Objective evidence of impairment, and are therefore considered to be in default or otherwise credit-impaired, on which a lifetime ECL is recognised.
- **Purchased or originated credit-impaired financial assets:** Purchased or originated at a deep discount that reflects the incurred credit losses

Impaired loans

Impaired and stage 3 loans and advances are those that meet any of the following criteria:

- Wholesale loans and advances classified as Customer Risk Rating ('CRR') 9 or CRR 10. These grades are assigned when the bank considers that either the customer is unlikely to pay their credit obligations in full without recourse to security, or when the customer is more than 90 days past due on any material credit obligation to the Bank.
- Retail loans and advances classified as Band 7. These grades are typically assigned to retail loans and advances more than 90 days past due unless individually they have been assessed as not impaired.

The details for total gross credit risk exposures, plus average gross exposure over the period broken down by major types of credit exposure are listed as under:

RO'000

Type of Credit Exposure	Average gross exposure		Total gross exposure	
	31 December 2022	31 December 2021	31December 2022	31 December 2021
Overdraft	158,457	143,408	157,968	150,746
Personal loans*	485,833	459,049	474,266	456,628
Loans against trust receipts	103,872	69,560	52,904	62,151
Other loans	645,116	722,415	609,170	716,342
Bills purchased / discounted	7,965	12,156	3,108	15,958
Total	**1,401,243**	**1,406,588**	**1,297,416**	**1,401,825**

*Personal loans exclude the retail overdrafts of RO1,639 K (31 Dec 2021: RO1,860 K) which has been included under overdrafts.

Geographical distribution

Geographic distribution of exposures, broken down in significant areas by major types of credit exposure

RO'000

Type of Credit Exposure	Oman	Other GCC countries	OECD Countries	Other	Total
Overdraft	157,968	-	-	-	157,968
Personal loans*	474,121	-	-	145	474,266
Loans against trust receipts	52,904	-	-	-	52,904
Other loans	591,148	-	18,022	-	609,170
Bills purchased / discounted	3,108	-	-	-	3,108
Total	**1,279,249**	**-**	**18,022**	**145**	**1,297,416**

*Personal loans exclude the retail overdrafts of RO1,639 K which has been included under overdrafts.

Industry or counterparty type distribution of exposures, broken down by major types of credit exposure:

RO'000

Economic Sector	Overdraft	Loans	Bills purchased / discounted	Total	Off-balance sheet exposure
Import Trade	21,584	94,570	259	116,413	37,120
Export Trade	-	-	-	-	-
Wholesale & Retail Trade	2,208	24,652	256	27,116	2,366
Mining & Quarrying	833	2,098	2,252	5,183	13,869
Construction	6,296	90,034	208	96,538	86,676
Manufacturing	3,839	130,185	109	134,133	16,487
Electricity, gas and water	47	1,432	-	1,479	1,249
Transport and Communication	425	51,456	-	51,881	31,399
Financial Institutions	-	-	-	-	50
Services	4,832	59,455	24	64,311	53,328
Personal Loans	1,639	474,121	-	475,760	-
Agriculture and Allied Activities	1,586	382	-	1,968	-
Government	114,596	138,951	-	253,547	40,026
Non-Resident Lending*	-	18,167	-	18,167	238,342
All others	83	50,837	-	50,920	5,828
Total	**157,968**	**1,136,340**	**3,108**	**1,297,416**	**526,740**

*Non-resident lending includes loans from Mining & quarrying sector RO18,022 K and Personal loan RO145 K.

*Non-resident lending includes off balance sheet exposure from Financial institution sector RO114,079 K, Transport and communication sector RO115,487 K, Manufacturing sector of RO232 K and All others RO8,544 K.

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)
For the year ended 31 December 2022

Residual contractual maturity of the loan portfolio, broken down by major types of credit exposure:

RO'000

Time Band	Overdraft	Loans	Bills purchased / discounted	Total	Off-balance sheet exposure
Upto1 month	137,513	107,456	1,890	246,859	43,067
1-3 months	-	69,685	895	70,580	59,050
3-6 months	-	98,567	197	98,764	50,225
6-9 months	-	-	98	98	33,335
9-12 months	-	121,417	-	121,417	23,677
1-3 years	-	79,582	-	79,582	223,683
3-5 years	-	175,568	-	175,568	2,497
Over 5 years	20,455	484,065	28	504,548	91,206
Total	**157,968**	**1,136,340**	**3,108**	**1,297,416**	**526,740**

Risk exposure by major industry

RO'000

Economic Sector	Gross Loans	Of which, NPLs	Stage 3 ECL Allowance**	Reserve interest**	Net change in Stage 3 ECL allowance on loans and advances during the year	Advances written off during the year
Import trade	116,413	15,762	11,945	1,387	98	1
Wholesale & retail trade	27,116	6,815	4,013	2,708	(257)	-
Mining & quarrying	5,183	-	-	-	-	-
Construction	96,538	3,863	1,769	2,115	8	6
Manufacturing	134,133	2,061	749	1,255	(1)	-
Electricity, gas and water	1,479	-	-	-	-	-
Transport and communication	51,881	1,470	213	1,245	(11)	-
Financial Institutions	-	-	-	-	-	-
Services	64,311	5,403	1,544	3,044	(2)	28
Personal loans	475,760	4,586	1,206	278	(3,969)	2,913
Agriculture and allied activities	1,968	1,966	216	1,571	-	983
Government	253,547	-	-	-	501	-
Non-resident lending*	18,167	-	-	-	-	-
All others	50,920	-	-	-	-	-
Total	**1,297,416**	**41,926**	**21,655**	**13,603**	**(3,633)**	**3,931**

*Non-resident lending includes loans from Mining & quarrying sector RO18,022 K and Personal loan RO145 K.

**Includes ECL allowance and reserve interest only on NPLs.

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)

For the year ended 31 December 2022

Amount of impaired loans broken down by significant geographic areas including stage 3 ECL allowances related to each geographical area.

RO'000

Country	Gross loans	Of which, NPLs	Stage 3 ECL Allowance*	Reserve interest*	Net change in stage 3 ECL allowance on loans and advances during the year	Advances written off during the year
Oman	1,279,249	41,926	21,655	13,603	(3,633)	3,931
Other GCC countries	-	-	-	-	-	-
OECD countries	18,022	-	-	-	-	-
Others	145	-	-	-	-	-
Total	**1,297,416**	**41,926**	**21,655**	**13,603**	**(3,633)**	**3,931**

*Includes ECL allowances and Reserve interest only on NPLs

Movements of Gross Loans: RO'000

Details	Stage 1	Stage 2	Stage 3	Total
Opening balance	**703,464**	**654,076**	**44,285**	**1,401,825**
Migration / changes (+/-)	248,359	(252,504)	4,145	**-**
New loans	354,888	11,451	-	**366,339**
Recovery of loans	(460,944)	(4,891)	(980)	**(466,815)**
Loans written off	-	-	(3,933)	**(3,933)**
Closing balance	**845,767**	**408,132**	**43,517**	**1,297,416**
ECL allowance	**1,847**	**11,369**	**22,067**	**35,283**
Reserve Interest	**44**	**1,050**	**13,652**	**14,746**

6.1 Credit Risk disclosures for the Standardised Approach

The Bank uses the ratings from Eligible Credit Assessment Institutions ('ECAI') recognised by CBO, like Fitch and Standard & Poor's for the assessment of credit risk under the Basel II Standardized Approach. Each of the rating agencies is used for the purpose of assessing Sovereign, Bank and Corporate credit assessments. The process of transferring the public issue rating in to comparable assets in the banking book is not widely applied in Oman as most corporate clients are unrated. However, the exposure to banks through money market placements, balances with other banks and counter guarantees are governed, by the ratings applied by the rating agencies.

The total Banking Book risk weighted assets amounted to RO1,253.1 million as at 31 December 2022 after the application of credit risk mitigants.

The analysis of exposure with banks and sovereign by ECAI ratings is set out in note 32.3 of the financial statements.

The Bank endeavours to obtain collateral for all corporate credits unless the business case warrants clean lending. Collaterals stipulated are usually mortgages, charges over business, stock and debtors, financial instruments and cash. Security is however recognized only as a fall back option and repayment of facilities is primarily predicated on cash flow from the borrower's business. However, collateral may be an important mitigant of risk.

In the Retail loan segment, facilities granted are predominately salary linked loans for personal purposes. Prudent norms as well as regulatory guidelines are applied to ensure that the borrower is not overstretched to repay his dues. For housing loans and auto loans, besides the salary assignments, the underlying asset is mortgaged.

Where reliance is placed on real estate as collateral, professional valuations by a Bank approved valuer are required. Revaluations are obtained every two years. If equities are taken as collateral, only shares quoted on the Muscat Stock Exchange ('MSX') can be accepted and the value of shares will be based on the average value over the 15 days preceding the drawdown. For both mortgage and financial instruments values should have margin cover applied as defined in the Banks' Lending Guidelines.

The Bank uses the Basel II Simple Approach for Credit Risk Mitigation - Collateral. HBON's policies, procedures and processes including collateral valuation and management are governed by HSBC Group guidelines.

The total value of eligible financial collateral for the credit risk portfolio is RO316.6million which includes deposits under lien of RO219.0 million, which has been reduced from the credit exposure of the counterparty when calculating risk, weighted assets while other bank and sovereign guarantees of RO97.6 million which attracts the relevant risk weight of the counterparty providing the guarantee. The Bank does make use of netting whether on or off balance sheet.

Credit risk concentrations are monitored through monthly ALCO and Risk Management Meetings.

6.2 Market risks in the trading book

The objective of the Bank's market risk management is to manage and control market risk exposures in order to optimize return on risk while maintaining a market profile consistent with the Bank's status as a premier provider of financial products and services. Market risk is the risk that movements in market risk factors, including foreign exchange rates, interest rates, credit spreads and equity and commodity prices will reduce the Bank's income or the value of its portfolios.

The management of market risk is set out in note 32.5 of the financial statements.

One of the principal tools used by the Bank to monitor and limit market risk exposure is Value at risk ('VaR'). VaR is a measure that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence (for the Bank, 99 per cent). The Bank calculates VaR daily. The VaR model used by the Bank is predominantly based on historical simulation. The historical simulation model derives plausible future scenarios from historical market rates time series which would naturally take into account inter-relationships between different market rates, for example between interest rates and foreign exchange rates.

Although a useful guide to risk, VAR should always be viewed in the context of its limitations. For example:

the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;

- the use of a one-day holding year assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding year may be insufficient to liquidate or hedge all
- the use of a 99 per cent confidence level, by definition, does not take into account losses that might occur beyond this level of confidence; and
- VAR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

The Bank recognizes these limitations by augmenting its VaR limits with other position and sensitivity limit structures.

The VAR for Global markets was as follows:

	2022	**Average**	**Maximum**	**Minimum**	2021	Average	Maximum	Minimum
	RO'000	**RO'000**	**RO'000**	**RO'000**	RO'000	RO'000	RO'000	RO'000
Total VAR	**229**	**259**	**1,464**	**92**	313	104	313	44
Trading VAR	**57**	**30**	**89**	**1**	10	21	44	-

Market risk in the trading portfolios is monitored and controlled at both portfolio and position levels using a complementary set of techniques, such as VaR, together with stress and sensitivity testing and concentration limits.

Other controls include restricting individual operations to trading within a list of pre-approved permissible instruments, and enforcing rigorous new product approval procedures

The principal objective of market risk management of non-trading portfolios is to optimize net interest income. Market risk in non-trading portfolios arises principally from mismatches between the future yield on assets and their funding cost as a result of interest rate changes. Analysis of this risk is complicated by having to make behavioral assumptions regarding the economic duration of liabilities which are contractually repayable on demand, for example, current accounts. In order to manage this risk optimally, Market risk in non-trading portfolios is transferred to Global Markets or to separate books managed under the auspices of ALCO. ALCO regularly reviews that these portfolios are managed within pre-approved interest rate risk limits.

6.3 Interest Rate Risk

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)
For the year ended 31 December 2022

Interest rate risk is the sensitivity of the Bank's financial condition to movements in interest rates. Mismatches or gaps in the amount of assets, liabilities and off-balance sheet instruments can generate interest rate risk, the impact of which is a function of the interest rate changes and the maturity profile of the assets and liabilities. Positions are monitored regularly and hedging strategies are used to manage the interest rate risk. The management of mismatches and gap position is set out in note 25 of financial statements. The impact of an incremental / decreased 100 basis points parallel shift on net interest income ('NII') for the next 12 months is given as follows:

	2022	2021
	RO'000	RO'000
1% UP - Increase in NII by	**11,850**	12,814
1% DOWN -Decrease in NII by	**(13,199)**	(8,148)

The capital requirements for market risk are as follows:

	RO'000
Interest rate risk	-
Equity position risk	-
Commodities position risk	-
Foreign exchange risk	1,608
Total	**1,608**

6.4 Liquidity and funding Risk:

Liquidity risk is the risk that the Bank does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows.

Funding risk (a form of liquidity risk) arises when the liquidity needed to fund illiquid asset positions cannot be obtained on the expected terms and when required.

Liquidity and funding risk management framework

The objective of the Bank's liquidity and funding risk framework ('LFRF') management is to allow it to withstand severe liquidity stresses. It is designed to be adaptable to changing business models and regulations.

The LFRF is delivered using the following key aspects:

- minimum LCR requirement depending on inherit liquidity risk ('ILR') categorisation;
- minimum NSFR requirement depending on ILR categorization;
- Single currency liquidity management
- Forward looking funding status assessment
- Analysis of off-balance sheet commitments
- Asset encumbrance
- depositor concentration limit;
- Liquidity funds transfer pricing
- three-month and 12-month cumulative rolling term contractual maturity limits covering deposits from bank, deposits from non-bank financial institutions and securities issued;
- Contingency Funding Plan, and
- Individual Liquidity Adequacy Assessment and liquidity stress testing

Liquidity ratios- Basel III

Liquidity coverage ratio

The LCR metric is designed to promote the short-term resilience of a bank's liquidity profile. It aims to ensure that a bank has sufficient unencumbered high-quality liquid assets ('HQLA') to meet its liquidity needs in a 30-calendar-day liquidity stress scenario. HQLAs consist of cash or assets that can be converted into cash at little or no loss of value in markets.

The liquidity position of the Bank remained strong as of 31 December 2022. As per LFRF framework Bank's liquidity coverage ratio as of 31 December 2022 was 442% (2021: 441%)

The Bank's LCR ratio as per the CBO requirement as of 31 December 2022 was 400% (31 December 2021: 251%).

Net stable funding ratio

The NSFR requires institutions to maintain sufficient stable funding relative to required stable funding, and reflects a bank's long-term funding profile (funding with a term of more than a year). It is designed to complement the LCR.

As per LFRF framework Bank's net stable funding ('NSFR') ratio as of 31 December 2022 was 152% (2021:142%).

The Bank's NSFR ratio as per CBO requirement as of 31 December 2022 was 167% (31 December 2021: 153%).

Detailed computation of LCR and NSFR as per the CBO requirement has been disclosed separately in note 34 of the financial statements.

Leverage ratio

The Basel III framework introduced a simple, transparent, non-risk based leverage ratio to act as a credible supplementary measure to the risk-based capital requirements.

The leverage ratio is intended to:

- restrict the build-up of leverage in the banking sector to avoid destabilising deleveraging processes that can damage the broader financial system and the economy; and
- reinforce the risk-based requirements with a simple, non-risk based "backstop" measure
- The leverage ratio disclosure template as per regulatory guidelines is disclosed in Annexure IV.

Sources of funding

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)

For the year ended 31 December 2022

The current accounts, savings deposits and term deposits are the Bank's primary source of funding. The Bank places considerable importance on the stability of these deposits.

The level of customer accounts continued to exceed the level of loans and advances to customers. The positive funding gap was predominantly deployed into liquid assets, cash and balances with central banks and financial investments, as required by the LFRF. Loans and other advances to banks continued to exceed deposits by banks.

6.5 Operational Risk:

Operational risk the risk to achieving strategy or objectives as a result of inadequate or failed internal processes, people and systems, or from external events. Operational risk is relevant to every aspect of the Bank's business and covers a wide spectrum of issues. Losses arising through fraud, unauthorised activities, errors, omission, inefficiency, systems failure or from external events all fall within the operational risk definition.

A formal governance structure provides oversight over the management of operational risk. The Risk Management Meeting convenes monthly to discuss operational risk issues and the effectiveness of internal controls. The capital requirement of RO18.0 million is based on the average gross income for the three year period ending 31 December 2022.

The management of operational risk is set out in note 32.7 of the financial statements.

Basic Indicator Approach calculation

RO in 000's

Year	Business line	Total Gross Income (GI)	Total Gross income (after negative GI adjustment)	Alpha	Capital charge
2020	Total business	74,098	74,098	15.00%	**11,115**
2021	Total business	70,629	70,629	15.00%	**10,594**
2022	Total business	77,739	77,739	15.00%	**11,661**
Number of years with positive total gross income					**3**
Basic Indicator approach capital charge @ 12.50					**11,123**
Total Risk Weighted Assets - Operational Risk					**139,041**

6.6 Basel III common disclosures template

The Basel III common disclosure template is designed to capture the capital positions of the Bank after the transition period of the phasing-in deductions ended on 01 January 2018. (refer Annexure I).

Disclosure for 3 step approach reconciliation

Under Basel III frameworks, the bank should disclose a full reconciliation of all regulatory capital elements back to the statement of financial position in the audited financial statements. The reconciliation process laid down is aimed at addressing the issues of disconnect between the numbers disclosed for the calculation of regulatory capital and the numbers used in the published financial statements. The 3 step approach indicated below ensures that the reconciliation between these numbers is undertaken in a consistent manner (refer Annexure II).

- Step 1: The reported statement of financial position under the regulatory scope of consolidation.
- Step 2: Expand the lines of the statement of financial position under the regulatory scope of consolidation to display all of the components that are used in the composition of capital disclosure (refer Annexure I).
- Step 3: Map each of the components that are disclosed in Step 2 to the composition of capital disclosure set out in Annexure I.

Disclosure for main feature of regulatory capital instruments

The disclosure of main feature of regulatory capital instruments provides a main features report that summarises all of the regulatory capital instruments of the bank. This is a minimum level of summary disclosure that required to report in respect of each regulatory capital instrument issued by the bank, including common shares.

A description of the main feature of regulatory capital instruments issued by the Bank is set out in Annexure III.

I approve and authorize for issue these Basel II Pillar 3 and Basel III disclosures.

Melika Betley
Chief Executive Officer

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)
For the year ended 31 December 2022

Annexure I

Basel III common disclosure for the year ended 31 December 2022 (RO '000)		
Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital plus related stock surplus / premium	200,031
2	Retained earnings	92,725
3	Accumulated other comprehensive income (and other reserves)	50,448
4	*Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)*	-
5	*Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)*	-
6	**Common Equity Tier 1 capital before regulatory Adjustments**	**343,204**
Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments	(308)
8	Goodwill (net of related tax liability)	-
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(965)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(1,935)
11	Cash-flow hedge reserve	-
12	Shortfall of provisions to expected losses	-
13	Securitisation gain on sale (as set out in paragraph 14.9 of CP-1)	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities.	-
15	Defined-benefit pension fund net assets	-
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-
17	Reciprocal cross-holdings in common equity	-
18	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-
19	Significant investments in the common stock of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-
20	Mortgage Servicing rights (amount above 10% threshold)	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
22	Amount exceeding the 15% threshold	-
23	of which: significant investments in the common stock of financials	-

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)
For the year ended 31 December 2022

24	of which: mortgage servicing rights	-
25	of which: deferred tax assets arising from temporary differences	-
26	National specific regulatory adjustments	-
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-
28	**Total regulatory adjustments to Common equity Tier 1**	**(3,208)**
29	**Common Equity Tier 1 capital (CET1)**	**339,996**
Additional Tier 1 capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus (31+32)	-
31	of which: classified as equity under applicable accounting standards	-
32	of which: classified as liabilities under applicable accounting standards	-
33	*Directly issued capital instruments subject to phase out from Additional Tier 1*	-
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-
35	*of which: instruments issued by subsidiaries subject to phase out*	-
36	**Additional Tier 1 capital before regulatory adjustments**	-
Additional Tier 1 capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	-
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-
39	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-
40	Significant investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
41	National specific regulatory adjustments	-
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-
43	**Total regulatory adjustments to Additional Tier 1 capital**	-
44	**Additional Tier 1 capital (AT1)**	-
45	**Tier 1 capital (T1 = CET1 + AT1)**	**339,996**
	Tier 2 capital: instruments and provisions	
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-
47	*Directly issued capital instruments subject to phase out from Tier 2*	-

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)
For the year ended 31 December 2022

48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-
49	*of which: instruments issued by subsidiaries subject to phase out*	-
50	Provisions (Expected Credit Loss allowances for stage 1 and 2)	2,504
51	**Tier 2 capital before regulatory adjustments**	**2,504**
	Tier 2 capital: regulatory adjustments	-
52	Investments in own Tier 2 instruments	-
53	Reciprocal cross-holdings in Tier 2 instruments	-
54	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-
55	Significant investments in the capital banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
56	National specific regulatory adjustments	-
57	**Total regulatory adjustments to Tier 2 capital**	-
58	**Tier 2 capital (T2)**	**2,504**
59	**Total capital (TC = T1 + T2)**	**342,500**
60	**Total risk weighted assets (60a+60b+60c)**	**1,412,604**
60a	*Of which: Credit risk weighted assets*	1,253,460
60b	*Of which: Market risk weighted assets*	20,103
60c	*Of which: Operational risk weighted assets*	139,041
Capital Ratios		
61	**Common Equity Tier 1 (as a percentage of risk weighted assets)**	**24.07%**
62	**Tier 1 (as a percentage of risk weighted assets)**	**24.07%**
63	**Total capital (as a percentage of risk weighted assets)**	**24.25%**
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB/D-SIB buffer requirement expressed as a percentage of risk weighted assets)	
65	*of which: capital conservation buffer requirement*	-
66	*of which: bank specific countercyclical buffer requirement*	-
67	*of which: D-SIB/G-SIB buffer requirement*	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets	-
National minima (if different from Basel III)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	-

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)
For the year ended 31 December 2022

70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	-
71	National total capital minimum ratio (if different from Basel 3 minimum)	-
Amounts below the thresholds for deduction (before risk weighting)		
72	Non-significant investments in the capital of other financials	-
73	Significant investments in the common stock of financials	-
74	Mortgage servicing rights (net of related tax liability)	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-
Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	-
77	Cap on inclusion of provisions in Tier 2 under standardised approach	-
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	*Current cap on CET1 instruments subject to phase out arrangements*	-
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	-
82	*Current cap on AT1 instruments subject to phase out arrangements*	-
83	*Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)*	-
84	*Current cap on T2 instruments subject to phase out arrangements*	-
85	*Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)*	-

Annexure II

Step 1

The scope of regulatory consolidation and accounting consolidation is identical accordingly the step 1 of the reconciliation is not required.

Step 2

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	OMR'000	**OMR'000**	
	As at 31.12.2022	**As at 31.12.2022**	
Assets			
Cash and balances with CBO	123,003	123,003	
Balance with banks and money at call and short notice	283,756	283,756	
Investments :	74,409	74,409	
Of which Held to Maturity	74,409	74,409	
Out of investments in Held to Maturity:	-	-	
Investments in subsidiaries	-	-	
Investments in Associates and Joint Ventures	-	-	
FVOCI Investments of which:	**463,804**	**463,804**	
Investments in Subsidiaries		-	
Investments in Associates and Joint Ventures	-		
Held for Trading	-	-	
FVTPL investments			
Loans and advances of which :	1,297,416	1,297,416	
Loans and advances to domestic banks	-	-	
Loans and advances to non-resident banks	-	-	
Loans and advances to domestic customers		1,259,638	
Loans and advances to non-resident customers for domestic operations	-	-	
Loans and advances to non-resident customers for operations abroad	-	18,167	
Loans and advances to SMEs*	-	19,611	
Financing from Islamic banking window	-	-	
Provision against Loans and advances of which:	**(50,029)**	**(50,029)**	
ECL Allowance	(35,283)	(35,283)	
Reserve Interest	(14,746)	(14,746)	
Fixed assets	17,669	17,669	
Other assets of which:	31,600	31,600	
Goodwill and intangible assets Out of which:			
Goodwill	-	-	a
Other intangibles (excluding MSRs)	965	965	b

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)
For the year ended 31 December 2022

Deferred tax assets	1,935	1,935	
Goodwill on consolidation	-	-	
Debit balance in Profit & Loss account	-	-	
Total Assets	2,241,628	2,241,628	
Capital & Liabilities			
Paid-up Capital Of which:			
Amount eligible for CET1	200,031	200,031	h
Amount eligible for AT1	-	-	i
Reserves & Surplus	159,286	159,286	
Total Capital	359,317	359,317	
Deposits Of which:			
Deposits from banks	46,762	46,762	
Customer deposits	1,765,275	1,765,275	
Deposits of Islamic Banking window			
Other deposits(please specify)			
Borrowings Of which:			
From CBO			
From banks			
From other institutions & agencies			
Borrowings in the form of bonds, Debentures and sukuks			
Others (Please specify)	70,274	70,274	
Other liabilities & provisions Of which:	67,936	67,936	
DTLs related to goodwill			
DTLs related to intangible assets			
Lease liabilities	2,338	2,338	c
TOTAL	**2,241,628**	**2,241,628**	d

*The Bank's Small and Medium Enterprise (SME) ratio (funded and non-funded) as of 31 December 2022 was 3.44% (31 December 2021 - 2.86%) of total credit.

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)

For the year ended 31 December 2022

Step 3

	Common Equity Tier 1 capital: instruments and reserves	Component of regulatory capital reported by bank OMR'000	Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation from step 2 OMR'000
1	Directly issued qualifying common share (and equivalent for non- joint stock companies) capital plus related stock surplus	200,031	h
2	Retained earnings	92,725	
3	Accumulated other comprehensive income (including legal reserve) (and other reserves)	50,448	
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	
6	**Common Equity Tier 1 capital before regulatory adjustments**	343,204	
7	Prudential valuation adjustments	(308)	
8	Goodwill (net of related tax liability)	-	a-c
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(965)	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(1,935)	
11	Regulatory adjustments applied to Common Equity Tier 1 and Tier 2 to cover deductions	-	
	Common Equity Tier 1 capital (CET1)	339,996	

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)

For the year ended 31 December 2022

Annexure III

1	**Issuer**	
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA
3	Governing law(s) of the instrument Regulatory treatment	-
4	Transitional Basel III rules	-
5	Post-transitional Basel III rules	-
6	Eligible at solo/group/group & solo	-
7	Instrument type (types to be specified by each jurisdiction)	Common Equity Shares
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	RO 200.031 million
9	Par value of instrument	RO 200.031 million
10	Accounting classification	Common Equity Shares
11	Original date of issuance	03 June 2012
12	Perpetual or dated	Dated
13	Original maturity date	NA
14	Issuer call subject to prior supervisory approval	NA
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
17	Fixed or floating dividend/coupon	Floating Dividend
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	NA
21	Existence of step up or other incentive to redeem	NA
22	Noncumulative or cumulative	NA
23	Convertible or non-convertible	
24	If convertible, conversion trigger (s)	
25	If convertible, fully or partially	
26	If convertible, conversion rate	
27	If convertible, mandatory or optional conversion	
28	If convertible, specify instrument type convertible into	
29	If convertible, specify issuer of instrument it converts into	
30	Write-down feature	
31	If write-down, write-down trigger(s)	
32	If write-down, full or partial	
33	If write-down, permanent or temporary	
34	If temporary write-down, description of write-up mechanism	
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	
36	Non-compliant transitioned features	
37	If yes, specify non-compliant features	

Statutory Disclosure under Basel II - Pillar III and Basel III Framework (continued)

For the year ended 31 December 2022

Annexure IV

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

	Item	As at 31.12.2022 OMR'000
1	Total consolidated assets as per published financial statements	2,241,631
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustments for derivative financial instruments	4,599
5	Adjustment for securities financing transactions (i.e., repos and similar secured lending)	-
6	Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	410,153
7	Other adjustments	(2,900)
8	Leverage ratio exposure	2,653,483

Table 2: Leverage ratio common disclosure template

	Item	As at 31.12.2022 OMR'000
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	2,238,759
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(2,900)
3	**Total on-balance sheet exposures** (excluding derivatives and SFTs) (sum of lines 1 and 2)	2,235,859
	Derivative Exposures	
4	Replacement cost associated with all derivatives transactions (i.e., net of eligible cash variation margin)	2,872
5	Add-on amounts for PFE associated with all derivatives transactions	4,599
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	**Total derivative exposures (sum of lines 4 to 10)**	7,471
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	CCR exposure for SFT assets	-
15	Agent transaction exposures	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	-
	Other Off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	1,089,895
18	(Adjustments for conversion to credit equivalent amounts)	(679,742)
19	**Off-balance sheet items (sum of lines 17 and 18)**	410,153
	Capital and total exposures	
20	**Tier 1 capital**	339,996
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	2,653,483
	Leverage Ratio	
22	**Basel III leverage ratio (%)**	12.8

Independent auditor's report to the shareholders of HSBC Bank Oman SAOG

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of HSBC Bank Oman SAOG (the "Bank") as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Bank's financial statements comprise:

- the statement of comprehensive income for the year ended 31 December 2022;
- the statement of financial position as at 31 December 2022;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Emphasis of matter

We draw attention to note 2.1 (e) , which states that the merger of the Bank with Sohar International Bank ("SI") is expected to complete in the second half of 2023, if approved by the relevant regulatory bodies and the shareholders of both entities. Should the merger go ahead, all of the assets and liabilities of the Bank will be transferred to SI at carrying amounts and the Bank will be dissolved. Our opinion is not modified in respect of this matter.

Our audit approach

Overview

Key Audit Matter	• Expected credit losses – impairment on loans and advances to customers

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Expected credit losses - Impairment on loans and advances to customers As at 31 December 2022, the Bank has loans and advances to customers amounting to RO 1.3 billion which is net of credit impairment provision of RO 50 million. We focused on the Expected Credit Losses ('ECL') for loans and advances to customers due to the materiality of the loan balances and the associated allowances for ECL. In addition, the application of IFRS in this area involves the board's judgement and is subject to a high degree of estimation uncertainty. The level of judgement and estimation uncertainty remain elevated as a result of current global economic conditions. Management makes various assumptions when estimating ECL. The significant assumptions, with greater levels of management judgement and for which variations had the most significant impact on ECL, are: • the application and determination of forward looking economic scenarios and their probability weights;	We assessed the design and operating effectiveness of governance and controls over the estimation of ECL. We also tested the controls over; • credit reviews that determine customer risk ratings for wholesale customers; • the inputs of critical data into source systems, and the flow and transfer of data between source systems to the impairment calculation engine and management judgemental adjustments; and • the calculation and approval of management judgmental adjustments to modelled outcomes. We involved our modelling experts in assessing the appropriateness of modelling methodologies that were enhanced during the year. We also assessed the appropriateness of modelling methodologies that did not change during the year and whether post model adjustments were needed.

Independent auditor's report to the shareholders of HSBC Bank Oman SAOG (continued)

Key audit matter (continued)	How our audit addressed the key audit matter
Expected credit losses - Impairment on loans and advances to customers (continued) • determining the criteria for a significant increase in credit risk ('SICR') and thereby staging; • the recoverability of credit impaired exposures; • estimating material management judgement adjustments; and • techniques used to determine the Probability of Default ('PD'), Loss Given Default ('LGD') and Exposure at Default ('EAD'). The level of estimation uncertainty and judgement has remained high during 2022 as a result of the uncertain macroeconomic and geopolitical environment, high levels of inflation, volatility in energy prices and a rising global interest rate environment. These factors have increased the uncertainty around judgements made in determining the severity and likelihood of macroeconomic variable (MEV) forecasts across the different economic scenarios used in ECL models. The modelling methodologies used to estimate ECL are developed using historical experience. The impact of future economic conditions may result in certain limitations in the reliability of these methodologies to forecast the extent and timing of future customer defaults and therefore estimate ECL. In addition, management apply judgmental adjustments to modelled outcomes, the measurement of which is inherently judgemental and subject to a high level of estimation uncertainty. Information on the accounting policy and credit risk management is included in notes 2.2 (h) and 32.3 to the financial statements respectively. Disclosures relating to the ECL provisions are included in notes 12 and 32.3 to the financial statements.	In addition, we performed testing over: • a sample of critical data used in the year end ECL calculation and to estimate management's judgemental adjustments; • a sample of credit reviews to determine that Credit Risk Ratings were appropriately applied to exposures; • appropriateness and application of the quantitative and qualitative criteria used to assess significant increases in credit risk; and • critical data, assumptions and discounted cash flows for a sample of credit impaired exposures. Further, we reviewed the results of certain centralised audit procedures in respect of ECL, in the context of the appropriateness of the nature, timing and extent of the work performed for the purpose of our audit. The work included the following procedures: • the compliance of ECL methodologies and assumptions with the requirements of IFRS 9; • testing of model validation and monitoring controls; • observing the review and challenge governance forum's discussions around the determination of macro-economic variable (MEV) forecasts and their likelihood for different economic scenarios; • testing of the calculation and approval of management judgemental adjustments to modelled outcomes; and • assessment of the significant assumptions made in determining the severity and probability weighting of MEV forecasts. We assessed the disclosures included in the financial statements including their compliance with the requirements of IFRS.

Independent auditor's report to the shareholders of HSBC Bank Oman SAOG (continued)

Other information

The directors are responsible for the other information. The other information comprises the Board of Directors' Report, Corporate Governance Report, Management Discussion and Analysis and Statutory Disclosure under Basel II-Pillar III and Basel III Framework (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report and the Bank's Annual Report, which is expected to be made available to us after that date.

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

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

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

When we read the Bank's Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the relevant requirements of the Capital Market Authority of the Sultanate of Oman and the applicable provisions of the Commercial Companies Law of 2019, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Independent auditor's report to the shareholders of HSBC Bank Oman SAOG (continued)

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on other legal and regulatory requirements

Further, as required by the relevant requirements of the Capital Market Authority of the Sultanate of Oman and the applicable provisions of the Commercial Companies Law of 2019, we report that the financial statements have been prepared and comply, in all material respects, with those requirements and provisions.

PricewaterhouseCoopers

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C.R. No 1230865
PricewaterhouseCoopers LLC

Kashif Kalam
Muscat, Sultanate of Oman
5 March 2023

Statement of comprehensive income
For the year ended 31 December 2022

2021	**2022**			**2022**	2021
US$'000	**US$'000**		Notes	**RO'000**	RO'000
174,525	**202,400**	Interest income	3(a)	**77,924**	67,192
(39,309)	**(54,231)**	Interest expense	3(b)	**(20,879)**	(15,134)
135,216	**148,169**	**Net interest income**		**57,045**	52,058
33,595	**37,078**	Fee income		**14,275**	12,934
(9,132)	**(9,249)**	Fee expense		**(3,561)**	(3,516)
24,463	**27,829**	**Net fee income**	4	**10,714**	9,418
15,958	**16,691**	Net trading income		**6,426**	6,144
127	**-**	Changes in fair value of financial investments measured at Fair Value Through Profit and Loss (FVTPL)	13	**-**	49
8	**-**	Dividend income		**-**	3
101	**1,140**	Other operating income - net	5	**439**	39
175,873	**193,829**	**Net operating income before change in expected credit losses and other credit impairment charges**		**74,624**	67,711
19,481	**18,151**	Change in expected credit losses and other credit impairment charges	6	**6,988**	7,500
195,354	**211,980**	**Net operating income**		**81,612**	75,211
(58,805)	**(57,106)**	Employee compensation and benefits	7(a)	**(21,986)**	(22,640)
(65,444)	**(59,268)**	General and administrative expenses	7(b)	**(22,818)**	(25,196)
(5,574)	**(9,771)**	Depreciation and impairment of property, equipment and right-of-use assets		**(3,762)**	(2,146)
(7,943)	**(3,966)**	Amortisation and impairment of intangible assets	8	**(1,527)**	(3,058)
(137,766)	**(130,111)**	**Total operating expenses**		**(50,093)**	(53,040)
57,588	**81,869**	**Profit before tax**		**31,519**	22,171
(9,971)	**(12,494)**	Tax expense	9	**(4,810)**	(3,839)
47,617	**69,375**	**Profit for the year**		**26,709**	18,332
		Other comprehensive income			
		Items that will be reclassified subsequently to profit or loss when specific conditions are met:			
		Financial investments at Fair Value Through Other Comprehensive Income (FVOCI)			
(535)	**(2,260)**	- Fair value loss	*13*	**(870)**	(206)
(348)	**(1,377)**	- Expected credit losses recognised in income statement	*6*	**(530)**	(134)
81	**338**	- Income tax	*9*	**130**	31
(802)	**(3,299)**			**(1,270)**	(309)
		Items that will not be reclassified subsequently to profit or loss			
(57)	**(83)**	Remeasurement of defined benefit liability	*20(a)*	**(32)**	(22)
(859)	**(3,382)**	**Other comprehensive loss for the year - net of tax**		**(1,302)**	(331)
46,758	**65,993**	**Total comprehensive income for the year**		**25,407**	18,001
US$0.024	**US$0.035**	**Earnings per share – basic and diluted**	*10(a)*	**RO0.013**	RO0.009

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

Statement of financial position

For the year ended 31 December 2022

2021	2022			2022	2021
US$'000	**US$'000**		Notes	**RO'000**	RO'000
		Assets			
734,340	**319,488**	Cash and balances with central bank	11(a)	**123,003**	282,721
555,065	**737,029**	Due from banks	11(b)	**283,756**	213,700
3,499,190	**3,239,966**	Loans and advances to customers - net	12	**1,247,387**	1,347,188
1,166,135	**1,397,956**	Financial investments	13	**538,213**	448,962
88,514	**68,322**	Other assets	14	**26,304**	34,078
-	**2,506**	Intangible assets	15	**965**	-
52,836	**45,894**	Property and equipment	16	**17,669**	20,342
-	**6,223**	Right-of-use-assets		**2,396**	-
5,860	**5,026**	Deferred tax assets	9	**1,935**	2,256
6,101,940	**5,822,410**	**Total assets**		**2,241,628**	2,349,247
		Liabilities and equity			
		Liabilities			
125,829	**121,460**	Due to banks	18	**46,762**	48,444
4,937,906	**4,585,130**	Deposits from customers	19	**1,765,275**	1,901,094
13,868	**18,015**	Current tax liabilities	9	**6,936**	5,339
126,969	**158,441**	Other liabilities	20	**61,000**	48,883
-	**6,073**	Lease liabilities		**2,338**	-
5,204,572	**4,889,119**	**Total liabilities**		**1,882,311**	2,003,760
		Equity			
519,561	**519,561**	Share capital	21	**200,031**	200,031
124,096	**131,034**	Legal reserve	22(a)	**50,448**	47,777
3,584	**286**	FVOCI reserve	22(b)	**110**	1,380
250,127	**282,410**	Retained earnings		**108,728**	96,299
897,368	**933,291**	Total equity		**359,317**	345,487
6,101,940	**5,822,410**	**Total liabilities and equity**		**2,241,628**	2,349,247

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

The financial statements were authorised for issue on 02 March 2023 in accordance with a resolution of the Board of Directors.

Sir Sherard Cowper-Coles
Chairman

Melika Betley
Chief Executive Officer

Statement of changes in equity
For the year ended 31 December 2022

	Share capital	Legal reserve	FVOCI reserve	Retained earnings	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
At 1 January 2021	200,031	45,944	1,689	79,822	327,486
Total comprehensive income for the year					
Profit for the year	-	-	-	18,332	18,332
Other comprehensive loss for the year	-	-	-	-	-
Net movement in fair value of debt instrument carried at FVOCI (net of tax)	-	-	(309)	-	(309)
Remeasurement of defined benefit liability	-	-	-	(22)	(22)
Total other comprehensive income for the year	-	-	(309)	(22)	(331)
Total comprehensive income for the year	-	-	(309)	18,310	18,001
Transfer to legal reserve	-	1,833	-	(1,833)	-
At 31 December 2021	200,031	47,777	1,380	96,299	345,487
At 31 December 2021 (USD 000's)	519,561	124,096	3,584	250,127	897,368
At 31 December 2020 (USD 000's)	519,561	119,335	4,387	207,330	850,613
At 1 January 2022	**200,031**	**47,777**	**1,380**	**96,299**	**345,487**
Total comprehensive income for the year					
Profit for the year	**-**	**-**	**-**	**26,709**	**26,709**
Other comprehensive loss for the year					
Net movement in fair value of debt instrument carried at FVOCI (net of tax)	**-**	**-**	**(1,270)**	**-**	**(1,270)**
Remeasurement of defined benefit liability	**-**	**-**	**-**	**(32)**	**(32)**
Total other comprehensive income for the year	**-**	**-**	**(1,270)**	**(32)**	**(1,302)**
Total comprehensive income for the year	**-**	**-**	**(1,270)**	**26,677**	**25,407**
Transfer to legal reserve	**-**	**2,671**	**-**	**(2,671)**	**-**
Reversal of Deferred tax asset created on initial application of IFRS 9	**-**	**-**	**-**	**(775)**	**(775)**
Transaction with shareholders, recorded directly in equity					
Dividend for 2021	**-**	**-**	**-**	**(10,802)**	**(10,802)**
At 31 December 2022	**200,031**	**50,448**	**110**	**108,728**	**359,317**
At 31 December 2022 (USD 000's)	**519,561**	**131,034**	**286**	**282,410**	**933,291**
At 31 December 2021 (USD 000's)	**519,561**	**124,096**	**3,584**	**250,127**	**897,368**

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

Statement of cash flows
for the year ended 31 December 2022

2021 US$'000	2022 US$'000		Notes	2022 RO'000	2021 RO'000
		Cash flows from operating activities			
57,587	**81,868**	Profit before tax		**31,519**	22,171
		Adjustments for:			
(6,242)	**(6,182)**	– non-cash items included in profit before tax	27(a)	**(2,380)**	(2,403)
66,036	**287,771**	– change in operating assets	27(b)	**110,792**	25,424
(66,412)	**(318,158)**	– change in operating liabilities	27(c)	**(122,491)**	(25,569)
(1,356)	**(9,187)**	– tax paid	9	**(3,537)**	(522)
(423)	**(675)**	– retirement benefits paid	20(a)	**(260)**	(163)
49,190	**35,437**	**Net cash generated from operating activities**		**13,643**	18,938
		Cash flows from investing activities			
(323,933)	**(414,130)**	Purchase of financial investments		**(159,440)**	(124,714)
169,082	**480,675**	Proceeds from maturity of financial investments		**185,060**	65,097
(5,519)	**(834)**	Purchase of property and equipment	16	**(321)**	(2,125)
(7,943)	**(6,473)**	Purchase of intangible assets	15	**(2,492)**	(3,058)
(168,313)	**59,238**	**Net cash generated from / (used in) investing activities**		**22,807**	(64,800)
		Cash flows from financing activities			
-	**(28,057)**	Dividends paid		**(10,802)**	-
-	**(1,829)**	Principal and interest elements of lease payments		**(704)**	-
-	**(29,886)**	**Net cash used in financing activities**		**(11,506)**	-
(119,123)	**64,789**	**Net change in cash and cash equivalents**		**24,944**	(45,862)
2,242,808	**2,123,686**	Cash and cash equivalents at the beginning of the year		**817,619**	863,481
2,123,685	**2,188,475**	**Cash and cash equivalents at the end of the year**	27(d)	**842,563**	817,619

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

Notes to the Financial Statements
As of 31 December 2022

1 Legal status and principal activities

HSBC Bank Oman S.A.O.G. ('the Bank' or 'HBON') is an Omani joint stock company, which was incorporated on 1 January 1979, operating as a commercial bank through a network of branches in the Sultanate of Oman. The registered address of the Bank is P.O. Box 1727, CPO Seeb, Postal Code 111, Sultanate of Oman. The Bank has its shares listed on Muscat Stock Exchange.

HSBC Middle East Holdings BV ('HMEH') holds 51% of the shares in HBON. The ultimate parent company of HBON is HSBC Holdings plc, which is incorporated in England.

2 Basis of preparation and summary of significant accounting policies

2.1 Basis of preparation

(a) Statement of compliance

The financial statements of the Bank at 31 December 2022 have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB'), the disclosure requirements and the applicable regulations of the Capital Market Authority ("CMA"), and the Central Bank of Oman ("CBO") and Commercial Companies Law.

IFRSs comprise accounting standards issued by the IASB as well as interpretations issued by the IFRS Interpretations Committee ('IFRIC').

The Bank presents its assets and liabilities broadly in order of their liquidity in the statement of financial position as this presentation is more appropriate to the Banks's operations.

The financial statements have been prepared on the historical cost basis except for financial investments at FVOCI and FVTPL and derivative financial instruments which are measured at fair value.

(b) Functional and presentation currency

The financial statements are presented in Rials Omani ("RO"), which is the functional currency of the primary economic environment in which the Bank operates. The United States Dollar amounts disclosed in the financial statements have been translated from Rial Omani at the exchange rate of RO 0.385 to each US Dollar, and are shown for the convenience of the readers only.

(c) Standards applicable during the year

There were no new accounting standards or interpretations that had a significant effect on the Bank in 2022. Accounting policies have been consistently applied.

(d) Future accounting developments

The IASB has not published any minor amendments effective from 1 January 2022 that are applicable to the Bank. However, the IASB has published a number of minor amendments to IFRSs that are effective from 1 January 2023 and 1 January 2024. The management expects they will have an insignificant effect, when adopted, on the financial statements of the Bank.

Major new IFRSs

IFRS 17 'Insurance Contracts'

IFRS 17 'Insurance contracts' was issued in May 2017, with amendments in June 2020 and December 2021 and sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. IFRS 17 is effective from 1 January 2023. The management has assessed the impact of IFRS 17 and expects that the standard will have no significant effect, when applied, on the financial statements of the Bank.

(e) Going concern

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

IFRS 5 – 'Non - current assets held for sale and discontinued operations'

On 15 November 2022, HBON entered into a binding merger agreement (the "Merger Agreement") with Sohar International Bank (SI), under which the two banks have agreed to take the necessary steps to implement a merger by incorporation. On 05 February 2023, the Bank has received approval from the Central Bank of Oman for its proposed merger with Sohar International Bank SAOG.

The merger is expected to complete in the second half of 2023, if approved by other relevant regulatory bodies and the respective shareholders of the two entities at their Extraordinary General Meetings.

If the merger goes ahead, all of the assets and liabilities of HBON would be transferred

Notes to the Financial Statements (continued)
As of 31 December 2022

to SI at carrying amounts and HBON would be dissolved.

There is significant judgment involved in the application of IFRS 5 guidance in respect of whether the Bank has met all the conditions relevant to the disposal group at the reporting date. As part of the ongoing assessment, the Board of Directors have determined that the disposal was not highly probable as at 31 December 2022 as the transaction is still subject to final approvals from the banks' respective Boards, Regulators and Shareholders. Accordingly, as at 31 December 2022, the Bank believes that the IFRS 5 criteria have not been met in respect of the potential merger.

(f) Use of estimates and judgments

The preparation of the financial statements in conformation with IFRS requires the use of estimates and assumptions about future conditions. The use of available information and the application of judgment are inherent in the formation of estimates; actual results in the future may differ from estimates upon which financial information is prepared. Management believes that the Bank's critical accounting policies where judgment is necessarily applied are those which relate to the impairment of financial assets at amortised cost, impairment of non-financial assets, valuation of financial instruments and applicability of IFRS 5 'Non - current assets held for sale and discontinued operations', refer note 2.1 (e) Going concern for details.

(g) Foreign currency transactions and balances

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the reporting date. Foreign exchange differences arising on translation are recognized in the statement of comprehensive income. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined. Any exchange component of a gain or loss on a non-monetary item is recognised either in other comprehensive income or in the income statement depending where the gain or loss on the underlying non-monetary item is recognised.

(h) Segment analysis

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components. The Executive Committee ('EXCO') is the Chief Operating Decision Maker ('CODM') which operates as a managing committee under the authority of the Board and reviews the operating segment results, makes decisions about resource allocation and assesses the segment performance.

Measurement of segmental assets, liabilities, income and expenses is in accordance with the Bank's accounting policies. Segmental income and expenses include transfers between segments, and these transfers are conducted at arm's length. Shared costs are included in segments on the basis of the actual recharges made.

Products and services

The Bank provides a comprehensive range of banking and related financial services to its customers.

- Wealth and Personal Banking ('WPB') offers a broad range of products and services to meet the personal banking needs, consumer finance and wealth management needs of individual customers. Typically, customer offerings include personal banking products (current and savings accounts, mortgages and personal loans, credit cards, debit cards and local and international payment services) and wealth management services (insurance and investment products and financial planning services).
- Commercial Banking ('CMB') customers range from small enterprises focused primarily on their domestic markets through to corporates operating globally. CMB support customers with tailored financial products and services to allow them to operate efficiently and grow. Services provided include working capital, term loans, payment services and international trade facilitation, as well as expertise in access to financial markets.
- Global Banking and Markets ('GB&M') provides tailored financial solutions to government, corporate and institutional clients. The client focused business lines deliver a full range of banking

capabilities including financing, advisory and transaction services; a markets business that provides services in credit, rates, foreign exchange, money markets and securities services; and principal investment activities.

- Corporate Centre comprises central stewardship costs that support our businesses

2.2 Summary of significant accounting policies

(a) Valuation of Financial instruments

All financial instruments are recognized initially at fair value. Fair value is the price that would be received to sell an assets or paid to transfer liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). However, if there is a difference between the transaction price and the fair value of financial instruments whose fair value is based on a quoted price in an active market or a valuation technique that uses only data from observable markets, the Bank recognises the difference as a trading gain or loss at inception (a 'day 1 gain or loss'). In all other cases, the entire day 1 gain or loss is deferred and recognised in the income statement over the life of the transaction either until the transaction matures or is closed out, the valuation inputs become observable or the Bank enters into an offsetting transaction.

The fair value of financial instruments is generally measured on an individual basis. However, in cases where the Bank manages a group of financial assets and liabilities according to its net market or credit risk exposure, the Bank measures the fair value of the group of financial instruments on a net basis but presents the underlying financial assets and liabilities separately in the financial statements, unless they satisfy the IFRS offsetting criteria.

Critical accounting estimates and judgements

The majority of valuation techniques employ only observable market data. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, and for them the measurement of fair value is more judgemental. An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument's inception profit or greater than 5% of the instrument's valuation is driven by unobservable inputs. 'Unobservable' in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).

(b) Financial instruments measured at amortised cost

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest, such as most loans and advances to customers and due from banks and some debt securities, are measured at amortised cost. In addition, most financial liabilities are measured at amortised cost. The Bank accounts for regular way amortised cost financial instruments using trade date accounting. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs. If the initial fair value is lower than the cash amount advanced, such as in the case of some syndicated lending activities, the difference is deferred and recognised over the life of the loan through the recognition of interest income, unless the loan becomes impaired.

(c) Financial assets measured at fair value through other comprehensive income ('FVOCI')

Financial assets that are held for a business model achieved by both collecting contractual cash flows and selling and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. These comprise primarily debt securities. They are recognised on the trade date when the Bank enters into contractual arrangements to purchase and are normally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the Statement of comprehensive income as other operating income. Financial assets measured at FVOCI are included in the impairment calculations and impairment is recognised in profit or loss.

(d) Equity securities measured at fair value with fair value movements presented in other comprehensive income ('OCI')

The equity securities for which fair value movements are shown in OCI are other investments where the Bank holds the investments other than to generate a capital return. Gains or losses on the derecognition of these equity securities are not transferred to profit or loss. Otherwise equity securities are measured at fair value through profit or loss (except for dividend income which is recognised in profit or loss).

(e) Financial instruments designated at fair value through profit or loss

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below and are so designated irrevocably at inception:

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

Designated financial assets are recognised when the Bank enters into contracts with counterparties, which is generally on trade date, and are normally derecognised when the rights to the cash flows expire or are transferred. Designated financial liabilities are recognised when the Bank enters into contracts with counterparties, which is generally on settlement date, and are normally derecognised when extinguished. Subsequent changes in fair values are recognised in the statement of comprehensive income.

Equity securities measured at fair value through profit or loss (FVTPL)

The Bank measures all equity securities at fair value through profit or loss, except where the Bank's management has elected, at initial recognition, to irrevocably designate equity securities at fair value through other comprehensive income. Gain and losses on equity investment at FVTPL are included in the Statement of comprehensive income.

(f) Derecognition

A financial asset is derecognized when the Bank loses control over the contractual rights that comprise that asset. This occurs when the rights are realized, expired or are surrendered. A financial liability is derecognized when it is extinguished, cancelled or expired.

FVOCI and FVTPL financial assets that are sold are derecognized and corresponding receivables from the buyer for the payment are recognized as of the date the Bank commits to sell the assets. The Bank uses the specific identification method to determine the gain or loss on derecognition.

(g) Offsetting

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

(h) Impairment of amortised cost and FVOCI financial assets

Expected credit losses ('ECL') are recognised for loans and advances to customers and due from banks, other financial assets held at amortised cost, debt instrument measured at fair value through other comprehensive income ('FVOCI'), and certain loan commitments, acceptances and financial guarantee contracts. At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is required for ECL resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit impaired are in 'stage 3'. Purchased or originated credit-impaired financial assets ('POCI') are treated differently as set out below.

Credit-impaired (stage 3)

The Bank determines that a financial instrument is credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due for more than 90 days,
- there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition, and
- the loan is otherwise considered to be in default.

If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due. Therefore the definitions of credit impaired and default are aligned as far as possible so that stage 3 represents all loans which are considered defaulted or otherwise credit-impaired.

Interest income is recognised by applying the effective interest rate to the amortised cost amount, i.e. gross carrying amount less ECL allowance.

Write off

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

Renegotiation

Loans are identified as renegotiated and classified as credit impaired when we modify the contractual payment terms due to significant credit distress of the borrower. Renegotiated loans remain classified as credit impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows and retain the designation of renegotiated until maturity or derecognition.

A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms or if the terms of an existing agreement are modified such that the renegotiated loan is a substantially different financial instrument. Any new loans that arise following derecognition events in these circumstances are considered to be Purchased or originated credit impaired (POCI) and will continue to be disclosed as renegotiated loans.

Other than originated credit-impaired loans, all other modified loans could be transferred out of stage 3 if they no longer exhibit any evidence of being credit-impaired and, in the case of renegotiated loans, there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows over the minimum observation period, and there are no other indicators of impairment. These loans could be transferred to stages 1 or 2 based on the mechanism as described below by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms). Any amount written off as a result of the modification of contractual terms would not be reversed.

Loan modifications that are not credit impaired

Loan modifications that are not renegotiated are considered to be commercial restructuring. Where a commercial restructuring results in a modification (whether legalised through an amendment to the existing terms or the issuance of a new loan contract) such that the Bank's rights to the cash flows under the original contract have expired, the old loan is derecognised and the new loan is recognised at fair value. The rights to cash flows are generally considered to have expired if the commercial restructure is at market rates and no payment-related concession has been provided.

Significant increase in credit risk (stage 2)

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared to that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is multifactor and the determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk and these criteria will differ for different types of lending, particularly between retail and wholesale. However, unless identified at an earlier stage, all financial assets are deemed to have

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suffered a significant increase in credit risk when 30 days past due. In addition, wholesale loans that are individually assessed, typically corporate and commercial customers, and included on a watch or worry list are included in stage 2.

For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime probability of default ('PD') which encompass a wide range of information including the obligor's Credit Risk Rating (CRR), macro-economic condition forecasts and credit transition probabilities. Significant increase in credit risk is measured by comparing the average PD for the remaining term estimated at origination with the equivalent estimation at reporting date (or that the origination PD has doubled in the case of origination CRR greater than 3.3). The significance of changes in PD was informed by expert credit risk judgement, referenced to historical credit migrations and to relative changes in external market rates.

The quantitative measure of significance varies depending on the credit quality at origination as follows:

Origination CRR	Significance trigger – PD to increase by
0.1–1.2	15bps
2.1–3.3	30bps
Greater than 3.3 and not impaired	2x

For loans originated prior to the implementation of IFRS 9, the origination PD does not include adjustments to reflect expectations of future macroeconomic conditions since these are not available without the use of hindsight. In the absence of this data, origination PD must be approximated assuming through-the-cycle ('TTC') PDs and TTC migration probabilities, consistent with the instrument's underlying modelling approach and the CRR at origination. For these loans, the quantitative comparison is supplemented with additional CRR deterioration based thresholds as set out in the table below:

Origination CRR	Additional significance criteria – number of CRR grade notches deterioration required to identify as significant credit deterioration (stage2) ≥
0.1	5 notches
1.1–4.2	4 notches
4.3–5.1	3 notches
5.2–7.1	2 notches
7.2–8.2	1 notches
8.3	0 notches

Further information about the 23-grade scale used for CRR set out on in note 32.3 of the financial statements.

For certain portfolios of debt securities where external market ratings are available and credit ratings are not used in credit risk management, the debt securities will be in stage 2 if their credit risk increases to the extent they are no longer considered investment grade. Investment grade is where the financial instrument has a low risk of incurring losses, the structure has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

For retail portfolios, default risk is assessed using a reporting date 12-month PD derived from credit scores which incorporate all available information about the customer. This PD is adjusted for the effect of macro-economic forecasts for periods longer than 12 months and is considered to be a reasonable approximation of a life time PD measure. Retail exposures are first segmented into homogenous portfolios, generally by product and brand. Within each portfolio, the Stage 2 accounts are defined as accounts with an adjusted 12-month PD greater than the average 12-month PD of loans in that portfolio 12 months before they become 30 days past due. This portfolio specific threshold therefore identifies loans with a PD higher than would be expected from loans that are performing as originally expected and higher from that which would have been acceptable at origination. It therefore approximates a comparison of origination to reporting date PDs.

Unimpaired and without significant increase in credit risk - (stage 1)

ECL resulting from default events that are possible within the next 12-months ('12-month ECL') are recognised for financial instruments that remain in stage 1.

Purchased or originated credit impaired (POCI)

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. This population includes the recognition of a new financial instrument following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower's financial difficulty that otherwise would not have been considered. The amount of change in lifetime ECL is recognised in profit or loss until the POCI is derecognised, even if the lifetime ECL are less than the amount of ECL included in the estimated cash flows on initial recognition.

Movement between stages

Financial assets can be transferred between the different categories (other than POCI) depending on their relative deterioration in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. Except for renegotiated loans, financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above. Renegotiated loans that are not POCI will continue to be in stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows (observed over a minimum of 1 year period) and there are no other indicators of impairment. For loans that are assessed for impairment on a portfolio basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by- case basis.

Measurement of ECL

The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money.

In general, the Bank calculates ECL using three main components, a probability of default ('PD'), a loss given default ('LGD'), and the exposure at default ('EAD').

The 12-month ECL is calculated by multiplying the 12-month PD, LGD, and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the reporting date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money. The Bank leverages the Basel II IRB framework where possible to recalibrate and meet the differing IFRS 9 requirements.

The ECL for Wholesale Stage 3 is determined on an individual basis using a discounted cash flow ('DCF') methodology. The expected future cash flows are based on the credit risk officer's estimates as of the reporting date reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest. Collateral is taken into account if it is likely that the recovery of the outstanding amount will include realisation of collateral based on its estimated fair value of collateral at the time of expected realisation, less costs for obtaining and selling the collateral. The cash flows are discounted at a reasonable approximation of the original effective interest rate. For significant cases, cash flows under four different scenarios are probability weighted by reference to the three economic scenarios applied more generally by the Bank and the judgement of the credit risk officer. For less significant cases, the effect of different economic scenarios and work out strategies is approximated and applied as an adjustment to the most likely outcome.

Period over which ECL is measured

Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the Bank is exposed to credit risk. For wholesale overdrafts, credit risk management actions are taken no less frequently than on an annual basis and therefore this period is to the expected date of the next substantive credit review. The date of the substantive credit review also represents the initial recognition of the new facility. However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit the Bank's exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period the Bank remains exposed to credit risk that is not mitigated by

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credit risk management actions. This applies to retail overdrafts and credit cards, where the period is the average time taken for stage 2 exposures to default or close as performing accounts. In addition, for these facilities it is not possible to identify the ECL on the loan commitment component separately from the financial asset component. As a result, the total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.

Forward-looking economic inputs

The Bank applies multiple forward-looking global economic scenarios determined with reference to external forecast distributions representative of our view of forecast economic conditions, the Consensus Economic Scenario approach. This approach is considered sufficient to calculate unbiased expected loss in most economic environments. They represent a 'most likely outcome' (the Central scenario) and three, less likely, 'Outer' scenarios, referred to as the Upside, Downside and Additional Downside scenarios. The Central scenario is used by the annual operating planning process and, with regulatory modifications, will also be used in enterprise-wide stress tests. The Upside, Downside and Additional Downside are constructed following a standard process supported by a scenario narrative reflecting the current top and emerging risks and by consulting external and internal subject matter experts. The relationship between the Outer scenarios and Central scenario will generally be fixed with the Central scenario, with the difference between the Central and Outer scenarios in terms of economic severity being formed by the spread of external forecast distributions among professional industry forecasts. The Outer scenarios are economically plausible, internally consistent states of the world and will not necessarily be as severe as scenarios used in stress testing. The period of forecast is five years, after which the forecasts will revert to a view based on average past experience. The spread between the central and outer scenarios is grounded on consensus distributions of projected gross domestic product. The economic factors include, but are not limited to, gross domestic product and world oil price.

In general, the consequences of the assessment of credit risk and the resulting ECL outputs will be probability-weighted using the standard probability weights. This probability weighting may be applied directly or the effect of the probability weighting determined on a periodic basis, at least annually, and then applied as an adjustment to the outcomes resulting from the central economic forecast. The central economic forecast is updated quarterly.

The Bank recognises that the Consensus Economic Scenario approach using four scenarios will be insufficient in certain economic environments. Additional analysis may be requested at management's discretion, including the production of extra scenarios. If conditions warrant, this could result in a management overlay / underlay for economic uncertainty which is included in the ECL.

Critical accounting estimates and judgement

The calculation of the Bank's ECL under IFRS 9 requires the Bank to make a number of judgements, assumptions and estimates. The most significant are set out below:

Judgements	Estimates
• Defining what is considered to be a significant increase in credit risk • Determining the lifetime and point of initial recognition of overdrafts and credit cards • Selecting and calibrating the PD, LGD and EAD models, which support the calculations, including making reasonable and supportable judgements about how models react to current and future economic conditions • Selecting model inputs and economic forecasts, including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected loss	• The section under note 32.3 of these financial statements, 'Measurement uncertainty and sensitivity analysis of ECL estimates' set out the assumptions used in determining ECL and provide an indication of the sensitivity of the result to the application of different weightings being applied to different economic assumptions

(i) Fair value hierarchy

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1 – valuation technique using quoted market price: financial instruments with quoted prices for identical instruments in active markets that the bank can access at the measurement date.

Level 2 – valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

Level 3 – valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

The Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like interest rate swaps and forward foreign exchange contracts that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

(j) Derivative financial instruments and hedge accounting

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, interest rates or other indices. Derivatives are recognised initially and are subsequently measured at fair value through profit and loss. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. This includes embedded derivatives in financial liabilities which are bifurcated from the host contract when they meet the definition of a derivative on a stand-alone basis.

Hedge accounting

When derivatives are not part of fair value designated relationships, if held for risk management purposes they are designated in hedge accounting relationships where the required criteria for documentation and hedge effectiveness are met. Bank uses these derivatives or, where allowed, other non-derivative hedging instruments in fair value hedges, cash flow hedges or hedges of net investments in foreign operations as appropriate to the risk being hedged.

Fair value hedge

Fair value hedge accounting does not change the recording of gains and losses on derivatives and other hedging instruments, but results in recognising changes in the fair value of the hedged assets or liabilities attributable to the hedged risk that would not otherwise be recognised in the income statement. If a hedge relationship no longer meets the criteria for hedge accounting, hedge accounting is discontinued; the cumulative adjustment to the carrying amount of the hedged item is amortised to the income statement on a

recalculated effective interest rate, unless the hedged item has been derecognised, in which case it is recognised in the income statement immediately.

(k) Cash and cash equivalents

Cash and cash equivalents consist of Cash and balance with central bank, Due from banks including placements with original maturities of three months or less and Financial investments maturing within three months of the date of acquisition.

(l) Money market placements

Money market placements are initially recorded at fair value and are subsequently measured at amortized cost.

(m) Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is calculated so as to write off the depreciable cost of property and equipment, other than freehold land, by equal installments over the estimated economic useful lives from the date the asset is brought into use, as follows:

Buildings	25 years
Leasehold property and improvements	3-5 years
Motor vehicles	5 years
Equipment, furniture and fixtures	3-7 years
Computer equipment	3-7 years

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit for the year. Repairs and renewals are charged to the statement of comprehensive income when the expense is incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the statement of comprehensive income as an expense as incurred. Management annually reviews the appropriateness of useful lives, residual values and depreciation methods for property and equipment. Property and equipment are subject to impairment review if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable.

Capital work-in-progress is stated at cost. When commissioned, capital work-in-progress is transferred to appropriate category and depreciated in accordance with the Bank's policies.

(n) Leases accounting

The Bank leases the office premises. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is recognised at cost and depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

Initial recognition and measurement

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

After initial recognition, the Bank measures the lease liability by (a) increasing the carrying amount to reflect interest on the lease liability; (b) reducing the carrying amount to reflect the lease payments made; and (c) remeasuring 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.

Presentation

On the statement of financial position, the right-of-use assets and lease liability are presented as separate financial statement line item.

In the statement of comprehensive income, the amortization charge for the right-of-use assets is included in 'Depreciation of property and equipment'. Interest on lease liabilities are included in interest expense.

In the statement of cash flows, the principal and interest element of lease payments forms part of Cash flows used in investing activities.

(o) Intangible assets

Intangible assets are recognized separately from goodwill when they are separable or arise from contractual or other legal rights, and their fair value can be measured reliably.

Intangible assets includes internally generated softwares. Intangible assets are subject to impairment review if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable. Intangible assets that have a finite useful life are stated at cost less amortization and accumulated impairment losses and are amortized over their estimated useful lives. Estimated useful life is the lower of legal duration and expected useful life.

Intangible assets with finite useful lives are amortized on a straight-line basis, over their useful lives as follows:

Internally generated softwares	3-10 years

Amortization method, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(p) Impairment of non-financial assets

Software under development is tested for impairment at least annually. Other non-financial assets such as property, plant and equipment, intangible assets (excluding goodwill) and right-of-use assets are tested for impairment at the individual asset level when there is indication of impairment at that level, or at the Cash Generating Unit ('CGU') level for assets that do not have a recoverable amount at the individual asset level. In addition, impairment is also tested at the CGU level when there is indication of impairment at that level. For this purpose, CGUs are considered to be the legal entity divided by global business.

Impairment testing compares the carrying amount of the CGU with is recoverable amount, which is the higher of the fair value less costs of disposal or the value in use. The carrying amount of a CGU is its assets and liabilities, including non-financial assets that are directly attributable to it and non-financial assets that can be allocated to it on a reasonable and consistent basis. Non-financial assets that cannot be allocated to an individual CGU are tested for impairment at an appropriate grouping of CGUs. The recoverable amount of the CGU is the higher of the fair value less costs of disposal of the CGU, which is determined by independent and qualified valuers where relevant, and the value in use, which is calculated based on appropriate inputs.

When the recoverable amount of a CGU is less than its carrying amount, an impairment loss is recognised in the income statement to the extent that the impairment can be allocated on a pro-rata basis to the non-financial assets by reducing their carrying amounts to the higher of their respective individual recoverable amount or nil. Impairment is not allocated to the financial assets in a CGU.

Impairment loss recognised in prior periods for non-financial assets is reversed when there has been a change in the estimate used to determine the recoverable amount. The impairment loss is reversed to the extent that the carrying amount of the non-financial assets would not exceed the amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised in prior periods.

Critical accounting estimates and judgements

The review of the non-financial assets for impairment reflects management's best estimate of the future cash flows of the CGUs and the rates used to discount these cash flows, both of which are subject to uncertain factors as described in the Critical accounting estimates and judgements in Note 2.1(f).

(q) Provisions, contingent liabilities and guarantees

Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation which has arisen as a result of past events and for which a reliable estimate can be made.

Contingent liabilities

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security and contingent liabilities related to legal proceedings or regulatory matters, are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

Financial guarantee contracts

Liabilities under financial guarantee contracts which are not classified as insurance contracts are recorded initially at their fair value, which is generally the fee received or present value of the fee receivable. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

(r) Acceptances and endorsements

Acceptances arise when the Bank is under an obligation to make payments against documents drawn under letters of credit. Acceptances specify the amount of money, the date, and the person to which the payment is due. After acceptance, the instrument becomes an unconditional liability (time draft) of the Bank and is therefore recognised as a financial liability with a corresponding contractual right of reimbursement from the customer recognised as a financial asset.

(s) Dividend on ordinary shares

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

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

(t) Directors' remuneration

The Board of Directors' remuneration is accrued within the limits specified by the Capital Market Authority and the requirements of the Commercial Companies Law of the Sultanate of Oman. This is recognised in the statement of comprehensive income on accrual basis, however the payments are subject to approval of shareholders in the Annual General Meeting.

Notes to the Financial Statements (continued)
As of 31 December 2022

(u) Operating income and expenses

Interest income and expense

Interest income and expense for all financial instruments except for those classified as FVOCI and FVTPL (other than debt securities issued by the Bank and derivatives managed in conjunction with such debt securities issued) are recognized in 'Interest income' and 'Interest expense' in the statement of comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

Non-interest income and expenses

The Bank generates fee income from services provided at a fixed price over time, such as account service and card fees, or when the Bank delivers a specific transaction at the point in time such as broking services and import/export services. With the exception of certain performance fees, all other fees are generated at a fixed price. Performance fees can be variable depending on the size of the customer portfolio. Variable fees are recognised when all uncertainties are resolved. Fee income is generally earned from short-term contracts with payment terms that do not include a significant financing component.

The Bank acts as principal in the majority of contracts with customers, with the exception of broking services. For most brokerage trades the Bank acts as agent in the transaction and recognises broking income net of fees payable to other parties in the arrangement.

The Bank recognises fees earned on transaction-based arrangements at a point in time when we have fully provided the service to the customer. Where the contract requires services to be provided over time, income is recognised on a systematic basis over the life of the agreement.

Where the Bank offers a package of services that contains multiple non-distinct performance obligations, such as those included in account service packages, the promised services are treated as a single performance obligation. If a package of services contains distinct performance obligations, such as those including both account and insurance services, the corresponding transaction price is allocated to each performance obligation based on the estimated stand-alone selling prices.

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities.

Net income/(expense) from financial instruments measured at fair value through profit or loss includes the following:

- 'Net income from financial instruments held for trading or managed on a fair value basis'. This element is comprised of the net trading income, which includes all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading, together with the related interest income, expense and dividends; and it also includes all gains and losses from changes in the fair value of derivatives that are managed in conjunction with financial assets and liabilities measured at fair value through profit or loss.
- 'Changes in fair value of designated debt and related derivatives'. Interest on the external long-term debt and interest cash flows on related derivatives is presented in interest expense.
- 'Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss'. This includes interest on instruments which fail the SPPI test.

(v) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the statement of comprehensive income except to the extent it relates to a business combination or items recognized directly in other comprehensive income. Current tax comprises tax payable calculated on the basis of the expected taxable income, using the tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for in respect of initial recognition of assets and liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively

Notes to the Financial Statements (continued)

As of 31 December 2022

enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Critical accounting estimates and judgements

The recognition of a deferred tax asset relies on an assessment of the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning strategies. In the absence of a history of taxable profits, the most significant judgements relate to expected future profitability and to the applicability of tax planning strategies.

(w) Employee terminal benefits

Contributions to defined contribution retirement plans, for Omani employees in accordance with the Oman Social Insurance Scheme, and for international employees in accordance with the HSBC International Staff Retirement Benefit Scheme, are recognized as expenses in the statement of comprehensive income as incurred.

The Bank's obligation in respect of non-Omani terminal benefits, which is an unfunded defined benefit retirement plan, is the amount of future benefit that such employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value. The discount rate used is the yield at the reporting date on government bonds that have maturity dates approximating to the terms of the Bank's obligations.

Remeasurement of the net defined benefit liability, which comprises actuarial gains and losses, are recognized immediately in other comprehensive income. Actuarial gains and losses comprise experience adjustments (the effect of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in actuarial assumptions. Actuarial gains and losses are recognized in other comprehensive income in the period in which they arise.

Notes to the Financial Statements (continued)
As of 31 December 2022

3 Net interest income

	2022	2021
	RO'000	RO'000
3(a) Interest income		
Loans and advances to customers	61,776	58,302
Financial investments	10,366	5,430
Due from banks	5,735	464
Others	47	2,996
	77,924	67,192
3(b) Interest expense		
Deposits from customers	(16,359)	(14,664)
Due to banks	(258)	(319)
Others	(4,262)	(151)
	(20,879)	(15,134)
Net interest income	57,045	52,058

4 Net fee income

	2022	2021
	RO'000	RO'000
Cards	4,875	3,832
Account services	1,834	1,380
Remittances	1,255	1,184
Trade finance	1,181	927
Credit facilities	792	1,236
Global Custody	486	691
Others	3,852	3,684
Total Fee income	14,275	12,934
Fee expense	(3,561)	(3,516)
Net Fee income	10,714	9,418

5 Other operating income

	2022	2021
	RO'000	RO'000
Gain on derecognition of financial assets measured at amortised cost	393	33
Net gain on sale of financial investments	-	2
Loss on disposal property and equipment	(21)	(10)
Other income	67	14
Total	439	39

Notes to the Financial Statements (continued)
As of 31 December 2022

6 Change in expected credit losses and other credit impairment charges - net

	2022	2021
	RO'000	RO'000
Loans and advances to customers	6,087	5,461
Financial investments at FVOCI	530	134
Other financial assets	524	(247)
Due from Banks	(5)	141
Financial investments at AC	(22)	-
Loan commitment and guarantees	(126)	2,011
Total	6,988	7,500

7 Operating expenses

7(a) Employee compensation and benefits

	2022	2021
	RO'000	RO'000
Wages and salaries	(15,942)	(16,453)
Social security costs	(1,705)	(1,631)
Post-employment benefits	(140)	(136)
Other employee benefits	(4,199)	(4,420)
	(21,986)	(22,640)

7(b) General and administrative expenses

	2022	2021
	RO'000	RO'000
Premises and equipment	(2,785)	(3,064)
Insurance	(1,097)	(1,090)
Communications	(803)	(683)
Marketing and advertising*	(324)	(1,343)
Other administrative expenses	(17,809)	(19,016)
	(22,818)	(25,196)

*Marketing and advertising expenses for the current year include NIL (2021: RO1.0 million) of "Mandoos Prize" draw expenses.

8 Amortisation and impairment of intangible assets

	2022	2021
	RO'000	RO'000
Software – amortisation	(140)	-
Software – impairment	(1,387)	(3,058)
	(1,527)	(3,058)

Notes to the Financial Statements (continued)
As of 31 December 2022

9 Taxation

	2022	2021
	RO'000	RO'000
Statement of comprehensive income:		
Current tax:		
- Current year	(4,895)	(1,647)
- Prior years	(238)	(12)
Deferred tax	323	(2,180)
	(4,810)	(3,839)
Statement of other comprehensive income:		
Deferred tax	130	31

Tax reconciliation

	2022	2021
	RO'000	RO'000
Profit before tax	31,519	22,171
Tax expenses at 15% on accounting profit before tax	(4,728)	(3,326)
Add / (less) tax effect of:		
Non-taxable income and gains	-	1
Permanent disallowed expenses	(488)	(514)
Adjustments in respect of prior periods	406	-
Tax charge as per the statement of comprehensive income	(4,810)	(3,839)

Movement of current tax liability

	2022	2021
	RO'000	RO'000
At 1 January	5,339	4,202
- Current year charge	4,895	1,647
- Prior year charge	238	12
- Paid during the year	(3,537)	(522)
At 31 December	6,936	5,339

Notes to the Financial Statements (continued)
As of 31 December 2022

Movement of net deferred tax assets before offsetting

	Loan impairment allowances	FVOCI Investment	Others*	Total
Assets - at 1 January 2022	628	(68)	1,696	2,256
Income statement	150	(62)	237	324
Reversal of Deferred tax asset on initial application of IFRS 9	(775)	-	-	(775)
Other comprehensive income:				
FVOCI investment	-	130	-	130
Assets - at 31 December 2022	3	-	1,933	1,935
Assets - at 1 January 2021	2,626	(99)	1,878	4,405
Income statement	(1,998)	-	(182)	(2,180)
Other comprehensive income:				
FVOCI investment	-	31	-	31
Assets - at 31 December 2021	628	(68)	1,696	2,256

*Others include deferred tax assets on expense provisions and temporary difference between accounting and tax base of property and equipment.

The tax assessments of the Bank up to and including the tax year 2019 have been completed by the Oman Tax Authority (OTA). The tax returns of the Bank for the Tax years 2020 to 2021 have not yet been assessed by the OTA.

The tax rate applicable to the Bank in Oman is 15%. For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. After giving effect to these adjustments, the average effective tax rate is 15.3% (2021: 17.3%).

The difference between the applicable tax rate of 15% and the effective tax rate of 15.3 % arises mainly due to the adjustment to the accounting income in accordance to the Tax law and certain probable adjustment basis on the prior year tax assessments. The adjustments are based on the current understanding of the existing laws, regulations and practices.

Deferred tax asset has been computed at the tax rate of 15% (2021: 15%).

10(a) Earnings per share – basic and diluted

Basic earnings per share is calculated by dividing profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

	2022	2021
Weighted average number of shares in issue (Number '000)	**2,000,312**	2,000,312
Profit for the year (RO'000)	**26,709**	18,332
Earnings per share – basic and diluted (RO)	**0.013**	0.009

10(b) Net asset per share

Net assets (book value) per share is calculated by dividing the net equity at 31 December by the number of ordinary shares in issue at 31 December.

	2022	2021
Number of shares in issue (Number '000)	**2,000,312**	2,000,312
Net assets (RO'000)	**359,317**	345,487
Net assets per share (RO)	**0.180**	0.173

Notes to the Financial Statements (continued)
As of 31 December 2022

11(a) Cash and balances with central bank

	2022	2021
	RO'000	RO'000
Balance held with central bank	90,985	239,737
Cash in hand	32,119	43,019
Less: ECL allowances	(101)	(35)
	123,003	282,721

11(b) Due from banks

	2022	2021
	RO'000	RO'000
Placements	265,017	186,308
Nostro balances	18,776	27,422
Less: ECL allowances	(37)	(30)
	283,756	213,700

12 Loans and advances to customers - net

	2022	2021
	RO'000	RO'000
Loans	1,042,529	1,140,632
Overdrafts	157,968	150,746
Clean import loans	52,904	62,151
Credit cards	40,907	32,338
Bills discounted/purchased	3,108	15,958
Gross loans and advances	1,297,416	1,401,825
Allowances for ECL	(35,283)	(41,393)
Reserved interest*	(14,746)	(13,244)
Net Loans and advances	1,247,387	1,347,188

* Reserved interest forms part of ECL for the purpose of IFRS

The movement on reserved interest during the year is analysed as follows:

	2022	2021
	RO'000	RO'000
At 1 January 2022	13,244	13,416
Reserved during the year	3,094	2,910
Released to the statement of comprehensive income	(553)	(1,241)
Written off during the year	(1,039)	(1,841)
At 31 December 2022	14,746	13,244

Notes to the Financial Statements (continued)
As of 31 December 2022

Impairment charge and provision held (as per CBO illustrative disclosure)

	As per CBO norms	As per IFRS 9	Difference
At 31 December 2022	**RO'000**	**RO'000**	**RO'000**
Change in expected credit losses and other credit impairment charges*	**2,751**	**6,988**	**4,237**
Provisions required**	**51,305**	**53,047**	**1,742**
Gross NPL ratio (percentage)	**3.23%**	**3.23%**	**-**
Net NPL ratio (percentage)	**0.62%**	**0.53%**	**-0.09%**

	As per CBO norms	As per IFRS 9	Difference
At 31 December 2021	RO'000	RO'000	RO'000
Change in expected credit losses and other credit impairment charges*	3,017	7,500	4,483
Provisions required**	52,554	58,557	6,003
Gross NPL ratio (percentage)	3.06%	3.06%	-
Net NPL ratio (percentage)	0.58%	0.59%	0.01%

* Change in expected credit losses and other credit impairment charges reported in these financial statements is based on IFRS 9 as it is more than the CBO provision requirement.

**Provision required includes the reserved interest of RO14.7 million (2021: RO13.2 million)

Notes to the Financial Statements (continued)

As of 31 December 2022

Comparison of provision held as per IFRS 9 and provision required as per CBO norms (as per CBO illustrative disclosure) as at 31 December 2022

Assets classification as per CBO Norms	Assets classification as per IFRS 9	Gross carrying amount	Provision required as per CBO Norms	Provisions held as per IFRS 9	Difference between CBO provision required and provision held	Net amount as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6)=(4)-(5)	(7) = (3)-(5)	(8)
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Standard	Stage 1	845,767	11,794	1,847	9,947	843,920	44
	Stage 2	373,861	3,854	7,601	(3,747)	366,260	441
	Stage 3	-	-	-	-	-	-
		1,219,628	15,648	9,448	6,200	1,210,180	485
Special mention	Stage 1	-	-	-	-	-	-
	Stage 2	34,271	346	3,768	(3,422)	30,503	609
	Stage 3	1,591	89	412	(323)	1,179	48
		35,862	435	4,180	(3,745)	31,682	657
Substandard	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	872	218	462	(244)	410	45
		872	218	462	(244)	410	45
Doubtful	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	140	61	75	(14)	65	19
		140	61	75	(14)	65	19
Loss	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	40,914	20,197	21,118	(921)	19,796	13,540
		40,914	20,197	21,118	(921)	19,796	13,540
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	1,435,884	-	657	(657)	1,435,227	-
	Stage 2	148,786	-	2,121	(2,121)	146,665	-
	Stage 3	1,188	-	240	(240)	948	-
		1,585,858	-	3,018	(3,018)	1,582,840	-
Total	Stage 1	2,281,651	11,794	2,504	9,290	2,279,147	44
	Stage 2	556,918	4,200	13,490	(9,290)	543,428	1,050
	Stage 3	44,705	20,565	22,307	(1,742)	22,398	13,652
		2,883,274	36,559	38,301	(1,742)	2,844,973	14,746

Notes to the Financial Statements (continued)
As of 31 December 2022

Comparison of provision held as per IFRS 9 and provision required as per CBO norms (as per CBO illustrative disclosure) as at 31 December 2021

Assets classification as per CBO Norms	Assets classification as per IFRS 9	Gross carrying amount	Provision required as per CBO Norms	Provisions held as per IFRS 9	Difference between CBO provision required and provision held	Net amount as per IFRS 9	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6)=(4)-(5)	(7) = (3)-(5)	(8)
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Standard	Stage 1	703,464	10,260	4,122	6,138	699,342	142
	Stage 2	619,830	6,315	11,392	(5,077)	608,438	314
	Stage 3	-	-	-	-	-	-
		1,323,294	16,575	15,514	1,061	1,307,780	456
Special mention	Stage 1	-	-	-	-	-	-
	Stage 2	34,246	347	3,508	(3,161)	30,738	76
	Stage 3	1,341	278	94	184	1,247	22
		35,587	625	3,602	(2,977)	31,985	98
Substandard	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	1,283	321	620	(299)	663	78
		1,283	321	620	(299)	663	78
Doubtful	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	87	43	48	(5)	39	6
		87	43	48	(5)	39	6
Loss	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	41,574	21,746	21,609	137	19,965	12,606
		41,574	21,746	21,609	137	19,965	12,606
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	1,106,787	-	803	(803)	1,105,984	-
	Stage 2	498,007	-	2,881	(2,881)	495,126	-
	Stage 3	1,639	-	236	(236)	1,403	-
		1,606,433	-	3,920	(3,920)	1,602,513	-
Total	Stage 1	1,810,251	10,260	4,925	5,335	1,805,326	142
	Stage 2	1,152,083	6,662	17,781	(11,119)	1,134,302	390
	Stage 3	45,924	22,388	22,607	(219)	23,317	12,712
		3,008,258	39,310	45,313	(6,003)	2,962,945	13,244

Notes to the Financial Statements (continued)
As of 31 December 2022

Restructured loans and advances (as per CBO illustrative disclosure) as at 31 December 2022

Assets classification as per CBO Norms	Assets classification as per IFRS 9	Gross carrying amount	Provision required as per CBO Norms	Provisions held as per IFRS 9	Difference between CBO provision required and provision held	Net carrying amount	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6)=(4)-(5)	(7)=(3)-(5)	(8)
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Classified as performing	Stage 1	31,965	320	175	145	31,790	-
	Stage 2	24,175	242	5,011	(4,769)	19,164	574
	Stage 3	1,591	89	412	(323)	1,179	48
Sub Total		57,731	651	5,598	(4,947)	52,133	622
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	16,369	10,606	11,611	(1,005)	4,758	1,228
		16,369	10,606	11,611	(1,005)	4,758	1,228
	Stage 1	31,965	320	175	145	31,790	-
	Stage 2	24,175	242	5,011	(4,769)	19,164	574
	Stage 3	17,960	10,695	12,023	(1,328)	5,937	1,276
Total		74,100	11,257	17,209	(5,952)	56,891	1,850

Restructured loans and advances (as per CBO illustrative disclosure) as at 31 December 2021

Assets classification as per CBO Norms	Assets classification as per IFRS 9	Gross carrying amount	Provision required as per CBO Norms	Provisions held as per IFRS 9	Difference between CBO provision required and provision held	Net carrying amount	Reserve interest as per CBO norms
(1)	(2)	(3)	(4)	(5)	(6)=(4)-(5)	(7)=(3)-(5)	(8)
		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Classified as performing	Stage 1	61,581	616	816	(200)	60,765	-
	Stage 2	8,336	83	1,073	(990)	7,263	57
	Stage 3	1,341	278	94	184	1,247	22
Sub Total		71,258	977	1,983	(1,006)	69,275	79
Classified as non-performing	Stage 1	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-
	Stage 3	16,361	10,713	11,518	(805)	4,843	990
		16,361	10,713	11,518	(805)	4,843	990
	Stage 1	61,581	616	816	(200)	60,765	-
	Stage 2	8,336	83	1,073	(990)	7,263	57
	Stage 3	17,702	10,991	11,612	(621)	6,090	1,012
Total		87,619	11,690	13,501	(1,811)	74,118	1,069

Notes to the Financial Statements (continued)
As of 31 December 2022

13 Financial investments

Financial investments details by sector are provided as follows:

	Fair value	Fair value	**Carrying value**	Carrying value	**Cost**	Cost
	31 December 2022	31 December 2021	**31 December 2022**	31 December 2021	**31 December 2022**	31 December 2021
	RO'000	RO'000	**RO'000**	RO'000	**RO'000**	RO'000
Marketable securities – local (MSX)						
Government bonds	**76,997**	77,711	**76,997**	77,711	**75,953**	76,819
Unquoted and other investments						
Treasury bills	**461,129**	370,985	**461,216**	370,985	**461,197**	371,000
Unquoted Omani shares	**-**	259	**-**	259	**-**	260
Unquoted foreign shares	**-**	7	**-**	7	**-**	7
	461,129	371,251	**461,216**	371,251	**461,197**	371,267
Total	**538,126**	448,962	**538,213**	448,962	**537,150**	448,086

Carrying amount of financial investments	**31 December 2022**	31 December 2021
	RO'000	RO'000
Financial investments measured at fair value through other comprehensive income		
Treasury bills	**386,807**	370,985
Government bonds	**76,997**	77,711
Other investments	**-**	200
	463,804	448,896
Debt instruments measured at amortised cost		
Treasury bills	**74,409**	-
Financial investments measured at fair value through profit		
Equity investments	**-**	66
	538,213	448,962

Movement of financial investments – FVOCI is given below:

	2022	2021
	RO'000	RO'000
At 1 January	**448,896**	483,417
Purchased during the year	**2,066,725**	2,636,916
Matured / sold during the year	**(2,057,315)**	(2,671,597)
Loss from changes in fair value	**(870)**	(206)
Amortisation of discount, net	**6,368**	1,577
Exchange differences	**-**	(1,211)
At 31 December	**463,804**	448,896

Notes to the Financial Statements (continued)
As of 31 December 2022

Movement of financial investments – Amortised Cost are given below:

	2022	2021
	RO'000	RO'000
At 1 January	-	-
Purchased during the year	348,690	-
Matured / sold during the year	(275,501)	-
Amortisation of discount, net	1,220	-
At 31 December	74,409	-

Movement of financial investments – FVTPL is given below:

	2022	2021
	RO'000	RO'000
Equity investments - FVTPL		
At 1 January	66	152
Disposals	(66)	(135)
Revaluations	-	49
At 31 December	-	66

14 Other assets

	2022	2021
	RO'000	RO'000
Acceptances	21,042	23,454
ECL on acceptances	(20)	(612)
Acceptances net of ECL	21,022	22,842
Derivatives - positive mark-to-market [note 23(c)]	2,872	6,040
Prepayments	257	393
Right-of-use assets	-	2,396
Others	2,153	2,407
	26,304	34,078

Right-of-use assets - the Bank leases office premises. Rental contracts are typically made for fixed periods of 1 to 5 years, but may have extension options.

The Right-of-use assets is analysed as follows:

	2022	2021
	RO'000	RO'000
Carrying amount as at 1 January	2,396	3,180
Additions	899	1,087
Disposals	(112)	(992)
Depreciation	(787)	(879)
Carrying amount at 31 December	2,396	2,396

15 Intangible assets

Computer Software	2022	2021
	RO'000	RO'000
Carrying amount as at 1 January	-	-
Additions	2,492	3,058
Disposals	-	-
Amortisation charge	(140)	-
Impairment charge (note 17)	(1,387)	(3,058)
Carrying amount at 31 December	965	-

Notes to the Financial Statements (continued)
As of 31 December 2022

16 Property and equipment

The movement in property and equipment during the year 2022 is as follows:

	Freehold land and buildings	Leasehold property and improvements	Equipment, furniture and fixtures	Motor vehicles	Computer equipment	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cost						
1 January 2022	**27,723**	**6,235**	**7,968**	**102**	**8,545**	**50,573**
Additions	**37**	**71**	**213**	**-**	**-**	**321**
Disposals/write offs	**-**	**-**	**(57)**	**-**	**-**	**(57)**
31 December 2022	**27,760**	**6,306**	**8,124**	**102**	**8,545**	**50,837**
Accumulated depreciation and impairment						
1 January 2022	**10,117**	**6,219**	**6,258**	**78**	**7,559**	**30,231**
Charge for the year	**85**	**33**	**388**	**8**	**485**	**999**
Impairment for the year (note 17)	**1,922**	**54**	**-**	**-**	**-**	**1,976**
Disposals/write offs	**-**	**-**	**(38)**	**-**	**-**	**(38)**
31 December 2022	**12,124**	**6,306**	**6,608**	**86**	**8,044**	**33,168**
Net book value						
31 December 2022	**15,636**	**-**	**1,516**	**16**	**501**	**17,669**

The movement in property and equipment for the year 2021 was as follows:

	Freehold land and buildings	Leasehold property and improvements	Equipment, furniture and fixtures	Motor vehicles	Computer equipment	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cost						
1 January 2021	26,976	6,303	7,225	102	8,346	48,952
Additions	747	341	838	-	199	2,125
Disposals/write offs	-	(409)	(95)	-	-	(504)
31 December 2021	27,723	6,235	7,968	102	8,545	50,573
Accumulated depreciation and impairment						
1 January 2021	10,136	6,303	5,775	67	7,183	29,464
Charge for the year	48	25	443	11	376	903
Impairment for the year (note 17)	-	300	64	-	-	364
Disposals/write offs	-	(409)	(91)	-	-	(500)
31 December 2021	10,117	6,219	6,258	78	7,559	30,231
Net book value						
31 December 2021	17,539	16	1,777	24	986	20,342

17 Impairment test

Having considered continued impact of the impairment indicators identified as of 31 December 2020 and its impact on the Bank's operations as of 31 December 2022, an impairment exercise was undertaken. As a result of impairment test, Bank recognised RO3.4million of impairment in WPB Cash Generating Unit (CGU).

The impairment loss recognised during the year ended 31 December 2022 includes RO1.4 million (2021: RO3.1 million) impairment of intangible assets and RO2.0 million (2021: RO 0.3 million) impairment for other non-financial assets. The impairment loss was included in the statement of comprehensive income under the line item 'Depreciation and impairment of property, equipment and right-of-use assets' and 'Amortisation and impairment of intangible assets'.

Under IAS 36, a non-financial asset is impaired when its recoverable amount is below its balance sheet carrying amount. The recoverable amount is the higher of Fair Value Less Cost to Sell ('FVLCTS') and Value in Use ('VIU'). As non-financial assets do not typically produce independent cash flows, they need to be tested as part of the CGUs. The Bank's CGUs are its global businesses which represent the smallest group of assets that produce independent cash flows and is consistent with how management monitors the Bank's operations. The balance sheet carrying amount of each CGU is based on the total net assets allocated to the CGU.

Basis of the recoverable amount

The recoverable amount of each CGU is determined by a VIU calculation. The VIU is calculated by discounting management's cash flow projections for the CGU over the short to medium term. Earnings beyond the short to medium term are then extrapolated in perpetuity using a long-term growth rate to derive a terminal value, which comprises the majority of the VIU.

Management's judgement in estimating the cash flows of a CGU

The cash flow projections for each CGU are based on forecast profitability plans approved by the Board and minimum capital levels required to support the business operations of CGU. The Board challenges and endorses planning assumptions in light of internal capital allocation decisions necessary to support the Bank's strategy, current market conditions and macroeconomic outlook. For the 31 December 2022 impairment test, cash flow projections until the end of 2027 were considered.

Discount rate

The rate used to discount the cash flows is based on the cost of capital assigned to each CGU, which is derived using a Capital Asset Pricing Model ('CAPM'). CAPM depends on a number of inputs reflecting financial and economic variables, including the risk-free rate and a premium to reflect the inherent risk of the business being evaluated. These variables are based on the market's assessment of the economic variables and management's judgement. The discount rates for each CGU are refined to reflect the rates of inflation for the Sultanate of Oman within which the CGU operates.

Long-term growth rate

The long-term growth rate is used to extrapolate the cash flows in perpetuity because of the long-term perspective within the Group of business units making up the CGUs.

The VIU for each CGU was then compared to its carrying value. Where the VIU is greater than carrying value, no impairment is recognised. Where the VIU is less that the carrying value, the non-financial assets allocated to the CGU are considered to be impaired except to the extent they are supported by a FVLCTS.

Impairment result and key assumption in VIU calculation

	Carrying amount	Value in use	Impairment	Discount rate %	Growth rate beyond initial cash flow projection %
	RO'000	RO'000	RO'000		
Cash generating unit - WPB	115,797	87,780	3,363	11.3	1.14

18 Due to banks

	2022	2021
	RO'000	RO'000
Vostro and other balances	46,762	48,444
	46,762	48,444

Notes to the Financial Statements (continued)
As of 31 December 2022

19 Deposits from customers

	2022 RO'000	2021 RO'000
Current and call	**819,367**	1,021,550
Time deposits	**572,226**	476,978
Savings	**371,157**	399,685
Others	**2,525**	2,881
	1,765,275	1,901,094

20 Other liabilities

	2022 RO'000	2021 RO'000
Acceptances	**21,042**	23,454
Derivatives - negative mark-to-market [note 23(c)]	**9,956**	1,326
Accruals and deferred income	**5,801**	6,103
ECL on off balance sheet exposure and other commitments	**2,691**	2,565
Lease liabilities*	**-**	2,391
Retirement benefit liability [note 20(a)]	**1,567**	1,464
Provisions [note 20(b)]	**286**	379
Others	**19,657**	11,201
	61,000	48,883

*Lease liabilities include current lease liabilities of RO0.6 million (2021: RO0.7 million) and non-current lease liabilities of RO1.7 million (2021: RO1.7 million).

20(a) Movement of retirement benefit liability

	2022 RO'000	2021 RO'000
Opening defined benefit obligation	**1,464**	1,389
Employer's current service cost	**273**	155
Interest on obligation	**58**	61
Remeasurement of defined benefit liability	**32**	22
Benefits paid	**(260)**	(163)
Present value of liabilities at the end of the period	**1,567**	1,464

20(b) Movement of provisions

	2022 RO'000	2021 RO'000
At 1 January	**379**	446
Provision made during the year	**9**	6
Provision utilised during the year	**(102)**	(73)
At 31 December	**286**	379

21 Share capital

Financial instruments issued are classified as equity when there is no contractual obligation to transfer cash, other financial assets or issue a variable number of own equity instruments. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

The share capital of the Bank is divided into 2,000,312,790 fully paid ordinary shares of RO0.100 each (2021: 2,000,312,790 fully paid ordinary shares of RO0.100 each) against the authorised ordinary share capital of 7,500 million shares of RO0.100 each (2021: 7,500 million shares of RO0.100 each).

All ordinary shares in issue confer identical rights, including in respect of capital, dividends and voting.

Notes to the Financial Statements (continued)
As of 31 December 2022

Major shareholder

All those shareholders of the Bank who own 10% or more of the Bank's shares in their name, and the number of shares they hold are as follows:

	2022	2021
	Number of Shares	Number of shares
HSBC Middle East Holdings BV	**1,020,159,523**	1,020,159,523

22 Reserves

(a) Legal reserve

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

(b) Fair value through other comprehensive income (FVOCI) reserve – financial investments FVOCI reserve represents fair value changes (net of tax) of financial investments as explained in note 2.2 (c) of the financial statements.

23 Contingent liabilities, commitments and derivatives

(a) Contingent liabilities and other commitments

	2022	2021
	RO'000	RO'000
Undrawn unconditionally cancellable commitments*	**470,024**	465,935
Undrawn unconditionally non-cancellable commitments	**53,310**	76,296
Forward foreign exchange contracts (note 23 (c))	**354,046**	21,125
Interest rate swaps (note 23 (c))	**211,750**	246,015
	1,089,130	809,371
Documentary credits	**84,611**	66,862
Guarantees and performance bonds	**442,129**	457,643
	1,615,870	1,333,876

* Undrawn unconditionally cancellable commitments of RO93 million (2021: RO113 million) are considered as part of loan commitments for IFRS 9.

Guarantees and performance bonds

The Bank provides guarantees and similar undertakings on behalf of both third-party customers and other entities within the HSBC group. These guarantees are generally provided in the normal course of the Bank's banking business. The principal types of guarantees provided, and the maximum potential amount of future payments which the Bank could be required to make at 31 December were as follows:

	2022		2021	
	Guarantees in favor of third parties	**Guarantees in favo of other HSBC Group entities**	Guarantees in favor of third parties	Guarantees in favor of other HSBC Group entities
	RO'000	**RO'000**	RO'000	RO'000
Financial Guarantees[1]	**12,365**	**553**	13,231	758
Credit related guarantees[2]	**332,222**	**96,989**	283,699	159,955
At 31 December 2022	**344,587**	**97,542**	296,930	160,713

1. Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment when due.
2. Credit-related guarantees are contracts that have similar features to financial guarantee contracts. The amounts disclosed in the above table are nominal principal amounts and reflect the Bank's maximum

exposure under a large number of individual guarantee undertakings. The risks and exposures arising from guarantees are captured and managed in accordance with the Bank's overall credit risk management policies and procedures. Guarantees with terms of more than one year are subject to the Bank's annual credit review process.

(b) Legal cases

As at 31 December 2022, there were certain legal suits pending against the Bank. Based on the opinion of the Bank's legal counsel, the Bank's management believes that no additional liability is expected to arise from these cases and therefore does not consider it necessary to make any additional provisions in this regard.

(c) Derivatives

In the ordinary course of business, the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price in one or more underlying financial instruments, reference rate or index. Derivative instruments include forwards, futures, swaps and options.

Derivative product types

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

The Bank's fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate long-term deposits due to movements in market interest rates.

The table below sets out the positive and negative fair values of derivative financial instruments, together with the notional amounts analyzed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

The notional contract amounts of derivatives indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk. Forward foreign exchange contracts and interest rate swaps are measured using level 2 fair valuation hierarchy.

31 December 2022	**Positive mark-to market**	**Negative mark-to market**	**Total notional amount**
	RO'000	**RO'000**	**RO'000**
Derivatives:			
Forward foreign exchange contracts (note 23 (a))	**60**	**234**	**354,046**
Interest rate swaps*	**2,812**	**9,722**	**211,750**
	2,872	**9,956**	**565,796**

31 December 2021:	Positive mark-to market	Negative mark-to market	Total notional amount
	RO'000	RO'000	RO'000
Derivatives:			
Forward foreign exchange contracts (note 23 (a))	107	102	21,125
Interest rate swaps*	5,933	1,224	246,015
	6,040	1,326	267,140

*The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

Hedge accounting derivatives

Fair value hedges

The Bank enters into fixed-for-floating-interest-rate swaps to manage the exposure to changes in fair value due to movements in market interest rates on certain fixed rate financial instruments which are not measured at fair value through profit or loss.

Notes to the Financial Statements (continued)
As of 31 December 2022

Hedging instrument by hedged risk

	Hedging Instrument				
		Carrying Amount			
	Notional Amount [1]	**Assets**	**Liabilities**	**Statement of financial position presentation**	**Change in fair value[2]**
Hedged Risk	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Interest Rate	**211,750**	**2,812**	**9,722**	**Derivative**	**(10,458)**
At 31 Dec 2022	**211,750**	**2,812**	**9,722**		**(10,458)**

	Hedging Instrument				
		Carrying Amount			
	Notional Amount[1]	Assets	Liabilities	Statement of financial position presentation	Change in fair value[2]
Hedged Risk	RO'000	RO'000	RO'000	RO'000	RO'000
Interest Rate	246,015	5,933	1,224	Derivative	(5,791)
At 31 Dec 2021	246,015	5,933	1,224		(5,791)

1. The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.
2. Used in effectiveness testing comprising the full fair value change of the hedging instrument

Interest rate benchmark reform: Amendments to IFRS 9 and IAS 39 'Financial Instruments'

The Bank has applied both the first set of amendments ('Phase 1') and the second set of amendments ('Phase 2') to IFRS 9 and IAS 39 applicable to hedge accounting.

There is no significant judgment applied for benchmarks to determine whether and when the transition uncertainty has been resolved. The most significant Ibor benchmark in which the Bank continues to have hedging instruments is US dollar Libor. It is expected that the transition out of US dollar Libor hedging derivatives will be largely completed by June 2023. These transitions do not necessitate new approaches compared with any of the mechanisms used so far for transition and it will not be necessary to change the transition risk management strategy.

For some of the Ibors included under the "Other" header, in the table below, judgment has been needed to establish whether a transition is required, since there are Ibor benchmarks which are subject to computation methodology improvements and insertion of fall back provisions without full clarity being provided by their administrators on whether these Ibor benchmarks will be demised.

The notional amounts of interest rate derivatives designated in hedge accounting relationships represent the extent of the risk exposure managed by the Bank that is expected to be directly affected by market-wide Ibors reform and in scope of Phase 1 and Phase 2 amendments.

Hedging Instrument impacted by IBOR Reform

	Impacted by IBOR reform	**NOT impacted by IBOR reform**	**Notional Contract amount**
	RO'000	**RO'000**	**RO'000**
Fair value hedges at 31 December 2022	**134,750**	**77,000**	**211,750**
Fair value hedges at 31 December 2021	169,015	77,000	246,015

Notes to the Financial Statements (continued)
As of 31 December 2022

IBOR transition

Following the UK's Financial Conduct Authority ('FCA') announcement in July 2017 that it would no longer continue to persuade, or require panel banks to submit rates for the London interbank offered rate ('Libor') after 2021, we have been actively working to transition legacy contracts from Ibor to products linked to near risk-free replacement rates ('RFRs') or alternative reference rates. For the cessation of the publication of US dollar Libor from 30 June 2023, we have implemented the majority of required processes, technology and RFR product capabilities in preparation for upcoming market events and continue to transition outstanding legacy contracts through the first half of 2023.

We have completed the transition of the majority of our uncommitted lending facilities and continue to make steady progress with the transition of the outstanding legacy committed lending facilities. Transition of our derivatives portfolio is progressing well with most clients reliant on industry mechanisms to transition to RFRs. For the limited number of bilateral derivatives trades where an alternative transition path is required client engagement is continuing. For certain products and contracts, including syndicated loans, we remain reliant on the continued support of agents and third parties, but we continue to progress those contracts requiring transition.

We will continue to monitor contracts that may be potentially more challenging to transition and need to rely upon legislative solutions. Additionally, following the FCA's consultation in November 2022 proposing that US dollar Libor is to be published using a 'synthetic' methodology for a defined period, we will continue to work with our clients to support them through the transition of their products if transition is not completed by 30 June 2023.

Throughout 2023, we continue to be committed to engaging with our clients and investors to complete an orderly transition of contracts that reference the remaining demising Ibors.

Financial instruments impacted by Ibor reform

Amendments to IFRSs issued in August 2020 (Interest Rate Benchmark Reform Phase 2) represents the second phase of the IASB's project on the effects of interest rate benchmark reform, addressing issues affecting financial statements when changes are made to contractual cash flows and hedging relationships as a result of reform.

Under these amendments, changes made to an amortised cost financial instrument that are economically equivalent and required by interest rate benchmark reform do not result in the derecognition or a change in the carrying amount of the financial instrument, but instead require the effective interest rate to be updated to reflect the change in the interest rate benchmark. In addition, hedge accounting will not be discontinued solely because of the replacement of the interest rate benchmark if the hedge meets other hedge accounting criteria.

These amendments apply from 1 January 2021 with early adoption permitted. The Bank has adopted the amendments from1 January 2020.

Financial instruments yet to transition to alternative benchmarks, by main benchmark				
	USD Libor	**GBP Libor**	**JPY Libor**	**Others**
At 31 December 2022	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Non-derivative financial assets				
Loans and advances to customers	**155,144**	-	-	-
Derivative notional contract amount				
Interest rate	**134,750**	-	-	-

Financial instruments yet to transition to alternative benchmarks, by main benchmark				
	USD Libor	GBP Libor	JPY Libor	Others
At 31 December 2021	RO'000	RO'000	RO'000	RO'000
Non-derivative financial assets				
Loans and advances to customers	191,708	-	-	-
Derivative notional contract amount				
Interest rate	134,750	-	-	-

The amounts in the above table provide an indication of the extent of the Bank's exposure to the Ibor benchmarks which are due to be replaced. Amounts are in respect of the financial instruments that:

- contractually reference an interest rate benchmark that is planned to transition to an alternative benchmark;
- have a contractual maturity date after 30 June 2023, the date by which Libor is expected to cease;
- are recognised on the Bank's balance sheet.

Notes to the Financial Statements (continued)
As of 31 December 2022

24 Maturity analysis assets and liabilities

The following is an analysis by remaining contractual maturities at the balance sheet date, of assets and liability line items that combine amounts expected to be recovered or settled within one year and after more than one year.

	On demand or within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
At 31 December 2022					
Financial assets					
Cash and balances with central bank	123,003	-	-	-	123,003
Due from banks	283,756	-	-	-	283,756
Loans and advances to customers - net	317,263	220,345	257,930	451,849	1,247,387
Financial investments	435,782	40,327	62,104	-	538,213
Other financial assets	24,873	1,174	-	-	26,047
Total Financial assets	1,184,677	261,846	320,034	451,849	2,218,406
Non-Financial assets	-	-	-	23,222	23,222
Financial liabilities					
Due to banks	46,762	-	-	-	46,762
Deposits from customers	1,219,276	39,935	506,064	-	1,765,275
Other financial liabilities	58,258	1,175	-	-	59,433
Total Financial liabilities	1,324,296	41,110	506,064	-	1,871,470
Non-Financial liabilities	-	-	-	10,841	10,841
Documentary credits, Guarantees and performance bonds	526,740	-	-	-	526,740
Undrawn commitments	523,334	-	-	-	523,334

	On demand or within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
At 31 December 2021					
Financial assets					
Cash and balances with central bank	282,721	-	-	-	282,721
Due from banks	213,700	-	-	-	213,700
Loans and advances to customers - net	377,677	136,169	424,271	409,071	1,347,188
Financial investments	321,199	50,687	56,917	20,159	448,962
Other financial assets	30,663	3,022	-	-	33,685
Total Financial assets	1,225,960	189,878	481,188	429,230	2,326,256
Non-Financial assets	-	-	-	22,991	22,991
Financial liabilities					
Due to banks	48,444	-	-	-	48,444
Deposits from customers	1,455,524	73,112	372,458	-	1,901,094
Other financial liabilities	44,316	3,103	-	-	47,419
Total Financial liabilities	1,548,284	76,215	372,458	-	1,996,957
Non-Financial liabilities	-	-	-	6,803	6,803
Documentary credits, Guarantees and performance bonds	524,505	-	-	-	524,505
Undrawn commitments	542,231	-	-	-	542,231

Notes to the Financial Statements (continued)
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Although the contractual repayments of many customer accounts are on demand or at short notice, in practice short-term deposit balances remain stable as inflows and outflows broadly match in the normal course of business.

Non-financial assets and liabilities are expected to be recovered in more than one year.

Cash flows payable by the Bank under financial liabilities by remaining contractual maturities

	On demand	**Due within 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**
At 31 December 2022					
Due to banks	**46,762**	**-**	**-**	**-**	**-**
Deposits from customers	**1,190,524**	**29,956**	**43,432**	**523,254**	**-**
Other financial liabilities	**38,392**	**19,866**	**1,175**	**-**	
Total Financial liabilities	**1,275,678**	**49,822**	**44,607**	**523,254**	
Documentary credits, Guarantees and performance bonds	**526,740**	**-**	**-**	**-**	**-**
Undrawn commitments	**523,334**	**-**	**-**	**-**	**-**

	On demand	Due within 3 months	3 to 12 months	1 to 5 years	Over years
	RO'000	RO'000	RO'000	RO'000	RO'000
At 31 December 2021					
Due to banks	48,444	-	-	-	-
Deposits from customers	1,421,233	35,145	75,533	383,160	-
Other financial liabilities	23,965	20,351	3,103	-	-
Total Financial liabilities	1,493,642	55,496	78,636	383,160	-
Documentary credits, Guarantees and performance bonds	524,505	-	-	-	-
Undrawn commitments	542,231	-	-	-	-

The above table shows, on an undiscounted basis, all cash flows relating to principal and future coupon payments (except for trading liabilities and derivatives not treated as hedging derivatives). For this reason, balances in the above table do not agree directly with those in our balance sheet.

25 Interest rate sensitivity gap

Sensitivity to interest rates arises from mismatches in the year to repricing of assets and that of the corresponding liability funding. The Bank manages these mismatches in accordance with HSBC Group policy guidelines and reduces risk by matching the repricing of assets and liabilities through various means. Significant changes in gap positions can be made to adjust the profile as market outlooks change. Additionally, whilst mismatches exist, liabilities maturing are to a great extent historically rolled over rather than withdrawn.

Notes to the Financial Statements (continued)
As of 31 December 2022

	Effective average interest rate	Within 3 months	3 to 12 months	Over 1 year	Non interest sensitive	Total
	%	RO'000	RO'000	RO'000	RO'000	RO'000
At 31 December 2022						
Assets						
Cash and balances with central bank	1.58%	18,457	-	-	104,546	123,003
Due from banks	1.77%	264,980	-	-	18,776	283,756
Loans and advances to customers – net	4.58%	312,226	47,583	887,578	-	1,247,387
Financial investments	1.98%	435,804	39,404	62,104	901	538,213
Other assets		-	-	-	26,304	26,304
Intangible assets		-	-	-	965	965
Property and equipment		-	-	-	17,669	17,669
Right-of-use assets		-	-	-	2,396	2,396
Deferred tax assets		-	-	-	1,935	1,935
Total assets		1,031,467	86,987	949,682	173,492	2,241,628
Liabilities and equity						
Due to banks	0.34%	-	-	-	46,762	46,762
Deposits from customers	0.86%	182,114	313,029	512,456	757,676	1,765,275
Other liabilities		-	-	-	61,000	61,000
Current tax liabilities		-	-	-	6,936	6,936
Lease liabilities		-	-	-	2,338	2,338
Total equity		-	-	-	359,317	359,317
Total liabilities and equity		182,114	313,029	512,456	1,234,029	2,241,628
Interest sensitivity gap:						
Net		849,353	(226,042)	437,226	(1,060,538)	
Cumulative		849,353	623,312	1,060,538	-	

	Effective average interest rate	Within 3 months	3 to 12 months	Over 1 year	Non interest sensitive	Total
	%	RO'000	RO'000	RO'000	RO'000	RO'000
At 31 December 2021						
Assets						
Cash and balances with central bank	0.05%	65,450	-	-	217,271	282,721
Due from banks	0.19%	186,279	-	-	27,421	213,700
Loans and advances to customers – net	4.33%	280,860	224,472	841,856	-	1,347,188
Financial investments	0.97%	321,199	49,787	76,810	1,166	448,962
Other assets		-	-	-	34,078	34,078
Property and equipment		-	-	-	20,342	20,342
Deferred tax assets		-	-	-	2,256	2,256
Total assets		853,788	274,259	918,666	302,534	2,349,247
Liabilities and equity						
Due to banks	0.45%	-	-	-	48,444	48,444
Deposits from customers	0.75%	228,112	377,524	368,089	927,369	1,901,094
Other liabilities		-	-	-	48,883	48,883
Current tax liabilities		-	-	-	5,339	5,339
Total equity		-	-	-	345,487	345,487
Total liabilities and equity		228,112	377,524	368,089	1,375,522	2,349,247
Interest sensitivity gap:						
Net		625,676	(103,265)	550,577	(1,072,988)	-
Cumulative		625,676	522,411	1,072,988	-	-

Notes to the Financial Statements (continued)
As of 31 December 2022

26 Financial assets and liabilities

Accounting classifications and fair values as at 31 December 2022

	Financial assets and liabilities at FVOCI	Financial assets and liabilities at FVTPL	Financial assets and liabilities at amortised cost	Total
	RO'000	RO'000	RO'000	RO'000
Cash and balances with central bank	-	-	123,003	123,003
Due from banks	-	-	283,756	283,756
Loans and advances to customers - net	-	-	1,247,387	1,247,387
Financial investments	463,804	-	74,409	538,213
Other assets	-	2.872	23,175	26,047
Total financial assets	463,804	2,872	1,751,730	2,218,406
Total non-financial assets				23,222
Total assets				2,241,628
Due to banks	-	-	46,762	46,762
Deposits from customers	-	216,984	1,548,291	1,765,275
Other liabilities	-	9,956	49,477	59,433
Total financial liabilities	-	236,398	1,635,072	1,871,470
Total non-financial liabilities				10,841
Total liabilities				1,882,311

Accounting classifications and fair values as at 31 December 2021

	Financial assets and liabilities at FVOCI	Financial assets and liabilities at FVTPL	Financial assets and liabilities at amortised cost	Total
	RO'000	RO'000	RO'000	RO'000
Cash and balances with central bank	-	-	282,721	282,721
Due from banks	-	-	213,700	213,700
Loans and advances to customers - net	-	-	1,347,188	1,347,188
Financial investments	448,896	66	-	448,962
Other assets	-	6,040	27,645	33,685
Total financial assets	448,896	6,106	1,871,254	2,326,256
Total non-financial assets				22,991
Total assets				2,349,247
Due to banks	-	-	48,444	48,444
Deposits from customers	-	258,368	1,642,726	1,901,094
Other liabilities	-	1,326	46,093	47,419
Total financial liabilities	-	259,694	1,737,263	1,996,957
Total non-financial liabilities				6,803
Total liabilities				2,003,760

Notes to the Financial Statements (continued)
As of 31 December 2022

26.1 Fair value information

The table below analyses financial instruments carried at fair value, by using valuation techniques.

The fair values of derivatives and certain financials investments have determined using the following hierarchy of valuation levels.

Financial instruments carried at fair value

	Valuation techniques		
	Level 1	Level 2	Total
	RO'000	RO'000	RO'000
Recurring fair value measurements			
At 31 December 2022			
Assets			
Derivatives	**-**	**2,872**	**2,872**
Financial investments at FVOCI	**307,009**	**156,795**	**463,804**
Financial investments at FVTPL	**-**	**-**	**-**
Liabilities			
Derivatives	**-**	**9,956**	**9,956**
Deposits from customers	**-**	**216,984**	**216,984**
At 31 December 2021			
Assets			
Derivatives	-	6,040	6,040
Financial investments at FVOCI	96,248	352,648	448,896
Financial investments at FVTPL	-	66	66
Liabilities			
Derivatives	-	1,326	1,326
Deposits from customers	-	258,368	258,368

Transfers between levels of the fair value hierarchy are deemed to occur at the end of each reporting period. Transfers into and out of levels of the fair value hierarchy are primarily attributable to observability of valuation inputs and price transparency.

During 2022 there was nil (2021: nil) transfer from Level 2 to Level 1 Financial Investments.

Financial instruments not carried at fair value

	Valuation techniques				
	Level 1	Level 2	Level 3	Total fair value	Carrying amount
	RO'000	RO'000	RO'000	RO'000	RO'000
Assets and liabilities					
At 31 December 2022					
Assets					
Loans and advances to customers – net	**-**	**-**	**1,221,299**	**1,221,299**	**1,247,387**
Financial investments at amortised Cost	**19,240**	**55,082**	**-**	**74,322**	**74,409**
Liabilities					
Deposits from customers	**-**	**1,520,975**	**-**	**1,520,975**	**1,538,833**

	Valuation techniques				
	Level 1	Level 2	Level 3	Total fair value	Carrying amount
	RO'000	RO'000	RO'000	RO'000	RO'000
Assets and liabilities					
At 31 December 2021					
Assets					
Loans and advances to customers – net	-	-	1,324,634	1,324,634	1,347,188
Financial Investments at amortised cost	-	-	-	-	-
Liabilities					
Deposits from customers	-	1,648,190	-	1,648,190	1,642,726

Notes to the Financial Statements (continued)
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Other financial instruments not carried at fair value are typically short-term in nature and re-priced to current market rates frequently. Accordingly, their carrying amounts are reasonable approximation of their fair values.

Valuation

The fair value measurement is the Bank's estimate of 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. It does not reflect the economic benefits and costs that the group expects to flow from the instruments' cash flows over their expected future lives.

Loans and advances to customers

The fair value of loans and advances is based on observable market transactions, where available. In the absence of observable market transactions, fair value is estimated using valuation models that incorporate a range of input assumptions. These assumptions may include forward looking discounted cash flow models using assumptions which the bank believes are consistent with those which would be used by market participants in valuing such loans; and trading inputs from other market participants which includes observed primary and secondary trades.

Loans are grouped, as far as possible, into homogeneous groups and stratified by loans with similar characteristics to improve the accuracy of estimated valuation outputs. The stratification of a loan book considers all material factors, including vintage, origination period, estimates of future interest rates, prepayment speeds, delinquency rates, loan-to-value ratios, the quality of collateral, default probability, and internal credit risk ratings.

The fair value of a loan reflects both loan impairments at the reporting date and estimates of market participants' expectations of credit losses over the life of the loans, and the fair value effect of repricing between origination and the reporting date.

Financial investments and derivatives

Fair value is based on quoted market prices at the reporting date. If a quoted market price is not available, fair value is estimated using pricing models or discounted cash flow 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.

Foreign exchange contracts are valued based on market prices. The market value adjustment of foreign exchange contracts are classified as other assets or other liabilities.

Deposit by banks and customer deposits

Fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. The fair value of a deposit repayable on demand approximates its carrying value.

27 Notes on the statement of cash flows

27(a) Non-cash items included in profit before tax	Notes	2022	2021
		RO'000	RO'000
Depreciation and impairment of property and equipment	*16*	**3,762**	2,146
Amortisation and impairment of intangible assets	*8*	**1,527**	3,058
Interest expense on lease		**160**	-
Employer's current service cost with interest	*20(a)*	**331**	216
Loss on disposal of property and equipment	*5*	**21**	10
Changes in fair value of financial investments measured at fair value through profit and loss	*13*	**-**	(49)
Net gain on sale of financial investments	*5*	**-**	(2)
Amortisation of financial investment	*13*	**(1,193)**	(282)
Change in expected credit losses and other credit impairment charges	*6*	**(6,988)**	(7,500)
		(2,380)	2,403

Notes to the Financial Statements (continued)
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27(b) Change in operating assets	**2022**	2021
	RO'000	RO'000
Change in loans and advances to customers-net	**106,259**	23,760
Change in other assets	**4,533**	1,664
	110,792	25,424

27(c) Change in operating liabilities	**2022**	2021
	RO'000	RO'000
Change in deposits from customers	**(135,819)**	(4,677)
Change in due to banks	**(1,682)**	(15,330)
Change in other liabilities	**15,010**	(5,562)
	(122,491)	(25,569)

27(d) The reconciliation of the components of cash and cash equivalents with the equivalent items shown in the statement of financial position is shown below:

	2022	2021
	RO'000	RO'000
Statement of financial position items comprise:		
Financial investments - original maturities of three months or less	**435,804**	321,198
Due from banks (note 11(b))	**283,756**	213,700
Cash and balances with central bank (note 11(a))	**123,003**	282,721
	842,563	817,619

28 Related parties and holders of 10% of the Bank's shares

The Bank's related parties include the parent, HSBC Group and related entities, key management personnel, close family members of Key Management Personnel and entities which are controlled, jointly controlled or significantly influenced by Key Management Personnel or their close family members.

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank and includes members of the Boards of Directors of the Bank.

Holders of 10% or more of the Bank's shares may include companies, individuals, or families. Families are included if the shares of the family members total 10% or more of the Bank's shares. Members of the family of an individual are those that may be expected to influence, or be influenced by that person in their dealings with the Bank.

The Bank enter into transactions with other HSBC affiliates, as part of the normal course of business, such as banking and operational services. In particular, as a member of one of the world's largest financial services organizations, the Bank share in the expertise and economies of scale provided by the HSBC Group. The Bank provide and receive services or enter into transactions with a number of HSBC Group companies, including sharing in the cost of development for technology platforms used around the world and benefit from worldwide contracts for advertising, marketing research, training and other operational areas. The bank believes that the related party transactions are on terms similar to those offered to non-related parties.

Analysis of the related party transactions with related parties or holders of 10% or more of the Bank's shares, ("Significant shareholders") or their family members during the year is as follows:

Notes to the Financial Statements (continued)

As of 31 December 2022

	Parent entity RO'000	Other related group entities RO'000	Directors RO'000	Others RO'000	Total RO'000
As at 31 December 2022					
Loans and advances	**-**	**-**	**104**	**8,715**	**8,819**
Current, deposit and other accounts	**-**	**3,535**	**224**	**5,076**	**8,835**
Letters of credit and guarantees	**-**	**97,542**	**-**	**5,026**	**102,568**
Acceptances	**-**	**-**	**-**	**639**	**639**
Due from banks	**-**	**58,266**	**-**	**-**	**58,266**
Due to banks[1]	**-**	**22,243**	**-**	**-**	**22,243**
Collateral received	**-**	**13,230**	**-**	**-**	**13,230**
For the year ended 31 December 2022					
Net interest income	**-**	**371**	**130**	**1,022**	**1,523**
Net fee income[2]	**-**	**133**	**44**	**148**	**326**
Directors' remuneration proposed	**-**	**-**	**(60)**	**-**	**(60)**
Amortisation and impairment of intangible assets	**-**	**(1,527)**	**-**	**-**	**(1,527)**
General and administrative expenses[3]	**-**	**(15,246)**	**(34)**	**(69)**	**(15,349)**
Purchase of Intangible assets[4]	**-**	**2,491**	**-**	**-**	**2,491**

1. Due to banks includes Vostro balances of RO17.2 M from HSBC affiliates and accrual of RO5.4 M for the expenses payable to HSBC Affiliates as of 31 December 2022.
2. Net fee income under other related group entities above includes fee expenses of RO0.3 M incurred for the indemnity received as a collateral from HSBC affiliates.
3. General and administrative expenses under other related group entities include the services obtained from HSBC Group companies, including but not limited to, the sharing in the cost of development for technology platforms, advertising, marketing research, training and other operational areas.
4. Intangible assets of RO2.5 M is software development cost from HSBC affiliates as of 31 December 2022. Further Bank has RO0.2 M of Capital commitments related to intangible assets (software) with HSBC affiliates.

	Parent entity RO'000	Other related group entities RO'000	Directors RO'000	Others RO'000	Total RO'000
As at 31 December 2021					
Loans and advances	-	-	405	70,221	70,626
Current, deposit and other accounts	-	3,504	276	20,100	23,880
Letters of credit and guarantees	-	160,713	-	6,866	167,579
Acceptances	-	-	-	37	37
Due from banks	-	41,793	-	-	41,793
Due to banks[1]	-	23,564	-	-	23,564
Collateral received	-	47,611	-	-	47,611
For the year ended 31 December 2021					
Net interest income	-	(312)	-	3,036	2,724
Net fee income[2]	-	(298)	-	215	(83)
Amortisation and impairment of intangible assets		(3,058)	-	-	(3,058)
General and administrative expenses[3]	-	(17,915)	(25)	(1,160)	(19,100)
Purchase of Intangible assets	-	3,058	-	-	3,058

1. Due to banks includes Vostro balances of RO20.1 M from HSBC affiliates and accrual of RO3.4 M for the expenses payable to HSBC Affiliates as of 31 December 2021.

Notes to the Financial Statements (continued)
As of 31 December 2022

2. Net fee income includes fee expenses of RO0.5 M incurred for the indemnity received as a collateral from HSBC affiliates.
3. General and administrative expenses include the services obtained from HSBC Group companies, including but not limited to, the sharing in the cost of development for technology platforms, advertising, marketing research, training and other operational areas.

The bank entered into the following transactions with HSBC affiliates noting that the underlying customers of these transactions were not related parties.

	2022	2021
	RO'000	RO'000
Purchase of loans and advances	48,125	48,125

Compensation of key management personnel

	2022	2021
	RO'000	RO'000
Wages, salaries and other short term benefits	1,454	1,494
Post-employment benefits	229	111
	1,683	1,605

Balances with key management personnel

	2022	2021
	RO'000	RO'000
Loans and advances	288	244
Current, deposit and other accounts	234	658

29 Distribution of loans and advances by economic sector

The table below analyses the concentration of gross loans and advances by economic sector:

	2022	2021
	RO'000	RO'000
Personal and consumer loans	475,905	458,488
Corporate and commercial		
Manufacturing	134,133	164,232
Import trade	116,413	124,952
Construction	96,538	106,082
Services	64,311	99,129
Electricity, gas, water, transportation and communication	53,360	54,282
Wholesale and retail trade	27,116	52,190
Mining and quarrying	23,205	32,140
Others	306,435	309,728
	821,511	942,735
Financial Institutions	-	602
Total gross loans and advances	1,297,416	1,401,825
Allowance for ECL	(35,283)	(41,393)
Reserved interest	(14,746)	(13,244)
Net loans and advances	1,247,387	1,347,188
Non-performing loans - gross	41,926	42,944

Notes to the Financial Statements (continued)
As of 31 December 2022

The table below analyses the concentration of letters of credit and guarantees commitments by economic sector:

	2022	2021
	RO'000	RO'000
Electricity, gas, water, transportation and communication	**148,135**	152,729
Financial institutions	**114,129**	128,929
Construction	**86,676**	90,013
Services	**53,328**	50,718
Import trade	**37,120**	37,337
Manufacturing	**16,719**	14,735
Mining and quarrying	**13,869**	20,212
Wholesale and retail trade	**2,366**	4,603
Others	**54,398**	25,229
Total	**526,740**	524,505

30 Operating segment

The factors used to identify the Bank's reporting segments are discussed in the 'Summary of significant accounting policies' in note 2.1 (h).

Profit / (loss) for the period	**31 December 2022**				
	CMB	**WPB**	**GB&M**	**Corporate center**	**Total**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Net interest income	**15,688**	**28,300**	**13,257**	**(200)**	**57,045**
Net fee income	**3,592**	**3,339**	**3,949**	**(166)**	**10,714**
Net trading income	**1,299**	**1,300**	**3,827**	**-**	**6,426**
Changes in fair value of financial investments measured at fair value through profit and loss	**-**	**-**	**-**	**-**	**-**
Other income / (loss)	**65**	**65**	**325**	**(16)**	**439**
Net operating income before change in expected credit losses and other credit impairment charges	**20,644**	**33,004**	**21,358**	**(382)**	**74,624**
Change in expected credit losses and other credit impairment charges	**1,945**	**612**	**4,431**	**-**	**6,988**
Net operating income	**22,589**	**33,616**	**25,789**	**(382)**	**81,612**
Total operating expenses	**(10,030)**	**(31,308)**	**(7,103)**	**(1,652)**	**(50,093)**
Profit / (loss) before tax	**12,559**	**2,308**	**18,686**	**(2,034)**	**31,519**

Profit / (loss) for the period	31 December 2021				
	CMB	WPB	GB&M	Corporate center	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Net interest income	15,473	27,744	8,860	(19)	52,058
Net fee income	3,044	2,907	3,614	(147)	9,418
Net trading income	1,446	1,400	3,295	3	6,144
Changes in fair value of financial investments measured at fair value through profit and loss	-	-	-	49	49
Other income / (loss)	144	13	(79)	(36)	42
Net operating income before change in expected credit losses and other credit impairment charges	20,107	32,064	15,690	(150)	67,711
Change in expected credit losses and other credit impairment charges	413	620	6,467	-	7,500
Net operating income	20,520	32,684	22,157	(150)	75,211
Total operating expenses	(11,199)	(30,391)	(7,147)	(4,303)	(53,040)
Profit / (Loss) before tax	9,321	2,293	15,010	(4,453)	22,171

Notes to the Financial Statements (continued)

As of 31 December 2022

Balance sheet information	31 December 2022				
	CMB	WPB	GB&M	Corporate center	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Loans and advances to customers (net)	**508,322**	**468,034**	**271,031**	**-**	**1,247,387**
Total assets	**937,032**	**749,175**	**481,521**	**73,900**	**2,241,628**
Deposits from customer	**885,416**	**552,199**	**327,660**	**-**	**1,765,275**
Total liabilities	**917,340**	**565,756**	**361,939**	**37,276**	**1,882,311**
	31 December 2021				
Loans and advances to customers (net)	537,321	449,986	359,881	-	1,347,188
Total assets	1,068,512	656,087	529,609	95,039	2,349,247
Deposits from customer	875,069	583,275	442,750	-	1,901,094
Total liabilities	899,657	588,486	487,873	27,744	2,003,760

Other financial information

Net operating income by global business	31 December 2022				
	CMB	WPB	GB&M	Corporate center	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
Net operating income[1]	**20,644**	**33,004**	**21,358**	**(382)**	**74,624**
- external	**19,626**	**33,302**	**22,019**	**(323)**	**74,624**
- internal	**1,018**	**(298)**	**(661)**	**(59)**	**-**
	31 December 2021				
Net operating income	20,107	32,064	15,690	(150)	67,711
- external	18,896	29,965	19,199	(349)	67,711
- internal	1,211	2,099	(3,509)	199	-

[1] Net operating income before loan impairment charges and other credit risk provisions, also referred to as revenue.

31 Dividend per share

The Board of Directors at the forthcoming Ordinary Annual General meeting will propose a cash dividend of RO 0.008 per share of nominal value of RO 0.100 each amounting to RO16.0 million for the year 2022 (2021: RO 10.8 million). These financial statements do not reflect these dividends, which will be accounted for in shareholders' equity as an appropriation of retained earnings for the year ending 31 December 2023.

32 Risk management

Our risk Management

All of the Bank's activities involve, to varying degrees, the analysis, evaluation, acceptance and active management of risks or combinations of risks. The key financial risks that the Bank is exposed to are Retail and Wholesale Credit risk (including cross-border country risk), Treasury risk (including Capital, Liquidity, Funding and Interest Rate Risk), Traded risk and Strategic risk (including reputational risk). The Bank is also exposed to non-financial risk in various forms (including Resilience risk, Financial Crime and Fraud risk, People risk, Regulatory Compliance risk, Legal risk, Financial Reporting and Tax risk and Model Risk). There is a growing focus on the management of Climate risk and its embedding in-to the way we do business, conduct our operations and deal with all of our stakeholders.

The implementation of our business strategy, which includes transformation, remains a key focus. As we implement change initiatives, we actively manage the execution risks. We aim to use a comprehensive risk management approach across the organization and across all risk types, underpinned by our culture and values. This is outlined in our risk management framework, including the key principles and practices that we employ in managing material risks, both financial and non-financial. The framework fosters continual monitoring, promotes risk awareness and encourages a sound operational and strategic decision making process. It also supports a consistent approach to identifying, assessing, managing and reporting the risks we incur and accept in our activities.

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Our risk management framework

The following diagram and descriptions summarizes key aspects of the risk management framework, including governance, structure, our risk management tools and our culture, which together help align employee behaviour with our risk appetite.

Key components of our risk management framework

HSBC Values and risk culture		
Risk governance	Non-executive risk governance	The Board approves the risk appetite, plans and performance targets. It sets the 'tone from the top' and is advised by the Risk Committee and the Audit committee.
	Executive risk governance	Our executive risk governance structure is responsible for the enterprise-wide management of all risks, including key policies and frameworks for the management of risk across the organization.
Roles and responsibilities	Three Lines Of Defence ('LOD) model	Our 'three lines of defence' model defines roles and responsibilities for risk management. An independent Risk function helps ensure the necessary balance in risk/return decisions.
Processes and tools	Risk appetite	There are processes in place to identify/assess, monitor, manage and report risks to help ensure we remain within our risk appetite
	Enterprise-wide risk management tools	
	Active risk management: identification/ assessment, monitoring, management and reporting	
Internal controls	Policies and procedures	Policies and procedures define the minimum requirements for the controls required to manage our risks.
	Control activities	Operational and resilience risk management defines minimum standards and processes for managing operational risks and internal controls.
	Systems and infrastructure	There are systems and/or processes that support the identification, capture and exchange of information to support risk management activities.

Risk culture

The Bank's strong risk governance reflects the importance placed by the Board on managing risks effectively. It is supported by a clear policy framework of risk ownership and by the accountability of all staff for identifying, assessing and managing risks within the scope of their assigned responsibilities. This personal accountability, reinforced by the governance structure, experience and mandatory learning, helps to foster a disciplined and constructive culture of risk management and control throughout the group and one that supports and encourages the behaviours of good judgement, speaking-up and accountability.

32.1 Risk governance and ownership

An established risk governance and ownership structure ensures oversight of, and accountability for, the effective management of risk at the Bank and business level. The risk management framework applies to all the types of risk we face and, ensures we manage risk consistently across the Bank. It also ensures we identify risks and, have sufficient controls in place to manage them whilst growing our business safely within our appetite, delivering fair outcomes for customers, and maintaining the orderly and transparent operation of financial markets.

The Board has ultimate accountability for risk and approves the risk appetite, sets the 'tone from the top' regarding the strong risk culture expected across our organization and delegates responsibility for risk oversight to the Risk Committee and the Audit Committee. The Audit and Risk Committees are responsible for advising the Board on material risk matters and provide non-executive oversight of risks. Under authority delegated by the Board, the separately convened Risk Management Meeting ('RMM') formulates high-level risk management policy and oversees the implementation of risk appetite and controls. The RMM together with the Asset and Liability Committee ('ALCO') monitors all categories of risk, receives reports on actual performance and emerging issues, determines actions to be taken and reviews the efficacy of our risk management framework.

The Chief Risk Officer ('CRO') chairs the RMM of the Executive Committee. The CRO, who reports to the Chief Executive Officer ('CEO') and to the Board, heads the Risk Function, which is independent from the global businesses and forms part of the second line of defence. The RMM is a formal risk governance committee where members of the Executive Committee make recommendations and provide advice to the CRO to help them carry out their role and responsibilities in relation to enterprise risk oversight over all risks, including compliance. The membership of the Executive Committee ensures that the committee oversees risk management matters across the three lines of defence. The CRO is granted authority and accountability by the CEO to take decisions related to matters considered at the RMM, except where decision-making authority is the responsibility of another member of the Executive Committee (e.g. finance-related decisions taken by the CFO).

Day to day responsibility for risk management is delegated to senior managers with individual accountability for decision making. All of our people have a role to play in identifying and managing risk within the scope of their roles. These roles are defined using the three lines of defence model. The first line of defence has ultimate ownership for risk and controls, including read across assessments of identified issues, events and near misses, and the delivery of good conduct outcomes. The second line of defence reviews and challenges the first line of defence activities to help ensure that risk management decisions and actions are appropriate, within risk appetite and support the delivery of conduct outcomes. The third line of defence is internal audit.

We define financial risk as the risk of a financial loss as a result of business activities. We actively take these types of risks to maximize shareholder value and profits. Non-financial risk is the risk to achieve our strategy or objectives as the result of failed internal processes, people and systems, or from external events. Responsibility for minimizing both financial and non-financial risk lies with our people. They are required to manage the risk of the business and operational activities for which they are responsible. We maintain adequate oversight of our risks through our various specialist risk stewards and the collective accountability held by our CRO. Sound non-financial risk management is central to achieving good outcome from our customers. We have continued to strengthen the control environment and our approach to the management of non-financial risk, as broadly set out in our risk management framework. The management of non-financial risk focuses on governance and risk appetite, and provides a single view of the non-financial risks that matter the most and the associated controls. It incorporates a risk management system designed to enable the active management of non-financial risk.

Our ongoing focus is on simplifying our approach to non-financial risk management, while driving more effective oversight and better end-to-end identification and management of non-financial risks. This is overseen by the Operational and Resilience Risk function.

32.2 Risk appetite

Our risk appetite is assessed for both financial and non-financial risks. HSBC Group risk appetite is expressed in both quantitative and qualitative terms and is determined at global business level, at the regional level and at the HBON as operating entity level. Through an iterative review process, our risk appetite continuously evolves and adapts to reflect the needs of the Bank. The Board periodically reviews and approves the HBON Entity Risk Appetite Statement to ensure it remains fit for purpose. The risk appetite is considered, developed and enhanced through:

a. An alignment with our strategy, purpose, values, customer needs and HSBC Group Risk Appetite;
b. Trends highlighted in other risk reports;
c. Communication with risk stewards on the developing risk landscape;
d. Strength of our capital, liquidity and balance sheet;
e. Compliance with applicable laws and regulations;
f. Effectiveness of the applicable control environment to mitigate risk, informed by risk ratings from risk control assessments;
g. Functionality, capacity and resilience of available systems to manage risk, and
h. The level of available staff with the required competencies to manage risks.

We formally articulate our risk appetite through our Risk Appetite Statements (RAS). Setting out our risk appetite ensures that we agree a suitable level of risk for our strategy. In this way, risk appetite informs our financial planning process and helps senior management to allocate capital to business activities, services and products.

The performance against the RAS is reported to the Risk Management Meeting ('RMM') alongside key risk indicators to support targeted insight and discussion on breaches of risk appetite and associated mitigating actions. This reporting allows risk to be promptly identified and mitigated, and informs risk-adjusted

remuneration to drive a strong risk culture.

Our Responsibilities

All our people are responsible for identifying and managing risk within the scope of their roles. Roles are defined using the three lines of defence model, which takes into account our business and functional structures as described below.

Three lines of defence

To create a robust control environment to manage risks, we use an activity-based three lines of defence model.This model delineates management accountabilities and responsibilities for risk management and the control environment.

The model underpins our approach to risk management by clarifying responsibility and encouraging collaboration, as well as enabling efficient coordination of risk and control activities. The three lines of defence are summarised below:

- The first line of defence owns the risks and is responsible for identifying, recording, reporting and managing them in line with risk appetite, and ensuring that the right controls and assessments are in place to mitigate them.
- The second line of defence challenges the first line of defence on effective risk management, and provides advice and guidance in relation to the risk.
- The third line of defence is our Global Internal Audit function, which provides independent assurance as to whether our risk management approach and processes are designed and operating effectively.

Top and emerging risks

We use a top and emerging risks process to provide a forward-looking view of issues with the potential to threaten the execution of our strategy or operations over the medium to long term. We proactively assess the internal and external risk environment, as well as review the themes identified across the countries and global businesses, for any risks that may require global escalation, updating our top and emerging risks as necessary.

A 'Top Risk' is defined as a risk we are currently managing, which if not managed and mitigated has the potential to have a material impact on the Bank or Global Businesses. It may arise across any combination of risk types, regions or global businesses. The impact may be well understood by senior management and some mitigating actions may already be in place.

An 'Emerging Risk' is defined as a risk that could have a material impact on the risk profile of the Bank, HSBC Group, Global Businesses or Regions, but is not under active management and is not immediate. Existing mitigation plans are likely to be minimal, reflecting the uncertain nature of these risks at this stage. Some high-level analysis and/or stress testing may have been carried out to assess the potential impact.

Stress testing and recovery planning

We operate a wide-ranging stress testing programme that is a key part of our risk management and capital and liquidity planning. Stress testing provides management with key insights into the impact of severely adverse events on the Bank, and provides confidence to regulators on the Bank's financial stability.

Our stress testing programmes assesse our capital and liquidity strength through rigorous examination of our resilience to external shocks. As well as understanding regulatory-driven stress tests we conduct our own internal stress tests in order to understand the nature and level of all material risks, quantify the impact of such risks and develop plausible business-as-usual mitigating actions.

Internal Stress tests

Our internal capital assessment uses a range of stress scenarios that explore risks identified by management. They include potential adverse macroeconomic, geopolitical and operational risk events, as well as other potential events that are specific to the HBON.

The selection of stress scenarios is based upon the output of our identified top and emerging risks and our risk appetite. Stress testing analysis helps management understand the nature and extent of vulnerabilities to which the country is exposed. Using this information, management decides whether risks can or should be mitigated through management actions or if they were to crystallise, be absorbed through capital and liquidity. This in turn informs decisions about preferred capital and liquidity levels and allocations.

We also conduct reverse stress tests each year at a Bank level to understand the loss-absorbtion capacity of the entity. From this point, we then identify potential extreme conditions that could lead to such losses and make our business model non-viable. Reverse stress testing identifies potential stresses and vulnerabilities we might face, and helps inform early warning triggers, management actions and contingency plans designed to mitigate risks.

Key developments in 2022

We actively managed the risks related to the Russia-Ukraine war and broader macroeconomic and ,geopolitical uncertainties, as well as the continued risks resulting from the Covid-19 pandemic and other key risks described in this section. In addition, we enhanced our risk management in the following areas:

- We continued to develop our approach to emerging risk identification and management.
- We enhanced our enterprise risk reporting processes to place a greater focus on our emerging risks, including by capturing the materiality, oversight and individual monitoring of these risks.
- We have further strengthened our third-party risk policy and processes to improve control and oversight of our material third parties that are key to maintaining our operational resilience, and to meet new and evolving regulatory requirements.
- We made progress with our comprehensive regulatory reporting programme to strengthen our global processes, improve consistency, and enhance controls.
- We enhanced, and continued to embed, the governance and oversight around model adjustments and related processes for IFRS 9 models.

- Our climate risk programme continues to shape our approach to climate risk across four key pillars: governance and risk appetite; risk management; stress testing; and disclosures.
- We continued to improve the effectiveness of our financial crime controls. We are refreshing our financial crime policies ensuring they remain up-to-date and address changing and emerging risks. We continue to monitor regulatory changes.

Areas of special interest

Covid remains a significant threat and a continuing risk to our customers and organisation. However, the appetite for broad lockdowns and public health restrictions has reduced following successful vaccine rollouts, and as societies have adapted. Countries continue to differ to a degree in their approach although China has recently reversed restrictions on activity and mobility. In most countries, high vaccination rates and acquired population immunity have minimised the public health risks and the need for restrictions.

The relaxation of restrictions in December 2022, presents significant potential upside risks to the outlook, given the opportunity for the persistent disruptions to activity to abate and for travel and tourism to resume. That could have global implications given the size of the Chinese economy. In particular, it could drive global growth higher, but also lead to renewed inflationary pressures as demand for commodities and other goods rises. In the short-term however, a significant escalation in infections poses downside risks to activity and consumption that could significantly damped confidence and present short-term headwinds to growth. In addition, a surge of infections risks giving opportunity for the emergence of a new variant of the virus, with increased virulence and/or severity.

We continue to monitor the situation closely, and given the continuing uncertainties related to the post-pandemic landscape, additional mitigating actions may be required.

32.3 Credit risk

Credit risk management

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from direct lending and trade finance, but also from off-balance sheet products such as guarantees and credit derivatives. Credit risk generates the largest regulatory capital requirement of the risks the Bank incurs.

We have implemented Bank wide credit risk management and related IFRS9 processes. We continue to assess actively the impact of economic developments on specific customers, customer segments or portfolios. As credit conditions change, we take mitigating action, including the revision of risk appetites or limits and tenors, as appropriate. In addition, we continue to evaluate the terms under which we provide credit facilities within the context of individual customer requirements, the quality of the relationship, local regulatory requirements, market practices and our local market position.

Credit approval authorities are delegated by the Board to the Bank's CEO and with the authority to sub-delegate them. The Credit Risk sub-function is headed by the CRO and is responsible for key policies and processes for managing credit risk, which include formulating credit policies and risk rating frameworks, guiding the HSBC group's appetite for credit risk exposures, undertaking independent reviews and objective assessment of credit risk, and monitoring performance and management of portfolios.

The principal objectives of our credit risk management are:

- To maintain a strong culture of responsible lending, and robust risk policies and control frameworks
- To both partner and challenge our business in defining, implementing and continually re-evaluating our risk appetite under actual and scenario conditions; and
- To ensure there is independent, expert scrutiny of credit risk, their costs and their mitigation.

IFRS9 Financial Instruments Process

We have established IFRS9 modelling and data processes which are subject to internal model risk governance including independent review of significant model developments. A centralised impairment engine performs the expected credit loss ('ECL') calculation using data, which is subject to a number of validation checks and enhancements, from a variety of client, finance and risk systems. Where possible, these checks and processes are performed in a HSBC globally consistent and centralised manner. Management review forums with representatives from Credit Risk and Finance are established in key sites including Oman, in order to review and approve the impairment results.

Concentration of exposure

Concentrations of credit risk arise when a number of counterparties or exposures have comparable economic characteristics, or such counterparties are engaged in similar activities or operate in the same geographical areas or industry sectors so that their collective ability to meet contractual obligations is uniformly affected by changes in economic, political or other conditions. We use a number of controls and measures to minimise undue concentration of exposure in our portfolios across industries, countries and global businesses. These include portfolio and counterparty limits, approval and review controls and stress testing.

Credit quality of financial instruments

The Bank's credit risk rating systems and processes differentiate exposures in order to highlight those with greater risk factors and higher potential severity of loss. In the case of individually significant accounts, risk ratings are reviewed regularly and any amendments are implemented promptly. Within the Bank's retail business, risk is assessed and managed using a wide range of risk and pricing models to generate portfolio data.

Special attention is paid to problem exposures in order to accelerate remedial action. The Bank uses a specialist unit to manage non-performing accounts and provide customers with support in order to help them avoid default wherever possible. Periodic risk-based audits of the Bank's credit processes and portfolios are undertaken by an independent function.

Renegotiated loans and forbearance

'Forbearance' describes concessions made on the contractual terms of a loan in response to an obligor's financial difficulties. A loan is classified as 'renegotiated' when we modify the contractual payment terms on concessionary terms because we have significant concerns about the borrower's ability to meet contractual payments when due. Non-payment-related concessions (e.g. covenant waivers), while potential indicators of impairment, do not trigger identification as renegotiated loans. Loans that have been identified as renegotiated retain this designation until maturity or derecognition. On execution of renegotiation, the loan will also be classified as credit impaired if it is not already so classified. In wholesale lending, all customer facilities including loans that have not been modified are considered credit impaired following the identification of a renegotiated loan until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, and until there are no other indicators of impairment. Personal renegotiated loans generally remain credit impaired until repayment, write-off or derecognition.

For retail lending, unsecured renegotiated loans are generally segmented from other parts of the loan portfolio. Renegotiated ECLs reflect the higher rates of losses typically encountered with renegotiated loans. For wholesale lending, renegotiated loans are typically assessed individually and take into account the higher risk of the future non-payment inherent in renegotiated loans.

Impairment assessment

It is the Bank's policy to create allowances for impaired loans and advances promptly and consistently.

For details of impairment policies on loans and advances and financial investments, see note 2.2 in these financial statements.

Write-off of loans and advances

Loans are normally written off, either partially or in full, when there is no realistic prospect of further recovery. For secured loans and advances, write-off generally occurs after receipt of any proceeds from the realisation of security.

Unsecured personal facilities, including credit cards, are generally written off at between 150 and 210 days past due, the standard period being the end of the month in which the account becomes 180 days contractually delinquent. Write-off periods may be extended, generally to no more than 360 days past due. However, in exceptional circumstances, they may be extended further, where local regulation or legislation constrain earlier write-off, or where the realisation of collateral for secured real estate lending extends to this time.

In the event of bankruptcy or analogous proceedings, write off may occur earlier than at the periods stated above. Collections procedures may continue after write off.

Accounting for modification gain / (loss)

The interest accrued during the deferral period will be collected from the customer (where applicable) through extending the original maturity period of the loan or by increasing the instalments at the end of the Deferral Period. The Bank has determined that the modifications due to deferment or restructured of the loan allowed in line with CBO relaxation measures did not result in derecognition of financial assets. The impact of day one modification gain / (loss) was not considered material for the period.

Notes to the Financial Statements (continued)

As of 31 December 2022

Stage-wise analysis of customers benefiting from payment deferrals

The following table provides a summary of the deferred amount of principal outstanding and accrued interest pertinent to Retail loans and advances of the customers as of 31 December 2022 and for both Wholesale and Retail customers as of 31 December 2021, there are no deferrals for Wholesale loans and advances during the year ended 31 December 2022 as all deferred loans were either restructured or fully settled:

As at 31 December 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	RO'000	**RO'000**	**RO'000**	**RO'000**
Loans and advances to customers benefiting from payment deferrals	**36**	**158**	**1,461**	**1,655**
ECL on loans and advances to customers benefiting from payment deferrals	**1**	**18**	**805**	**824**
Of Which:				
Deferred amount	**1**	**2**	**21**	**24**

As at 31 December 2021	Stage 1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000
Loans and advances to customers benefiting from payment deferrals	1,773	36,592	1,600	39,965
ECL on loans and advances to customers benefiting from payment deferrals	13	3,638	472	4,123
Of Which:				
Deferred amount	182	9,359	1,398	10,939

Summary of credit risk

The disclosure below presents the gross carrying/nominal amount of financial instruments to which the impairment requirements in IFRS 9 are applied and the associated allowance for ECL.

Summary of financial instruments to which the impairment requirements in IFRS 9 are applied:

	Gross carrying / nominal amount (net of reserved interest)	**Allowance for ECL**	Gross carrying / nominal amount (net of reserved interest)	Allowance for ECL
	2022	**2022**	2021	2021
	RO'000	**RO'000**	RO'000	RO'000
Cash and balances with central bank	**123,104**	**(101)**	282,756	(35)
Due from banks	**283,793**	**(37)**	213,730	(30)
Loans and advances to customers				
- WPB	**475,059**	**(7,025)**	457,693	(7,706)
- Wholesale	**807,611**	**(28,258)**	930,888	(33,687)
Other assets	**21,042**	**(20)**	23,454	(613)
Total gross carrying amount on balance sheet	**1,710,609**	**(35,441)**	1,908,521	(42,071)
Loans and other credit related commitments	**619,684**	**(2,691)**	637,797	(2,565)
Total nominal amount off balance sheet	**619,684**	**(2,691)**	637,797	(2,565)

Notes to the Financial Statements (continued)

As of 31 December 2022

	Fair value	Memorandum Allowance for ECL	Fair value	Memorandum Allowance for ECL
	2022	2022	2021	2021
	RO'000	RO'000	RO'000	RO'000
Financial investments at FVOCI	463,804	(147)	448,696	(677)
Financial investments at Amortised Cost	74,322	(22)	-	-

The following table provides an overview of the Bank's credit risk by stage and industry, and the associated ECL coverage. The financial assets recorded in each stage have the following characteristics:

Stage 1: Unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognised.

Stage 2: A significant increase in credit risk has been experienced since initial recognition on which a lifetime ECL is recognised.

Stage 3: Objective evidence of impairment, and are therefore considered to be in default or otherwise credit-impaired on which a lifetime ECL is recognised.

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage at 31 December 2022

Gross Exposure	**Gross Exposure**				**Allowances / Provision for ECL**				**ECL coverage %**			
	Stage1	**Stage 2**	**Stage 3**	**Total**	**Stage1**	**Stage 2**	**Stage 3**	**Total**	**Stage1**	**Stage 2**	**Stage 3**	**Total**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Loans and advances to customers (net of reserved interest)	**845,723**	**407,082**	**29,865**	**1,282,670**	**(1,847)**	**(11,369)**	**(22,067)**	**(35,283)**	**0.22%**	**2.79%**	**73.89%**	**2.75%**
Due from banks	**283,535**	**258**	**-**	**283,793**	**(37)**	**-**	**-**	**(37)**	**0.01%**	**-**	**-**	**0.01%**
Other financial assets measured at amortised cost	**212,126**	**6,451**	**-**	**218,577**	**(125)**	**(18)**	**-**	**(143)**	**0.06%**	**0.28%**	**-**	**0.07%**
Loans and other credit related commitments	**80,322**	**12,580**	**42**	**92,944**	**(271)**	**(1,937)**	**(42)**	**(2,250)**	**0.34%**	**15.40%**	**100%**	**2.42%**
Financial guarantees and similar contracts	**396,097**	**129,497**	**1,146**	**526,740**	**(78)**	**(166)**	**(197)**	**(441)**	**0.02%**	**0.13%**	**17.19%**	**0.08%**
At 31 December 2022	**1,817,803**	**555,868**	**31,053**	**2,404,724**	**(2,358)**	**(13,490)**	**(22,306)**	**(38,154)**	**0.13%**	**2.43%**	**71.83%**	**1.59%**

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage at 31 December 2021

Gross Exposure	Gross Exposure				Allowances / Provision for ECL				ECL coverage %			
	Stage1	Stage 2	Stage 3	Total	Stage1	Stage 2	Stage 3	Total	Stage1	Stage 2	Stage 3	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Loans and advances to customers (net of reserved interest)	703,322	653,686	31,573	1,388,581	(4,122)	(14,900)	(22,371)	(41,393)	0.44%	3.60%	70.85%	2.98%
Due from banks	213,730	-	-	213,730	(30)	-	-	(30)	0.01%	-	-	0.01%
Other financial assets measured at amortised cost	61,006	245,204	-	306,210	(42)	(606)	-	(648)	0.07%	0.25%	-	0.21%
Loans and other credit related commitments	85,561	27,530	200	113,291	(247)	(644)	(42)	(933)	0.29%	2.34%	21%	0.82%
Financial guarantees and similar contracts	330,060	193,006	1,439	524,505	(226)	(1,212)	(194)	(1,632)	0.07%	0.63%	13.48%	0.31%
At 31 December 2021	1,393,679	1,119,426	33,212	2,546,317	(4,667)	(17,362)	(22,607)	(44,636)	0.29%	1.97%	68.07%	1.75%

Notes to the Financial Statements (continued)

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Measurement uncertainty and sensitivity analysis of ECL estimates

Expected credit loss impairment allowances recognised in the financial statements reflect the effect of a range of possible economic outcomes, calculated on a probability-weighted basis, based on the economic scenarios described below. The recognition and measurement of ECL involves the use of significant judgment and estimation. It is necessary to formulate multiple forward looking economic forecasts and incorporate them into the ECL estimates. The Bank uses a standard framework to form economic scenarios to reflect assumptions about future economic conditions, supplemented with the use of management judgment, which may result in using alternative or additional economic scenarios and/or management adjustments.

Methodology for Developing Forward Looking Economic Scenarios

The Bank has adopted the use of multiple economic scenarios to reflect assumptions about future economic conditions. Four economic scenarios are typically used to capture the current economic environment and to articulate management's view of the range of potential outcomes. Scenarios produced to calculate ECL are aligned to Bank's top and emerging risks. Three of the scenarios are drawn from consensus forecasts and distributional estimates. The Central scenario is deemed the 'most likely' scenario, and usually attracts the largest probability weighting, while the outer scenarios represent the tails of the distribution, which are less likely to occur. The Central scenario is created using the average of a panel of external forecasters. In the first quarter of 2022, a fifth scenario was introduced to capture the risk of a protracted Ukraine/Russia war and in the second quarter, it was replaced by a global stagflation scenario. In the 3rd quarter of 2022, the Bank reverted to using the standard 4 scenario approach as the impact of stagflation was integrated into the central scenario.

For the Central scenario, the Bank sets key economic assumptions such as GDP growth and oil price using either the average of external economist forecasts (commonly referred to as consensus forecasts) for most economies, or market prices helping to ensure that the IFRS 9 scenarios are unbiased and maximise the use of independent information. An external provider's global macro model, conditioned to follow the consensus forecasts, projects the other paths required as inputs to credit models. This external provider is subject to the HSBC group's risk governance framework, with oversight by a specialist internal unit.

The Upside and Downside scenarios are designed to be cyclical, in that assumptions such as GDP growth usually revert back to the Central scenario after the first three years for major economies. We determine the maximum divergence of GDP growth from the Central scenario using the 10th and the 90th percentile of the entire distribution of forecast outcomes for major economies. We use externally available forecast distributions to help ensure independence in scenario construction. While key economic variables are set with reference to external distributional forecasts, we also align the overall narrative of the scenarios to the macroeconomic risks captured in the group's Top and Emerging Risks. This ensures that scenarios remain consistent with the more qualitative assessment of these risks. We project additional variable paths using the external provider's global macro model.

The forecast macro-economic scenarios have continued to show improvement; therefore, the management has decided to increase the probability weight of the Central scenario due to higher confidence in the forecast outcomes.

The scenarios weighting as at 31 December 2022 and comparative year are as below;

	31 December 2022	31 December 2021
Consensus Central scenario	85%	70%
Consensus Upside scenario	5%	5%
Consensus Downside 1a scenario	5%	20%
Downside 2 scenario	5%	5%

Description of Consensus Economic Scenarios

The following table describes key macroeconomic variables and the probabilities assigned in the consensus Central scenario

Central scenario (2023Q1–2027Q4)	
Probability (%)	**85**
GDP growth rate (%)	
2023: Annual average growth rate	**3.0**
2024: Annual average growth rate	**2.5**
2025: Annual average growth rate	**2.2**
5-year average	**2.5**
Oil price (US$)	
2022: Average oil price	**101.9**
2023: Average oil price	**85.2**
2024: Average oil price	**78.9**
2025: Average oil price	**73.3**
5-year average	**82.5**

Notes to the Financial Statements (continued)
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The following table describes the probabilities assigned in the consensus Upside scenario, consensus Downside scenario and Additional Downside scenario, the key macroeconomic variables for each scenario and the largest quarterly measure observed for each variable over the forecast period. The Additional Downside scenario features a global recession and has been created to reflect management's view of severe risks.

Outer scenarios (less likely)	Consensus Upside scenario	Consensus Downside scenario	Downside 2 Scenario
Probability (%)	**5**	**5**	**5**
GDP growth rate (%)	**6.3 (4Q23)**	**(2.5) (4Q23)**	**(4.2) (4Q23)**
Oil price (US$)	**53.5 (4Q23)**	**119.2 (4Q23)**	**102.6 (4Q23)**

Management judgemental adjustments

In the context of IFRS 9, management judgemental adjustments are short-term increases or decreases to the ECL at either a customer or portfolio level to account for late breaking events, model deficiencies and expert credit judgement applied following management review and challenge. The drivers of the management judgemental adjustments reflect the changing economic outlook and evolving risks. Management judgements were applied in prior years to reflect credit risk dynamics not captured by our models. As the macroeconomic and portfolio risk outlook continued to improve in 2022, supported by low level of observed defaults, adjustments specifically taken from a sectorial viewpoint in prior years to reflect increased risk expectation have been retired.

How economic scenarios are reflected in the wholesale calculation of ECL

HSBC at group level has developed a globally consistent methodology for the application of economic scenarios into the calculation of ECL by incorporating those scenarios into the estimation of the term structure of probability of default ('PD') and loss given default ('LGD'). For PDs, the Bank considers the correlation of economic guidance to default rates. For LGD calculations we consider the correlation of forward economic guidance to collateral values and realisation rates. PDs and LGDs are estimated for the entire term structure of each instrument.

For impaired loans, LGD estimates take into account independent recovery valuations provided by external consultants where available, or internal forecasts corresponding to anticipated economic conditions and individual company conditions. In estimating the ECL on impaired loans that are individually considered not to be significant, the Bank incorporates economic scenarios proportionate to the probability-weighted outcome and the central scenario outcome for non-stage 3 populations.

ECL based exposures at 31 December 2022	**2022**	2021
	RO'million	RO'million
Reported ECL[2]	**10.6**	16.6
Gross carrying / nominal amount[3]	**2,368.7**	2,511.1
Consensus Central scenario	**10.5**	16.7
Consensus Upside scenario	**10.1**	14.2
Consensus Downside scenario	**10.8**	21.9
Downside 2 scenario	**12.6**	31.1

1. Excludes ECL and financial instruments relating to defaulted obligors because the measurement of ECL is relatively more sensitive to credit factors specific to the obligor than future economic scenarios.
2. Includes off-balance sheet financial instruments that are subject to significant measurement uncertainty.
3. Includes low credit risk financial instruments such as Debt instruments at FVOCI, which have low ECL coverage ratios under all the above scenarios.

Notes to the Financial Statements (continued)
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How economic scenarios are reflected in the retail calculation of ECL

HSBC has developed and implemented a globally consistent methodology for incorporating forecasts of economic conditions into ECL estimates. The impact of economic scenarios on PD is modelled at a portfolio level. Historical relationships between observed default rates and macro-economic variables are integrated into ('IFRS 9 ECL') estimates by leveraging economic response models. The impact of these scenarios on PD is modelled over a period equal to the remaining maturity of underlying asset or assets. The Bank applies proxy rates to the small portfolios with low level of defaults, these proxy rates are derived by calculating the average or blended ECL rates across countries with similar products, for each portfolio type.

IFRS 9 ECL sensitivity to future economic conditions1

	2022	2021
	RO'million	RO'million
Reported ECL	**7.0**	7.7
Gross carrying amount	**475.9**	458.5
Consensus Central scenario	**3.8**	4.0
Consensus Upside scenario	**3.9**	3.1
Consensus Downside scenario	**3.8**	5.2
Downside 2 scenario	**4.2**	XX

1. ECL sensitivities exclude portfolios utilising less complex modelling approaches
2. ECL sensitivity includes only on-balance sheet financial instruments to which IFRS 9 impairment requirements are applied

Economic scenarios sensitivity analysis of ECL estimates

The ECL outcome is sensitive to judgement and estimations made with regards to the formulation and incorporation of multiple forward looking economic conditions described above. As a result, management assessed and considered the sensitivity of the ECL outcome against the forward looking economic conditions as part of the ECL governance process by recalculating the ECL under each scenario described above for selected portfolios, applying a 100% weighting to each scenario in turn. The weighting is reflected in both the determination of significant increase in credit risk as well as the measurement of the resulting ECL.

Maximum exposure to credit risk

The Bank's exposure to credit risk is spread across a broad range of asset classes, including derivatives, trading assets, loans and advances to customers, due from banks, and financial investments.

The following table presents the Bank's maximum exposure to credit risk from on balance sheet and off-balance sheet financial instruments before taking account of any collateral held or other credit enhancements (unless such enhancements meet accounting offsetting requirements). For financial assets recognised on the statement of financial position, the maximum exposure to credit risk equals their carrying amount; for financial guarantees and similar contracts granted, it is the maximum amount that the Bank would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk, it is generally the full amount of the committed facilities.

The offset in the table relate to amounts where there is a legally enforceable right of offset in the event of counterparty default and where, as a result, there is a net exposure for credit risk purposes. However, as there is no intention to settle these balances on a net basis under normal circumstances, they do not qualify for net presentation for accounting purposes.

Notes to the Financial Statements (continued)
As of 31 December 2022

Maximum exposure to credit risk	31 December 2022			31 December 2021		
	Maximum exposure	Offset	Net	Maximum exposure	Offset	Net
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
On balance sheet						
Derivatives	2,872	-	2,872	6,040	-	6,040
Loans and advances to customers held at amortised cost						
- WPB	468,034	-	468,034	449,986	-	449,986
- Wholesale	779,353	(191,242)	588,111	897,202	(217,570)	679,632
Balances with central bank (note 11(a))	90,884	-	90,884	239,702	-	239,702
Due from banks (note 11 (b))	283,756	-	283,756	213,700	-	213,700
Financial investments	538,213	-	538,213	448,962	-	448,962
Other assets	41,101	-	41,101	48,380	-	48,380
	2,204,213	(191,242)	2,012,971	2,303,972	(217,570)	2,086,402
Off balance sheet						
Financial guarantees and similar contracts	526,740	(16,226)	510,514	524,506	(1,447)	523,059
Loans and other credit related commitments	523,334	-	523,334	542,231	-	542,231
Total	3,254,287	(207,468)	3,046,819	3,370,709	(219,017)	3,151,692

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and guarantees

The following disclosure provides a reconciliation by stage of the Bank's gross carrying/nominal amount and allowances for loans and advances to banks and customers, including loan commitments and guarantees. Movements are calculated on a quarterly basis and therefore fully capture stage movements between quarters. If movements were calculated on a year-to-date basis they would only reflect the opening and closing position of the financial instrument. The transfers of financial instruments represents the impact of stage transfers upon the gross carrying/nominal amount and associated allowance for ECL.

The net remeasurement of ECL arising from stage transfers represents the increase or decrease due to these transfers, for example, moving from a 12-month (stage 1) to a lifetime (stage 2) ECL measurement basis. Net remeasurement excludes the underlying customer risk rating ('CRR')/probability of default ('PD') movements of the financial instruments from stage transfers. This is captured, along with other credit quality movements in the 'Net new and further lending/(repayments) and changes in risk parameters' line item. This line also includes changes due to volume movements within the group's lending portfolio.

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees at 31 December 2022;

Notes to the Financial Statements (continued)
As of 31 December 2022

	Non credit - impairment				Credit impairment			
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
As at 01 January 2022	1,332,815	4,625	874,613	16,756	45,924	22,607	2,253,352	43,988
-Transfers from stage 1 to stage 2	(112,245)	(360)	112,245	360	-	-	-	-
-Transfers from stage 2 to stage 1	435,332	1,417	(435,332)	(1,417)	-	-	-	-
-Transfers to stage 3	-	-	(11,917)	(1,070)	11,917	1,070	-	-
-Transfers from stage 3	-	-	6,085	2,108	(6,085)	(2,108)	-	-
Net remeasurement of ECL arising from transfer of stage	-	(618)	-	1,295	-	70	-	747
Net new lending / (repayments) and changes to risk parameters	(50,181)	(2,833)	4,773	(4,560)	(3,118)	3,563	(48,526)	(3,830)
Assets written off	-	-	-	-	(3,933)	(2,894)	(3,933)	(2,894)
At 31 December 2022	1,605,721	2,231	550,467	13,472	44,705	22,308	2,200,893	38,011
ECL release / (charge) for the year		3,451		3,265		(3,633)		3,083
Recoveries		-		-		2,873		2,873
Total ECL release / (charge) for the year		3,451		3,265		(760)		5,956

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees at 31 December 2022 (continued);

Notes to the Financial Statements (continued)
As of 31 December 2022

	At 31 December 2022		For the year ended 31 December 2022
	Gross carrying / nominal amount	Allowance for ECL	ECL (charge) / release
	RO'000	RO'000	RO'000
As above	**2,200,893**	**38,011**	**5,956**
Other financial assets measured at amortised cost	**218,577**	**143**	**502**
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/ Summary income statement	**2,419,470**	**38,154**	**6,458**
Debt instruments measured at FVOCI (note 13)	**463,804**	**147**	**530**
Total allowance for ECL/total profit or loss ECL charge for the year	**2,883,274**	**38,301**	**6,988**

Notes to the Financial Statements (continued)
As of 31 December 2022

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees at 31 December 2021;

	Non credit - impairment				Credit impairment		Total	
	Stage 1		Stage 2		Stage 3			
	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
As at 01 January 2021	1,511,035	9,608	784,579	20,616	52,892	27,198	2,348,506	57,422
-Transfers from stage 1 to stage 2	(540,752)	(2,311)	540,752	2,311	-	-	-	-
-Transfers from stage 2 to stage 1	368,755	5,150	(368,755)	(5,150)	-	-	-	-
-Transfers to stage 3	-	-	(13,965)	(3,453)	13,965	3,453	-	-
-Transfers from stage 3	-	-	6,842	3,036	(6,842)	(3,036)	-	-
Net remeasurement of ECL arising from transfer of stage	-	(1,628)	-	3,219	-	239	-	1,830
Net new lending / (repayments) and changes to risk parameters	(6,223)	(6,194)	(74,840)	(3,823)	(3,014)	3,989	(84,077)	(6,028)
Assets written off	-		-	-	(11,077)	(9,236)	(11,077)	(9,236)
At 31 December 2021	1,332,815	4,625	874,613	16,756	45,924	22,607	2,253,352	43,988
ECL charge for the year		7,822		604		(4,228)		4,198
Recoveries		-		-		3,415		3,415
Total ECL charge for the year		7,822		604		(813)		7,613

	At 31 December 2021		For the year ended 31 December 2021
	Gross carrying / nominal amount	Allowance for ECL	ECL charge
	RO'000	RO'000	RO'000
As above	2,253,352	43,988	7,613
Other financial assets measured at amortised cost	306,210	648	(247)
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/ Summary income statement	2,559,562	44,636	7,366
Debt instruments measured at FVOCI	448,696	677	134
Total allowance for ECL/total profit or loss ECL charge for the year	3,008,258	45,313	7,500

Notes to the Financial Statements (continued)
As of 31 December 2022

Wholesale lending - Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees at 31 December 2022

	Non credit - impairment				Credit impairment			
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
As at 01 January 2022	844,356	3,271	858,143	12,001	38,639	21,005	1,741,138	36,277
-Transfers from stage 1 to stage 2	(103,607)	(321)	103,607	321	-	-	-	-
-Transfers from stage 2 to stage 1	430,198	926	(430,198)	(926)	-	-	-	-
-Transfers to stage 3	-	-	(101)	(19)	101	19	-	-
-Transfers from stage 3	-	-	-	-	-	-	-	-
Net remeasurement of ECL arising from transfer of stage	-	(382)	-	1,060	-	-	-	678
Net new lending / (repayments) and changes to risk parameters	(69,329)	(2,162)	3,565	(3,477)	806	(334)	(64,958)	(5,973)
Assets written off	-	-	-	-	(1,018)	-	(1,018)	-
At 31 December 2022	1,101,618	1,332	535,016	8,960	38,528	20,690	1,675,162	30,982
ECL charge for the year		2,544		2,417		334		5,295
Recoveries		-		-		111		111
Total ECL charge for the year		2,544		2,417		445		5,406

Notes to the Financial Statements (continued)

As of 31 December 2022

Wholesale lending - Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees at 31 December 2021

	Non credit - impairment				Credit impairment			
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
As at 01 January 2021	1,037,268	5,412	758,719	17,386	45,060	25,043	1,841,047	47,841
-Transfers from stage 1 to stage 2	(521,413)	(1,460)	521,413	1,460	-	-	-	-
-Transfers from stage 2 to stage 1	340,290	2,855	(340,290)	(2,855)	-	-	-	-
-Transfers to stage 3	-	-	(144)	(8)	144	8	-	-
-Transfers from stage 3	-		-	-	-	-	-	-
Net remeasurement of ECL arising from transfer of stage	-	(698)	-	2,919	-	-	-	2,221
Net new lending / (repayments) and changes to risk parameters	(11,789)	(2,838)	(81,555)	(6,901)	(24)	693	(93,368)	(9,046)
Assets written off	-	-	-	-	(6,541)	(4,739)	(6,541)	(4,739)
At 31 December 2021	844,356	3,271	858,143	12,001	38,639	21,005	1,741,138	36,277
ECL charge for the year		3,536		3,982		(693)		6,825
Recoveries		-		-		254		254
Total ECL charge for the year		3,536		3,982		(439)		7,079

Personal lending - Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to customers including loan commitments and financial guarantees at 31 December 2022

	Non credit - impairment				Credit impairment			
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
As at 01 January 2022	488,459	1,354	16,470	4,755	7,285	1,602	512,214	7,711
-Transfers from stage 1 to stage 2	(8,638)	(39)	8,638	39	-	-	-	-
--Transfers from stage 2 to stage 1	5,134	491	(5,134)	(491)	-	-	-	-
-Transfers to stage 3	-	-	(11,816)	(1,051)	11,816	1,051	-	-
-Transfers from stage 3	-	-	6,085	2,108	(6,085)	(2,108)	-	-
Net remeasurement of ECL arising from transfer of stage	-	(236)	-	235	-	70	-	69
Net new lending / (repayments) and changes to risk parameters	19,148	(671)	1,208	(1,083)	(3,924)	3,897	16,432	2,143
Assets written off	-	-	-	-	(2,915)	(2,894)	(2,915)	(2,894)
At 31 December 2022	504,103	899	15,451	4,512	6,177	1,618	525,731	7,029
ECL release / (charge) for the year		907		848		(3,967)		(2,212)
Recoveries		-		-		2,762		2,762
Total ECL release / (charge) for the year		907		848		(1,205)		550

Notes to the Financial Statements (continued)
As of 31 December 2022

Personal lending - Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to customers including loan commitments and financial guarantees at 31 December 2021

	Non credit - impairment				Credit impairment			
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL	Gross carrying / nominal amount	Allowance for ECL
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
As at 01 January 2021	473,767	4,196	25,860	3,230	7,832	2,155	507,459	9,581
-Transfers from stage 1 to stage 2	(19,339)	(851)	19,339	851	-	-	-	-
-Transfers from stage 2 to stage 1	28,465	2,295	(28,465)	(2,295)	-	-	-	-
-Transfers to stage 3	-	-	(13,821)	(3,445)	13,821	3,445	-	-
-Transfers from stage 3	-	-	6,842	3,036	(6,842)	(3,036)	-	-
Net remeasurement of ECL arising from transfer of stage	-	(930)	-	300	-	239	-	(391)
Net new lending / (repayments) and changes to risk parameters	5,566	(3,356)	6,715	3,078	(2,990)	3,296	9,291	3,018
Assets written off	-	-	-	-	(4,536)	(4,497)	(4,536)	(4,497)
At 31 December 2021	488,459	1,354	16,470	4,755	7,282	1,602	512,214	7,711
ECL release / (charge) for the year		4,286		(3,378)		(3,535)		(2,627)
Recoveries		-		-		3,161		3,161
Total ECL release / (charge) for the year		4,286		(3,378)		(374)		534

Notes to the Financial Statements (continued)
As of 31 December 2022

Collateral and other credit enhancements

Although collateral can be an important mitigant of credit risk, it is the Bank's practice to lend on the basis of the customer's ability to meet their obligations out of their cash flow resources rather than rely on the value of security offered. Depending on the customer's standing and the type of product, facilities may be provided unsecured. However, for other lending decisions a charge over collateral is obtained and is considered in determining the credit decision and pricing. In the event of default, the Bank may utilise the collateral as a source of repayment.

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

	2022	2021
	RO'000	RO'000
Property	142,093	145,895
Equity	39	19
Fixed deposits	192,713	219,017
Vehicle	618	680
Guarantees	81,150	97,611
Total	416,613	463,222

The tables below provide a quantification of the value of fixed charges the Bank holds over specific asset (or assets) where the Bank has a history of enforcing, and are able to enforce, the collateral in satisfying a debt in the event of the borrower failing to meet its contractual obligations, and where the collateral is cash or can be realised by sale in an established market. The collateral valuation in the tables below excludes any adjustments for obtaining and selling the collateral. The methodologies for obtaining residential property collateral values vary, but are typically determined through a combination of professional appraisals, house price indices or statistical analysis. Valuations to be updated on a regular basis and, as a minimum, at intervals of every three years.

Personal lending: residential mortgage loans including loan commitments by level of collateral at 31 December

	2022	2021
	RO'000	RO'000
Fully collateralized	**119,657**	113,786
LTV Ratio :		
- Less than 50%	27,310	36,838
- 51% to 60%	15,669	13,961
- 61% to 70%	24,715	21,172
- 71% to 80%	39,567	30,201
- 81% to 90%	9,763	9,613
- 91% to 100%	2,633	2,001
Partially collateralised (A)	**1,751**	828
LTV Ratio :		
- 101% to 110%	940	505
- 111% to 120%	262	148
- Greater than 120%	549	175
Collateral value on A	1,439	725
Total	**121,408**	114,614

Notes to the Financial Statements (continued)
As of 31 December 2022

Wholesale lending: corporate, commercial and financial (non-bank) loans and advances by level of collateral by stage at 31 December

	2022	2021
	RO'000	RO'000
Not collateralised	544,701	666,080
Fully collateralised	1,586	101,754
LTV Ratio :		
- Less than 50%	465	346
- 51% to 75%	926	998
- 76% to 90%	168	175
- 91% to 100%	27	100,235
Partially collateralised (A)	275,224	175,503
Collateral value on A	179,686	115,805
Total	821,511	943,337

The table below presents an analysis of financial investments as at 31 December 2022 and 2021:

	2022	2021
	RO'000	RO'000
Unrated equity investments	-	266
Sovereign securities	538,213	448,696
Total	538,213	448,962

The table below presents an analysis of due from banks and balances with central bank as at 31 December 2022, based on Fitch and Standard & Poor's ratings or equivalent.

	2022	2021
	RO'000	RO'000
Sovereign	90,985	239,737
AA-	54,457	86,537
A+	55,570	39,374
A	34,817	19,250
A-	19,258	19,524
BBB+	58,614	475
BBB	258	-
BB+	-	9,625
BB	35,535	-
BB-	25,084	-
Unrated	200	38,945
ECL allowances	(138)	(65)
Total	374,640	453,402

Concentration of exposure

Exposure to a person, company or group (the Single Borrower Lending Limit) is restricted to a maximum 15% of the Bank's regulatory net worth or 10% of the Bank's regulatory net worth for related parties, subject to any regulatory dispensations. In addition, the total of all facilities granted to related parties must not exceed 35% of the Bank's net worth.

Notes to the Financial Statements (continued)
As of 31 December 2022

	Gross loans and advances		Due from banks		Financial investments		Balances with central bank	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021
	RO'000	RO'000	**RO'000**	RO'000	**RO'000**	RO'000	**RO'000**	RO'000
Concentration by sector:								
Sovereign	**257,642**	274,450	**-**	-	**538,213**	448,696	**90,985**	239,737
Corporate	**563,869**	668,887	**-**	-	**-**	-	**-**	-
Banks	**-**	-	**283,793**	213,730	**-**	-	**-**	-
Retail	**475,905**	458,488	**-**	-	**-**	-	**-**	-
Carrying amount	**1,297,416**	1,401,825	**283,793**	213,730	**538,213**	448,696	**90,985**	239,737

Credit quality of financial instruments

The Bank assesses the credit quality of all financial instruments that are subject to credit risk. The credit quality of financial instruments is a point-in-time assessment of PD, whereas stages 1 and 2 are determined based on relative deterioration of credit quality since initial recognition. Accordingly, for non-credit impaired financial instruments, there is no direct relationship between the credit quality assessment and stages 1 and 2, although typically the lower credit quality bands exhibit a higher proportion in stage 2.

The five credit quality classifications defined below each encompass a range of granular internal credit rating grades assigned to wholesale and personal lending businesses and the external ratings attributed by external agencies to debt securities.

Credit quality classification	Debt securities and other bills - external credit ratings	Wholesale lending – Internal credit rating	Retail lending – Internal credit rating[2]
Strong	A– and above	CRR11 to CRR2	Band 1 and 2
Good	BBB+ to BBB–	CRR3	Band 3
Satisfactory	BB+ to B and unrated	CRR4 to CRR5	Band 4 and 5
Sub-standard	B– to C	CRR6 to CRR8	Band 6
Impaired	Default	CRR9 to CRR10	Band 7

1. Customer risk rating.
2. 12-month point-in-time ('PIT') probability weighted probability of default ('PD').

Quality classification definitions

- 'Strong' exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss.
- 'Good' exposures require closer monitoring and demonstrate a good capacity to meet financial commitments, with low default risk.
- 'Satisfactory' exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk.
- 'Sub-standard' exposures require varying degrees of special attention and default risk is of greater concern.
- 'Impaired' exposures have been assessed as impaired. These also include retail accounts classified as Band 1 to Band 6 that are delinquent by more than 90 days, unless individually they have been assessed as not impaired; and renegotiated loans that have met the requirements to be disclosed as impaired and have not yet met the criteria to be returned to the unimpaired portfolio.

Risk rating scales

The customer risk rating ('CRR') 10-grade scale summarises a more granular underlying 23-grade scale of obligor probability of default ('PD'). All customers are rated using the 10 grade or 23-grade scale, depending on the degree of sophistication of the Basel approach adopted for the exposure.

Retail lending credit quality is disclosed on an IFRS 9 basis, which is based on a 12-month point-in-time ('PIT') probability weighted probability of default ('PD').

For debt securities and certain other financial instruments, external ratings have been aligned to the five quality classifications. The ratings of Standard and Poor's are cited, with those of other agencies being treated equivalently. Debt securities with short-term issue ratings are reported against the long-term rating of the issuer of those securities. If major rating agencies have different ratings for the same debt securities, a prudent rating selection is made in line with regulatory requirements.

Notes to the Financial Statements (continued)

As of 31 December 2022

Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage allocation

	Gross carrying/notional amount							
	Strong	**Good**	**Satisfactory**	**Substandard**	**Credit impaired**	**Total**	**Allowance for ECL**	**Net**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Cash and balances at central bank	32,119	-	90,985	-	-	123,104	(101)	123,003
Due from banks	283,793	-	-	-	-	283,793	(37)	283,756
Loans and advances to customers (net of reserved interest)	408,164	338,680	457,365	48,596	29,865	1,282,670	(35,283)	1,247,387
Financial investments – FVOCI	233,104	-	230,700	-	-	463,804	(147)	463,657
Financial investments – Amortised Cost	19,242	-	55,167	-	-	74,431	(22)	74,409
Other assets – acceptances	-	9,525	7,858	3,659	-	21,042	(20)	21,022
At 31 December 2022 (on balance sheet)	976,422	348,205	842,075	52,255	29,865	2,248,844	(35,610)	2,213,234
Loan and other credit related commitments for loans and advances to customers	60,980	17,844	13,372	706	42	92,944	(2,250)	90,694
Financial guarantee and similar contracts	219,027	147,141	149,759	9,667	1,146	526,740	(441)	526,299
At 31 December 2022 (off balance sheet)	280,007	164,985	163,131	10,373	1,188	619,684	(2,691)	616,993

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Substandard	Credit impaired	Total	Allowance for ECL	Net
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances at central bank	43,019	-	239,737	-	-	282,756	(35)	282,721
Due from banks	213,730	-	-	-	-	213,730	(30)	213,700
Loans and advances to customers (net of reserved interest)	454,414	132,675	695,230	74,689	31,573	1,388,581	(41,393)	1,347,188
Financial investments – FVOCI	98,026	-	350,670	-	-	448,696	(677)	448,019
Financial investments – Amortised Cost	-	-	-	-	-	-	-	-
Other assets – acceptances	589	899	17,203	4,763	-	23,454	(613)	22,841
At 31 December 2021 (on balance sheet)	809,778	133,574	1,302,840	79,452	31,573	2,357,217	(42,748)	2,314,469
Loan and other credit related commitments for loans and advances to customers	80,953	13,003	17,892	1,243	200	113,291	(933)	112,358
Financial guarantee and similar contracts	257,132	91,191	157,669	17,075	1439	524,506	(1,632)	522,874
At 31 December 2021 (off balance sheet)	338,085	104,194	175,561	18,318	1639	637,797	(2,565)	635,232

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As of 31 December 2022

Distribution of financial instruments to which the impairment requirement in IFRS 9 are applied, by credit quality stage allocation

	Strong	Good	Satisfactory	Substandard	Credit impaired	Total	Allowance for ECL	Net
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Gross carrying amount on balance sheet								
- stage 1	**956,808**	**212,490**	**630,806**	**5,084**	**-**	**1,805,188**	**(2,156)**	**1,803,032**
- stage 2	**19,614**	**135,715**	**211,291**	**47,171**	**-**	**413,791**	**(11,387)**	**402,404**
- stage 3	**-**	**-**	**-**	**-**	**29,865**	**29,865**	**(22,067)**	**7,798**
Nominal amount off balance sheet								
- stage 1	**250,872**	**111,031**	**114,353**	**163**	**-**	**476,419**	**(349)**	**476,070**
- stage 2	**29,135**	**53,954**	**48,778**	**10,210**	**-**	**142,077**	**(2,103)**	**139,974**
- stage 3	**-**	**-**	**-**	**-**	**1,188**	**1,188**	**(239)**	**949**
At 31 December 2022	**1,256,429**	**513,190**	**1,005,228**	**62,628**	**31,053**	**2,868,528**	**(38,301)**	**2,830,227**

	Strong	Good	Satisfactory	Substandard	Credit impaired	Total	Allowance for ECL	Net
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Gross carrying amount on balance sheet								
- stage 1	656,962	110,716	654,255	4,822	-	1,426,755	(4,871)	1,421,884
- stage 2	152,816	22,858	648,585	74,630	-	898,889	(15,506)	883,383
- stage 3	-	-	-	-	31,573	31,573	(22,371)	9,202
Nominal amount off balance sheet								
- stage 1	290,642	49,359	75,620	-	-	415,621	(473)	415,148
- stage 2	47,443	54,835	99,941	18,318	-	220,537	(1,856)	218,681
- stage 3	-	-	-	-	1,639	1,639	(236)	1,403
At 31 December 2021	1,147,863	237,768	1,478,401	97,770	33,212	2,995,014	(45,313)	2,949,701

Notes to the Financial Statements (continued)
As of 31 December 2022

Past due but not impaired gross financial instruments

Past due but not impaired gross financial instruments are those loans where, although customers have failed to make payments in accordance with the contractual terms of their facilities, they have not met the impaired loan criteria. This is typically when a loan is less than 90 days past due and there are no other indicators of iimpairment.

Further examples of exposures past due but not impaired include individually assessed mortgages that are in arrears more than 90 days, but there are no other indicators of impairment and the value of collateral is sufficient to repay both the principal debt and all potential interest for at least one year or short-term trade facilities past due more than 90 days for technical reasons such as delays in documentation but there is no concern over the creditworthiness of the counterparty.

The following table provides an analysis of gross loans and advances to customers held at amortised cost which are past due but not considered impaired.

	2022	2021
	RO'000	RO'000
Loans and advances to customers held at amortised cost		
Past due 1-30 days	3,896	22,144
Past due 31-60 days	5,504	1,740
Past due 61-89 days	687	1,890
Total	10,087	25,774

Impaired loans

Impaired and stage 3 loans and advances are those that meet any of the following criteria:

- Wholesale loans and advances classified as Customer Risk Rating ('CRR') 9 or CRR 10. These grades are assigned when the bank considers that either the customer is unlikely to pay their credit obligations in full without recourse to security, or when the customer is more than 90 days past due on any material credit obligation to the Bank.
- Retail loans and advances classified as Band 7. These grades are typically assigned to retail loans and advances more than 90 days past due unless individually they have been assessed as not impaired.
- Renegotiated loans and advances that have been subject to a change in contractual cash flows as a result of a concession which the lender would not otherwise consider, and where it is probable that without the concession the borrower would be unable to meet its contractual payment obligations in full, unless the concession is insignificant and there are no other indicators of impairment. Renegotiated loans remain classified as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, and there are no other indicators of impairment.

32.4 Liquidity and funding

Liquidity risk is the risk that the Bank does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows.

Funding risk (a form of liquidity risk) arises when the liquidity needed to fund illiquid asset positions cannot be obtained on the expected terms and when required.

Liquidity and funding risk management framework

The objective of the Bank's liquidity and funding risk framework ('LFRF') management is to allow it to withstand severe liquidity stresses. It is designed to be adaptable to changing business models and regulations.

The LFRF is delivered using the following key aspects:

- Minimum Liquidity Coverage Ratio (LCR) requirement depending on inherit liquidity risk ('ILR') categorisation;
- Minimum Net Stable Funding Ratio (NSFR) requirement depending on ILR categorization;
- Single currency liquidity management
- Forward looking funding status assessment
- Analysis of off-balance sheet commitments
- Asset encumbrance
- Depositor concentration limit;
- Liquidity funds transfer pricing
- Three-month and 12-month cumulative rolling term contractual maturity limits covering deposits from bank, deposits from non-bank financial institutions and securities issued;

- Contingency Funding Plan, and
- Individual Liquidity Adequacy Assessment and liquidity stress testing

The management of the LFRF is implemented in accordance with the limits and practices set by the Board and the HSBC Group and is in line with the guidelines provided by the CBO.

Liquidity and funding for the year ended 2022

The liquidity position of the Bank remained strong as of 31 December 2022. As per LFRF framework Bank's LCR as of 31 December 2022 was 442% (2021: 441%) and NSFR as of 31 December 2022 was 152% (2021: 142%).

The Bank also calculates the LCR and NSFR as per the CBO requirement. The Bank's LCR ratio as of 31 December 2022 was 400% (31 December 2021: 251%) and NSFR ratio as of 31 December 2022 was 167% (31 December 2021: 153%).

Detailed computation of LCR and NSFR as per the CBO requirement has been disclosed separately in note 34 of these financial statements.

Management of liquidity and funding risk

Liquidity coverage ratio

The LCR metric is designed to promote the short-term resilience of a bank's liquidity profile. It aims to ensure that a bank has sufficient unencumbered high-quality liquid assets ('HQLA') to meet its liquidity needs in a 30-calendar-day liquidity stress scenario. HQLAs consist of cash or assets that can be converted into cash at little or no loss of value in markets.

Net stable funding ratio

The NSFR requires institutions to maintain sufficient stable funding relative to required stable funding and reflects a bank's long-term funding profile (funding with a term of more than a year). It is designed to complement the LCR.

Sources of funding

The current accounts, savings deposits and term deposits are the Bank's primary source of funding. The Bank places considerable importance on the stability of these deposits.

The level of customer accounts continued to exceed the level of loans and advances to customers. The positive funding gap was predominantly deployed into liquid assets, cash and balances with central banks and financial investments, as required by the LFRF. Loans and other advances to customers and due from banks continued to exceed deposits by banks.

32.5 Market risk management

The objective of the Bank's market risk management is to manage and control market risk exposures in order to optimize return on risk while maintaining a market profile consistent with the Bank's status as a premier provider of financial products and services.

Market risk is the risk that movements in market risk factors, including foreign exchange rates, interest rates, credit spreads and equity and commodity prices will reduce the Bank's income or the value of its portfolios.

The Bank is required to assess the market risks which arise on each product in its business and to transfer these risks to its Global Markets unit for management. The aim is to ensure that all market risks are consolidated within operations which have the necessary skills, tools, management and governance to professionally manage such risks.

Derivative financial instruments

Derivative financial instruments used by the Bank include swaps, forwards and other similar types of contracts whose value changes in response to changes in interest rates, foreign exchange rates, or other market forces. Derivatives are individually negotiated over-the-counter contracts (referred to as OTC-products). A description of the main types of derivative instruments used by the Bank is set out below.

Swaps

Swaps are over-the-counter agreements between the Bank and other parties to exchange future cash flows based upon agreed notional amounts. Swaps most commonly used by the Bank is interest rate swaps. Under interest rate swaps, the Bank agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount. The Bank is subject to credit risk arising from the respective counterparties' failure to perform. Market risk arises from the possibility of unfavorable movements in interest rates relative to the contractual rates of the contract and the Bank covers the market risk by entering into offsetting transactions.

Forwards

Forward contracts are commitments to either purchase or sell a designated financial instrument, or currency, at a specified future date for a specified price and may be settled in cash or another financial asset. Forwards are individually-traded over-the-counter contracts.

Forward contracts result in credit exposure to the counterparty. Forward contracts result in exposure to market risk based on changes in market prices relative to contracted amounts. The market risk on such transaction is managed within pre- approved limits.

Value at risk ('VaR')

VaR is a measure that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence (for the Bank, 99 per cent). The Bank calculates VaR daily. The VaR model used by the Bank is predominantly based on historical simulation. The historical simulation model derives plausible future scenarios from historical market rates time series which would naturally take into account inter-relationships between different market rates, for example between interest rates and foreign exchange rates.

Although a useful guide to risk, VaR should always be viewed in the context of its limitations. For example:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a one-day holding year assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding year may be insufficient to liquidate or hedge all positions fully;
- the use of a 99 per cent confidence level, by definition, does not take into account losses that might occur beyond this level of confidence; and
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

The Bank recognises these limitations by augmenting its VaR limits with other position and sensitivity limit structures. The VAR for Global Markets was as follows:

	2022	**Average**	**Maximum**	**Minimum**	2021	Average	Maximum	Minimum
	RO'000	**RO'000**	**RO'000**	**RO'000**	RO'000	RO'000	RO'000	RO'000
Total VAR	**229**	**259**	**1,464**	**92**	313	104	313	44
Trading VAR	**57**	**30**	**89**	**1**	10	21	44	-

Trading

Market risk in trading portfolios is monitored and controlled at both portfolio and position levels using a complementary set of techniques, such as VaR, together with stress and sensitivity testing and concentration limits.

Other controls include restricting individual operations to trading within a list of pre-approved permissible instruments, and enforcing rigorous new product approval procedures.

Non-trading

The principal objective of market risk management of non-trading portfolios is to optimise net interest income. Market risk in non-trading portfolios arises principally from mismatches between the future yield on assets and their funding cost as result of interest rate changes. Analysis of this risk is complicated by having to make behavioral assumptions regarding the economic duration of liabilities which are contractually repayable on demand, for example, current accounts, in order to manage this risk optimally. Market risk in non-trading portfolios is transferred to Global Markets or to separate books managed under the auspices of the ALCO. ALCO regularly reviews that these portfolios are managed within pre-approved interest risk limits.

Currency risk

As a risk control mechanism limits are put in place for foreign exchange open positions. Positions are managed and monitored on an ongoing basis by the Treasury. Periodical reporting is made to ALCO who deliberate on the issue and give necessary guidance to the Treasury.

The Bank had the following net exposures denominated in foreign currencies as at 31 December:

Notes to the Financial Statements (continued)

As of 31 December 2022

	Overall exposure in RO' 000	
	2022	2021
Currency		
US Dollars	**13,133**	2,499
Pound Sterling	**8**	29
Euro	**4**	37
Japanese Yen	**373**	26
UAE Dirhams	**22**	27
Other currencies	**132**	2
Total exposure	**13,672**	2,620

32.6 Legal risk

The Bank implements processes and procedures in place to manage legal risk that conform to HSBC Group standards. Legal risk falls within the definition of operational risk and includes the risk of a member of the group suffering financial loss, legal or regulatory action or reputational damage due to:

- **Customer Contractual risk** is the risk that contracts with customers (a) do not reflect what the parties have agreed; (b) do not comply with laws or regulations or are not aligned with HSBC's operating systems and processes; (c) are unenforceable, including due to (i) the lack of capacity or authority of any contracting party or (ii) the absence of any registration, notification or any other perfection required under any relevant legislation; and/or (d) unintentionally result in HSBC assuming fiduciary responsibilities.
- **Non-Customer Contractual risk** is the risk that contracts for provision or receipt of products, services or other benefits to or from non-customers (a) do not reflect what the parties have agreed; (b) do not comply with applicable laws or regulations; (c) are unenforceable either because of illegality or because the contracts are not properly executed; and/or (d) unintentionally result in HSBC assuming fiduciary responsibilities.
- **Competition Laws risk** is the risk that HSBC may breach Laws in relevant jurisdictions that seek to regulate Anti-Competitive, Agreements, Abuse of Dominance and Merger Control.

Intellectual Property risk is the risk that HSBC (a) fails to properly identify, own, record or otherwise protect its IP, including the risk that HSBC (i)does not own (or does not solely own) IP that it had intended to own (or solely own); (ii) is unable to protect its IP against infringement and/or exploit it to its competitive advantage; or (iii) is unable to appropriately defend a claim of infringement of IP made by another party (b) breaches applicable IP laws by infringing IP rights belonging to other entities or individuals.

Dispute Mismanagement risk is the failure by an HSBC Group entity, or someone acting on its behalf, to take appropriate steps to manage Disputes. Any reference to a Dispute does not include matters handled by specialist departments such as routine customer complaints, routine collections, routine debt recovery or foreclosure work, routine court orders of information requests, administrative tax claims.

32.7 Operational risk management

The Bank defines operational risk as "the risk to achieving strategy or objectives as a result of inadequate or failed internal processes, people and systems, or from external events".

A formal governance structure provides oversight over the management of operational risk. The Risk Management Meeting convenes monthly to discuss operational risk issues and the effectiveness of internal controls.

In order to manage operational risks, the Bank has an Operational Risk Management Framework (ORMF), which includes adoption of the Three Lines of Defense risk governance framework:

1. The First Line of Defense owns the operational risks. They are responsible for identifying, recording, reporting and managing risks, and ensuring that the right controls and assessments are in place to mitigate these risks. Most of the Bank's people are in The First Line of Defense, including Risk Owners, Control Owners and Business Risk & Control Managers (BRCMs).
2. The Second Line of Defense sets policy and guidelines for managing operational risk, and provides advice and guidance on effective risk management. The Second Line are risk management specialists comprising Risk Stewards and the Operational Risk Function.
3. The Third Line of Defense is Internal Audit who independently ensure that the Bank is managing operational risk effectively.

A centralized database is used to record the results of the operational risk management process. Operational risk and control assessments, and losses, are input and maintained by the business units. Management is responsible for implementing the required standards of operational risk control throughout their operations and where deficiencies are evident, rectifying them within a reasonable timeframe.

The Bank maintains and tests contingency facilities to support operations in the event of unforeseen disasters.

32.8 Compliance risk management

Compliance risk is the risk that the Bank fails to observe the relevant laws and regulations imposed by the various governing authorities and regulators where the Bank operates. Failure to comply with regulations may lead not only to penalties and financial losses but is also detrimental to the reputation and long term prosperity of any organization.

The Bank's management is primarily responsible for managing the compliance risks that the Bank is exposed to and is supported by the Compliance department in discharging this duty within the various business units. The compliance function in the Bank is set up in accordance with the CBO guidance on compliance function for banks issued in 2006 and facilitates the management of compliance risk by:

- Setting policies and standards to cover compliance issues.
- Advising management, the business and other parts of the Bank, the impact of applicable regulations on their business, activity or behavior.
- Providing, an independent reporting mechanism for all executives.
- Fostering an open and transparent relationship with the regulators in Oman.
- Managing the relationship with the Bank's regulators including coordination of all contact, coordination of all regulatory submissions, monitoring and control of regulator's access to HBON's premises, staff and materials.
- Report immediately to the Risk Committee of the Board and relevant senior management on all material or significant breaches of which they are aware as soon as practicable and issue half-yearly certificates, outlining any breaches, to the Central Bank and quarterly to CMA.

32.9 Capital management

The Bank's objective is to ensure that capital resources are at all times adequate and efficiently used. Bank's approach to managing capital is designed to ensure that we exceed current regulatory requirements and are well placed to meet changes to such requirements which are expected in the foreseeable future. The Bank's policy on capital management is underpinned by a capital management process and the internal capital adequacy assessment process, which enables it to manage its capital in a consistent manner.

Capital management is guided by the CBO through circular BM 1009 (Guidelines on BASEL II) and regulatory capital under BASEL III framework. Capital adequacy is calculated on quarterly intervals and reported to the CBO. Banks are required to maintain minimum capital adequacy ratio of 12.25% including capital conservation buffer for 2022 (2021: 12.25%) in accordance with CBO stipulated guidelines.

Further to above; CBO issued the guidance on 3 June 2020 related to "Covid-19 - CBO Measures and IFRS-9 Application" where CBO introduced the "prudential filter" under interim adjustment arrangement for stage 1 and stage 2 ECL computed under IFRS9 to add as part of regulatory capital under Tier 2.

Accordingly, 100% Stage 1 ECLs shall continue to be added back to Tier 2 Capital. For stage 2 ECLs of base year (as of 31 December 2019) will continue to get earlier phase-out arrangement (i.e. 0% for 2022) and incremental Stage 2 ECLs of 2020, 2021 and 2022 to be added back 60% in 2022 and same will be phase-out by 2024.

The Bank's regulatory capital position at 31 December was as follows:

	2022	2021
	RO'000	RO'000
Common Equity Tier 1 capital ('CET 1') / Tier 1 capital		
Ordinary share capital	**200,031**	200,031
Legal reserve	**50,448**	47,777
Retained earnings	**92,725**	85,497
Regulatory adjustments to CET1	**(3,208)**	(2,522)
CET 1 / Tier 1 capital	**339,996**	330,783
Additional Tier 1 capital (AT1)	**-**	-
Total Tier 1 capital (T1 = CET1+AT1)	**339,996**	330,783

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Tier 2 capital (T2)		
ECL allowance – Stage 1	**2,504**	4,925
ECL allowance – Stage 2	**-**	5,382
Total	**2,504**	10,307
Total regulatory capital	**342,500**	341,090
Risk-weighted assets		
Banking book	**1,253,460**	1,346,080
Operational risk	**139,041**	146,963
Market risk	**20,103**	7,008
Total risk-weighted assets	**1,412,604**	1,500,051
Capital ratios		
CET 1 / Tier 1 capital ratio	**24.07%**	22.05%
Total capital ratio	**24.25%**	22.74%

If the bank would not have applied the prudential filter as explained above, the Capital adequacy ratio for 31 December would have been as below:

	2022	2021
	RO'000	RO'000
Common Equity Tier 1 capital ('CET 1') / Tier 1 capital		
Ordinary share capital	**200,031**	200,031
Legal reserve	**50,448**	47,777
Retained earnings	**92,725**	85,497
Regulatory adjustments to CET1	**(3,208)**	(2,522)
CET 1 / Tier 1 capital	**339,996**	330,783
Additional Tier 1 capital (AT1)	**-**	-
Total Tier 1 capital (T1 = CET1+AT1)	**339,996**	330,783
Tier 2 capital (T2)		
ECL allowance – Stage 1	**2,504**	4,925
ECL allowance – Stage 2	**-**	3,556
Total	**2,504**	8,481
Total regulatory capital	**342,500**	339,264
Risk-weighted assets		
Banking book	**1,253,460**	1,346,080
Operational risk	**139,041**	146,963
Market risk	**20,103**	7,008
Total risk-weighted assets	**1,412,604**	1,500,051
Capital ratios		
CET 1 / Tier 1 capital ratio	**24.07%**	22.05%
Total capital ratio	**24.25%**	22.62%

33 Other Information

Liquidity coverage ratio (LCR)

Liquidity coverage ratio (LCR) is guided by the CBO through circular BM 1127 (BASEL III: Framework on Liquidity coverage ratio and LCR disclosure standards). Liquidity coverage ratio is calculated on monthly intervals and reported to the CBO. The Banks are required to maintain minimum liquidity coverage ratio of 100% for 2022 (2021: 100%) in accordance with CBO stipulated guidelines. The Bank's average LCR ratio as of 31 December 2022 was 403% (31 December 2021: 224%)

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Liquidity coverage ratio disclosure for the period ended 31 December 2022:

		31 December 2022	
		Total Unweighted Value (average*)	Total Weighted Value (average*)
		RO'000	RO'000
High quality liquid assets			
1	Total High quality liquid assets (HQLA)		553,457
Cash outflows			
2	Retail deposits and deposits from small business customers, of which:	547,827	41,060
3	- Stable deposits	276,814	13,964
4	- Less stable deposits	271,013	27,096
5	Unsecured wholesale funding, of which:	873,978	393,568
6	- Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	- Non-operational deposits (all counterparties)	873,978	393,568
8	- Unsecured debt	-	-
9	- Secured wholesale funding	-	-
10	Additional requirements, of which	12,426	982
11	- Outflows related to derivative exposures and other collateral requirements	-	-
12	- Outflows related to loss of funding on debt Products	-	-
13	- Credit and liquidity facilities	12,426	982
14	Other contractual funding obligations	79,033	78,159
15	Other contingent funding obligations	610,817	30,317
16	**Total cash outflows (2+5+10+14+15)**	-	544,086
Cash inflows			
17	Secured lending (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	409,872	393,306
19	Other cash inflows	79,012	78,138
20	**Total cash inflows (17+18+19)**	488,884	471,444
21	**Total HQLA**	-	553,802
22	**Total net cash outflows (16-20)**	-	137,517
23	**Liquidity coverage ratio (21/22)**	-	403%

*simple average of daily observations over the last three months (October – December 2022).

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Net Stable Funding Ratio (NSFR)

Net Stable Funding Ratio is guided by the CBO through circular BM 1147 (Guidelines on NSFR and NSFR disclosures). NSFR ratio is calculated on monthly intervals and reported to the CBO. The Banks are required to maintain minimum NSFR ratio of 100% in accordance with CBO stipulated guidelines. The Bank's NSFR ratio as of 31 December 2022 was 167% (31 December 2021: 153%)

Net Stable Funding Ratio disclosure for the period ended 31 December 2022:

	Available Stable funding (ASF) items	Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted value
		RO'000	RO'000	RO'000	RO'000	RO'000
1	Capital:	361,846	-	-	-	361,846
2	Regulatory capital	345,707	-	-	-	345,707
3	Other capital instruments	16,139	-	-	-	16,139
4	Retail deposits and deposits from small business customers	508,662	12,443	3,790	26,466	512,396
5	Stable deposits	270,487	1	-	-	256,964
6	Less stable deposits	238,175	12,442	3,790	26,466	255,432
7	Wholesale funding:	758,793	25,540	18,516	457,826	859,251
8	Operational deposits	46,761	-	-	-	23,381
9	Other wholesale funding	712,032	25,540	18,516	457,826	835,870
10	Liabilities with matching interdependent assets					
11	Other liabilities:	40,646	30,454	-	6,946	-
12	NSFR derivative liabilities				7,084	
13	All other liabilities and equity not included in above categories	40,646	23,370	-	6,946	-
14	**Total ASF**					**1,733,493**
Require Stable Funding (RSF) items						
15	Total NSFR high-quality liquid assets (HQLA)					26,912
16	Deposits held at other financial institutions for operational purposes	18,775	-	-	-	9,388
17	Performing loans and securities:	-	634,744	121,365	741,228	907,170
18	Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
19	Performing loans to financial institutions secured by non- Level 1 HQLA and unsecured performing loans to financial institutions	-	241,849	-	-	39,753
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which	-	389,297	120,191	624,575	800,824
21	With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk	-	-	-	-	-
22	Performing residential mortgages, of which:	-	3,598	1,174	116,653	66,593
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	3,598	1,174	98,781	64,208

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24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	-	-
25	Assets with matching interdependent liabilities					
26	Other Assets:	**15,395**	**21,042**	**-**	**8,288**	**44,725**
27	Physical traded commodities, including gold					
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs					
29	NSFR derivative assets				-	-
30	NSFR derivative liabilities before deduction of variation margin posted					
31	All other assets not included in the above categories	**15,395**	**21,042**	**-**	**8,288**	**44,725**
32	Off-balance sheet items		**628,238**	**151,877**	**269,959**	**52,504**
33	TOTAL RSF					**1,040,699**
34	**NET STABLE FUNDING RATIO (%)**					**167**

Leverage ratio

Leverage ratio is guided by the CBO through circular BM 1157 (Guidelines on implementation on Basel III leverage ratio). Leverage ratio is calculated on quarterly intervals and reported to the CBO. The standard for Leverage ratio become effective from 31 December 2018 with a minimum ratio of 4.5%. The Bank's leverage ratio as of 31 December 2022 was 12.8% (31 December 2021 – 12.0%)

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

	Item	As at 31.12.2022
		RO'000
1	Total consolidated assets as per published financial statements	**2,241,628**
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	**-**
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	**-**
4	Adjustments for derivative financial instruments	**4,599**
5	Adjustment for securities financing transactions (i.e., repos and similar secured lending)	**-**
6	Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	**410,153**
7	Other adjustments	**(2,900)**
8	**Leverage ratio exposure**	**2,653,480**

Notes to the Financial Statements (continued)
As of 31 December 2022

Table 2: Leverage ratio common disclosure template

	Item	As at 31.12.2022
		RO'000
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	2,238,756
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(2,900)
3	**Total on-balance sheet exposures** (excluding derivatives and SFTs) (sum of lines 1 and 2)	2,235,856
	Derivative Exposures	
4	Replacement cost associated with all derivatives transactions (i.e., net of eligible cash variation margin)	2,872
5	Add-on amounts for PFE associated with all derivatives transactions	4,599
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	**Total derivative exposures (sum of lines 4 to 10)**	7,471
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	CCR exposure for SFT assets	-
15	Agent transaction exposures	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	-
	Other Off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	1,089,895
18	(Adjustments for conversion to credit equivalent amounts)	(679,742)
19	**Off-balance sheet items (sum of lines 17 and 18)**	410,153
	Capital and total exposures	
20	**Tier 1 capital**	339,996
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	2,653,480
	Leverage Ratio	
22	**Basel III leverage ratio (%)**	12.8