

ahli islamic Financial Statements

For the year ended 31 December 2020

In the name of Allah, The Beneficent, The Merciful

Ahli Islamic, Ahli Bank SAOG

Shari'a Supervisory Board Report (SSB)

All praise to Allah, and peace be upon His messenger, his family, his companions and those who followed them with until the Day of Judgment.

To the Board of Directors of Ahli Bank SAOG

Assalam Alikum wa Ramat Allah wa Barakatuh

Shari'a Supervisory Board has reviewed the products and the contracts relating to the transactions which were made by Ahli Islamic, Ahli Bank SAOG (the "Bank") during the period (01.01.2020 to 31.12.2020) ended 2020 to ensure that they comply with the *Fatwa* issued by the Board as per Sharia rules and principles.

The Bank's management is responsible for ensuring implementation of resolutions of the Shari'a Supervisory Board and to inform the Board with regard to the operations and the developments, which require issuance of resolutions from the Shari'a Supervisory Board.

The Shari'a Supervisory Board responsibility is to issue *Fatwa* and monitor their implementation based on the Shari'a audit reports for the Bank.

In opinion of the Board:

- The contracts, transactions and dealings entered into by the Bank during the year ended 2020 are in compliance with Shari'a rules and principles.
- The distribution of profit and charging of losses relating to investment accounts conform to the base that had been approved by the Shari'a Supervisory Board of the Bank in accordance with rules and principles of Islamic Shari'a.
- All earning that has been realized from sources or by means prohibited by rules and principles of Islamic Shari'a have been disposed of by the management of the Bank to charitable causes,
- The calculation of *Zakah* is in compliance with Shari'a rules and principles.

We beg Allah the Almighty to grant us all the success.

Sharia Supervisory Board

Dr. Mohammed Taher Al-Ibrahim (Chairman)



Dr. Mustain Ali Abdul Hameed (Deputy Chairman)



Dr. Abdul Raouf Abdullah Al-Tobi (Member)



Resolutions issued by SSB during the year 2020

SSB Meeting	Resolution No.	Subject of the Resolution	Brief of the SSB Resolution
Meeting on April 14, 2020 SSB-29-2020	2 (SSB – 29 – 2020)	SSB Deputy Chairman Appointment	The SSB decided that Dr. Mustain Ali Abdul Hameed will be the Deputy Chairman of the SSB.
	3 (SSB – 29– 2020)	Tracker of SSB Resolutions for Implementation	The SSB reviewed the subject tracker of SSB resolutions containing status of implementation of the SSB resolutions which were issued during 2019. The SSB noted the status of implementation of the SSB resolutions and found it satisfactory.
	4 (SSB – 29– 2020)	Shari'a Audit Reports of 4 th Quarter 2019 I. Shari'a Audit Report of Corporate Banking II. Shari'a Audit Report of Retail Banking III. Shari'a Audit Report of SME IV. Shari'a Audit Report of Trade Finance V. Shari'a Audit Report of Treasury	The SSB reviewed the subject Shari'a audit reports. The SSB gave its opinion in the Shari'a audit reports under the column of SSB opinion
	5 (SSB – 29– 2020)	Status of Shari'a Audit Reports of 3 rd Quarter 2019 I. Corporate Banking Shari'a Audit Report II. Retail Banking Shari'a Audit Report	The SSB reviewed the implementation status of the SSB opinion given in the subject Shari'a audit reports for the observations and found it satisfactory.
	6 (SSB – 29– 2020)	Business Proposal for Deferment of Installments and Extension in Financing Period	<p>Proposal to the SSB:</p> <p>With reference to attached CBO Circular BSD/CB/2020/001 dated March 18, 2020 (Point # 3), ahli islamic, Corporate Banking proposes to defer six months' installments (including principal plus profit) under Ijara Muntahiya Bit Tamleek (Ijara MBT) and Diminishing cum Ijara/Forward Ijara based financings upon customer request as business activities have halted in the country due to Covid- 19, which is affecting rental income from the tenants.</p> <p>The SSB Opinion</p> <p>The above-proposed deferment of installments of the customers and extension in the period of financing for an agreed time between the Bank and customers is approved under Ijara MBT and Diminishing Musharaka cum Ijara/Forward Ijara. The attached letter on Amendment of Sectioned Financing Facility (ies) is also approved.</p> <p>In case other business segments such as Retail and SME also need to facilitate any customers under Ijara MBT and Diminishing Musharaka cum Ijara/Forward Ijara with deferment of installments and/or extension of financing period for a period of time then they are also allowed from Shari'a perspective. Here letter on Amendment of Financing Facility (i.e. Addendum to Financing Documents) alongwith schedule of payment should be acknowledged by the customers. However, if reaching the customers physically is not practically possible due to current Covid- 19 situation and big volume of the customers then the Bank should post the letter on Amendment of Financing Facility alongwith revised schedule of payment on customers' address for acknowledgement with disclaimer that the customer may approach the Bank within a reasonable time if there is any objection, otherwise the change will deem accepted. The Bank should apply the change after the notice time.</p> <p>It is recommended that if there is any overdue amount under financing through Ijara MBT and Diminishing Musharaka cum Ijara/Forward Ijara that should be collected separately with zero profit and not as part of the schedule of rentals.</p> <p>The Murabaha based financing installments can be deferred for an agreed time period but with condition that there will not be any change in the total liability of the financing.</p>
	7 (SSB – 29– 2020)	Shari'a Purification of Al Hilal MENA Fund	The SSB reviewed the Shari'a purification report of Al Hilal MENA Fund for year 2019, which was submitted by Sharia Compliance and advised to credit the total amount of Shari'a non-compliant gains OMR 372.502/- into charity account.

Resolutions issued by SSB during the year 2020 *(continued)*

SSB Meeting	Resolution No.	Subject of the Resolution	Brief of the SSB Resolution
SSB meeting on 14.7.2020 SSB-30-2020	2 (SSB-30-2020)	Shari'a Audit Reports of 1st Quarter 2020 I. Shari'a Audit Report of Corporate Banking II. Shari'a Audit Report of Retail Banking III. Shari'a Audit Report of SME IV. Shari'a Audit Report of Trade Finance V. Shari'a Audit Report of Treasury	The SSB reviewed the subject Shari'a audit reports. The SSB gave its opinion in the Shari'a audit reports under the column of SSB opinion
	3 (SSB-30-2020)	Status of Shari'a Reports I. Shari'a Audit Report of Corporate Banking for 4th Quarter 2019 II. Shari'a Audit Report of Retail Banking for 4th Quarter 2019	The SSB reviewed the implementation status of the SSB opinion given in the subject Shari'a audit reports for the observations and found it satisfactory.
	4 (SSB-30-2019)	Murabaha Query about Including the Direct Expenses in the Murabaha Cost/Financing	The query is about Murabaha sale price determination with consideration of the expenses such as cost of collection or delivery (transportation, labor) of goods to customer, cost of installation of goods etc. which are incurred while arranging the delivery of the Murabaha goods for customer. The SSB approved including the direct expenses in determining sale price of Murabaha with recommendation that such expenses should be disclosed to customer while concluding Murabaha sale
	5 (SSB-30-2020)	Updates in Schedule of Charge	After reviewing the proposed charges for the respective services, the SSB has approved them with recommendation that the Bank should ensure to communicate the customers the applicable charges before implementing them through all possible means and as per terms and conditions. Note: The updated SOC is available in the branches.
	6 (SSB-30-2020)	Ladies Account Product Paper	The SSB reviewed the product paper and approved it.
	8 (SSB-30-2020)	Corporate Internet Application Form 1. Corporate Internet Banking Application Form Annexure 2. Corporate Internet Terms and Conditions	The SSB reviewed the product paper and approved them.
	9 (SSB-30-2020)	Al Qimmah Wakala Call Account Product Proposal	The SSB reviewed the Al Qimmah Wakala Call Account Product proposal and approved it.
	10 (SSB-30-2020)	Risk Management Policies I. Business Continuity Management II. Operational Risk Management Framework III. Operational Risk Management Policy	The SSB reviewed the Risk Management Polices listed in the subject and approved them.
	11 (SSB-30-2020)	BancaTakaful Documents (Al Madina Takaful) 1. BancaTakaful Management Agreement 2. Application Form 3. Domestic Help Insurance Policy-Booklet 4. Fire & Special Perils –Takaful Plan Al Madina Takaful Insurance Implants Code of Conduct	The SSB reviewed the BancaTakaful documents listed in the subject and approved them.

Resolutions issued by SSB during the year 2020 (continued)

SSB Meeting	Resolution No.	Subject of the Resolution	Brief of the SSB Resolution
	12 (SSB-30-2020)	Concept of Bill Financing through Services Ijara cum Wakala and Istisn'a cum Wakala Structures	<p>Concept of Bill Financing: This is with regard to bill financing facility, based on Services Ijara cum Wakala and Istisn'a cum Wakala Structures, for potential customers (Service Providers/ sub-contractors etc.) who can offer their services to services seekers. To offer a Shari'a compliant facility to these type of customers against the accepted bills/ invoices from the third party against services and manufacturing (production and manufacturing of assets), we propose to consider offering services Ijara cum Wakala and Istisn'a cum Wakala financing structures respectively. These financing facilities will help the service providers and manufacturers to cover their working capital requirements by discounting of the bills (with 80%-90%) upfront for the tenor of the bill (90/180 days). Once the third party clears the bills on the due date, the service Ijara cum Wakala and Istisn'a cum Wakala will be settled. Following is the broad process of bill discounting through Services Ijara cum Wakala and Istisn'a cum Wakala:</p> <p>Broad Process Flow of Bill Financing under Service Ijara cum Wakala:</p> <ul style="list-style-type: none"> - The customer will bring to the Bank third party contract stating required services, tenor and terms of the payment amount. - The Bank will enter into Master Service Ijarah agreement with the customer & sanction facilities within the agreement mentioned above. - The Bank will make customer (service provider) as its agent to render services to third party. - The customer will raise an Invoice/bill to the third party for acceptance under its agreement post-delivery of the services. - Upon acceptance of the bill/invoice by the third party, the customer will submit the same bill to the Bank for the services cost under its facilities. - The Bank will finance the customer upto 80% - 90% (subject to prevailing risk) for a respective tenor (90 to 180 days). - Since the customer and the third party are in direct relation therefore, on the due date, the third party will make payment in customers' account with the bank to pay/settle the respective service Ijara facility which the customer has rendered to third party on behalf of the Bank. - The Bank will recover the facility & its profit from the proceeds from third party and any excess over shall be available to the customer. <p>Broad Process Flow of Bill Financing under Istisn'a cum Wakala:</p> <ul style="list-style-type: none"> - The customer will bring to the Bank third party contract stating required services, tenor and terms of the payment amount. - The Bank will enter into Istisn'a agreement with the customer & sanction facilities within the agreement mentioned above. - The Bank will make client as its agent to manufacture goods/asset for third party/ultimate buyer. - The customer will raise an Invoice/bill to the third party for acceptance under its agreement post-delivery of the good/asset. - Upon acceptance of the bill/invoice, the customer will submit the same bill to the Bank for discounting under its facilities - The Bank will finance the customer upto 80% - 90% (subject to prevailing risk) for a respective tenor (90 to 180 days). - On the due date, the third party will make payment in customers' account with the bank to settle the respective Istisn'a cum Wakala facility - The Bank will recover the facility & its profit from the proceeds from third party and any excess cash shall be available to the customer. <p>SSB Opinion: The SSB has gone through the concept of bills financing through Services Ijara cum Wakala and Istisn'a cum Wakala to the customers who have the expertise and services available with them. The concept seems fine to work further from Sharia perspective for development of the product. While developing the product the following key elements should be considered:</p> <ol style="list-style-type: none"> 1. The contract between beneficiary and the customer should be well defined and the services required should be the same which the customer gets financed from the Bank. 2. There should be a clear bifurcation of purchase of services or assets and their offering to ultimate beneficiary (third party) through agency. The agency role of the customer for selling the services or assets to third party on behalf of the Bank must be fully agreed. 3. The Bank will make a formal proposal of the product with complete details including structure, process, list of legal documents, accounting entries for SSB approval. 4. After the product proposal is approved, the legal documents draft and all the aspects of the products are subject to the SSB approval.

Resolutions issued by SSB during the year 2020 *(continued)*

SSB Meeting	Resolution No.	Subject of the Resolution	Brief of the SSB Resolution
SSB meeting on 20.10.2020 SSB-31-2020	2 (SSB-31-2020)	Modification: Shari'a Approval on Proposal to Launch Premium and Private Banking and its Associated Services	The SSB amendments in the Proposal to Launch Premium and Private Banking and its Associated Services which was approved by the SSB through resolution dated September 2, 2020 (CR2-SSB-2020) and approved them.
	3 (SSB-31-2020)	Memo on New BancaTakaful Tie-up with Al-Madinah Takaful	The SSB reviewed the memo on BancaTakaful Tie-up with Al Madina Takaful and approved it.
	6 (SSB-31-2020)	Sharia Audit Reports of 2nd Quarter 2020 I. Corporate Banking II. Retail Banking III. Treasury IV. Trade Finance	The SSB reviewed the subject Shari'a audit reports. The SSB gave its opinion in the Shari'a audit reports under the column of SSB opinion
	7 (SSB-31-2020)	Status of SSB Opinion in the Sharia Audit Report I. Retail Banking Sharia Audit Report of 1st Quarter 2020 II. Corporate Banking Sharia Audit Report of 1st Quarter 2020	The SSB reviewed the implementation status of the SSB opinion given in the subject Shari'a audit reports for the observations and found it satisfactory.
	8 (SSB-31-2020)	Repayment Agreement for Overdue Amount	The SSB reviewed the Repayment Agreement for Overdue Amount and approved it.
	9 (SSB-31-2020)	Settlement and Termination Agreement	The SSB reviewed the Settlement and Termination Agreement and approved it.
	10 (SSB-31-2020))	Al Qimmah Investment Wakala Account Contract	The SSB reviewed the Al Qimmah Investment Wakala Account Contract and approved it.
	11 (SSB-31-2020)	Appointment of Chairman and Deputy Chairman of the SSB	The SSB members discussed and elected Dr. Mohammed Taher Al-Ibrahim as Chairman of the SSB and decided that Dr. Mustain Ali Abdul Hameed will be Deputy Chairman of the SSB.
SSB meeting on 14.12.2020 SSB-32-2020		SSB Meeting with Board of Directors (BOD)	The SSB met with the Board of Directors and discussed about ahli islamic development and positive progress. The SSB updated the BOD on Sharia compliance and praised the performance of ahli islamic towards a strong Sharia compliant Islamic banking entity.

In the Name of Allah, the Merciful, the Compassionate

Fatwa of Shari'a Supervisory Board on

Youth Account of Ahli Islamic

All praise to Allah and May peace and blessings be upon his messenger, his family, his companions and all followers of his guidance.

On Thursday the 01 Jamada al-Thani-1442AH that corresponds to January 14, 2021, the Shari'a Supervisory Board (SSB) of Ahli Islamic, Ahli Bank SAOG (the "Ahli Islamic/Bank") issued Shari'a pronouncement on Ahli Islamic Youth Account Product, which details are as follows:

Shari'a Structure of the Product:


Ahli Islamic Youth Account is an investment account that is based on the Shari'a principles of Mudaraba whereby Account Holder (Rabb ul-Mal) invests its funds with Ahli Islamic (Mudarib) through unrestricted Mudaraba contract. Ahli Islamic brings the invested capital into Mudaraba pool, which includes all the Mudaraba based accounts, and invests the capital into Sharia compliant profitable businesses. The profit on the Mudaraba pool is distributed amongst the investors, taking into consideration the tenor, amount of the deposit and profit payment frequency for the account. In case of loss, the loss is borne by the investment Account Holders and the Bank does not ask for any compensation for its efforts.

The SSB Opinion:

Having reviewed the Youth Account Product, the Shari'a Supervisory Board of the Bank confirms that Youth Account is according to the dictates of Shari'a.

And all praise is due to Allah.

Shari'a Supervisory Board



Dr. Mohammed Taher Al-Ibrahim (Chairman of SSB)



Dr. Mustain Ali Abdul Hameed (Deputy Chairman of SSB)



Dr. Abdul Raouf Abdullah Al-Tobi (SSB Member)

In the Name of Allah, the Merciful, the Compassionate

Fatwa of Shari'a Supervisory Board on

Investment Wakala Account

All praise to Allah and May peace and blessings be upon his messenger, his family, his companions and all followers of his guidance.

On Thursday the 01-Jamada al-Thani-1442AH that corresponds to January 14, 2021, the Shari'a Supervisory Board (SSB) of Ahli Islamic, Ahli Bank SAOG (the "Ahli Islamic/Bank") issued Shari'a pronouncement of Ahli Islamic Investment Wakala Deposit Account, which details are as follows:

SSB Opinion:

The SSB opines that investment Wakala is to delegate another person to invest funds into Sharia compliant business against a remuneration or without remuneration, as it is permissible in Sharia. From Sharia point of view, it is permissible that the investment Wakala is limited to specific kind of investment or specific place. Investment Wakala can be absolute or customarily restricted whichever is beneficial for Muwakkil and Wakil.

Under the investment agency product, Ahli Islamic, acts as Wakil, to invest capital of the client (Muwakkil), and Ahli Islamic undertakes to invest the funds of the investors (i.e., depositors) on their behalf in transactions that comply with the Sharia rules and principles.

The Wakil is entitled to fees that may be a specific amount collected separately or taken from the return that is finally settled with the Muwakkil. And it is permissible that Wakil fee is the amount over to expected profit or a share of that. A certain share of the expected profit may be added to the specific fee of the agent as a motivation. Also the agency may be without a remuneration and the parties agree that over to expected profit on the investment will be taken by Wakil as incentive.

The SSB reviewed the structure and terms and conditions of the following Ahli Islamic products and the SSB confirms that these products comply with rules and principles of Sharia:

- Investment Wakala for call Account.
- Investment Wakala for fixed deposit.
- Investment Wakala for Al Qimah Account.

Investment Wakala product may be applied in SME, Corporate and Retail for short, medium and long time deposit accounts based.

And Allah knows what is right.

Sharia Supervisory Board



Dr. Mohammed Taher Al-Ibrahim (Chairman of SSB)



Dr. Mustain Ali Abdul Hameed (Deputy Chairman of SSB)



Dr. Abdul Raouf Abdullah Al-Tobi (SSB Member)

In the Name of Allah, the Merciful, the Compassionate

Fatwa of Sharia Supervisory Board

BancaTakaful with Al-Madinah Takaful

All praise is to Allah and May peace and blessings be upon his messenger, his family, his companions and all followers of his guidance.

On Thursday, 1 Jamade al-Thani-1442AH that corresponds to January 14, 2021 the Shari'a Supervisory Board of Ahli Islamic, Ahli Bank SAOG (SSB) issued the fatwa on BancaTakaful with Al-Madinah Takaful which details are as follows:

SSB Pronouncement

After reviewing the BancaTakaful Product Proposal and its legal documents, which relate to BancaTakaful with Al Madina Takaful, SSB has approved them and the SSB confirms that the BancaTakaful product of Ahli Islamic is in line with dictates of Sharia.

And all praise is due to Allah.

Sharia Supervisory Board



Dr. Mohammed Taher Al-Ibrahim (Chairman of SSB)



Dr. Mustain Ali Abdul Hameed (Deputy Chairman of SSB)



Dr. Abdul Raouf Abdullah Al-Tobi (SSB Member)

In the Name of Allah, the Merciful, the Compassionate

Fatwa of Shari'a Supervisory Board on

Ladies Account of Ahli Islamic

All praise to Allah and May peace and blessings be upon his messenger, his family, his companions and all followers of his guidance.

On Thursday the 1 Jamade al-Thani-1442AH that corresponds to January 14, 2021, the Shari'a Supervisory Board (SSB) of Ahli Islamic, Ahli Bank SAOG (the "Ahli Islamic/Bank") issued Shari'a pronouncement on Ahli Islamic Ladies Account Product, which details are as follows:

Shari'a Structure of the Product:

Ahli Islamic Ladies Account is an investment account that is based on the Shari'a principles of Mudaraba whereby Account Holder (Rabb ul-Mal) invests its funds with Ahli Islamic (Mudarib) through unrestricted Mudaraba contract. Ahli Islamic brings the invested capital into Mudaraba pool, which includes all the Mudaraba based accounts, and invests the capital into Sharia compliant profitable businesses. The profit on the Mudaraba pool is distributed amongst the investors, taking into consideration the tenor, amount of the deposit and profit payment frequency for the account. In case of loss, the loss is borne by the investment Account Holders and the Bank does not ask for any compensation for its efforts.

The SSB Opinion:

Having reviewed the Ladies Account Product, the Shari'a Supervisory Board of the Bank confirms that Ladies Account is according to the dictates of Shari'a.

And all praise is due to Allah.

Shari'a Supervisory Board



Dr. Mohammed Taher Al-Ibrahim (Chairman of SSB)



Dr. Mustain Ali Abdul Hameed (Deputy Chairman of SSB)



Dr. Abdul Raouf Abdullah Al-Tobi (SSB Member)

In the Name of Allah, the Merciful, the Compassionate

Fatwa of Shari'a Supervisory Board on

Children Account of Ahli Islamic

All praise to Allah and May peace and blessings be upon his messenger, his family, his companions and all followers of his guidance.

On Thursday the 01 Jamada al-Thani-1442AH that corresponds to January 14, 2021, the Shari'a Supervisory Board (SSB) of Ahli Islamic, Ahli Bank SAOG (the "Ahli Islamic/Bank") issued Shari'a pronouncement on Ahli Islamic Children Account Product, which details are as follows:

Shari'a Structure of the Product:

Ahli Islamic Children Account is an investment account that is based on the Shari'a principles of Mudaraba whereby Account Holder (Rabb ul-Mal) invests its funds with Ahli Islamic (Mudarib) through unrestricted Mudaraba contract. Ahli Islamic brings the invested capital into Mudaraba pool, which includes all the Mudaraba based accounts, and invests the capital into Sharia compliant profitable businesses. The profit on the Mudaraba pool is distributed amongst the investors, taking into consideration the tenor, amount of the deposit and profit payment frequency for the account. In case of loss, the loss is borne by the investment Account Holders and the Bank does not ask for any compensation for its efforts.

The SSB Opinion:

Having reviewed the Children Account Product, the Shari'a Supervisory Board of the Bank confirms that Youth Account is according to the dictates of Shari'a.

And all praise is due to Allah.

Shari'a Supervisory Board



Dr. Mohammed Taher Al-Ibrahim (Chairman of SSB)



Dr. Mustain Ali Abdul Hameed (Deputy Chairman of SSB)



Dr. Abdul Raouf Abdullah Al-Tobi (SSB Member)



Independent Auditor's Report to the Board of Directors of Ahli Bank SAOG on the financial statements of Ahli Islamic - Window

Report on the audit of the financial statements

Our opinion

In our opinion, the accompanying financial statements present fairly, in all materials respects, the financial position of the Ahli Islamic - Window ('the Window') of Ahli Bank SAOG ('the Bank') as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") as modified by the Central Bank of Oman ("CBO").

What we have audited

The financial statements comprise:

- the statement of financial position as at 31 December 2020;
- the statement of comprehensive income for the year then ended;
- the statement of changes in owners' equity for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of sources and uses of charity fund for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with the Auditing Standards for Islamic Financial Institutions issued by AAOIFI. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We 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 Window in accordance with AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions 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 Code of Ethics for Accountants and Auditors of Islamic Financial Institutions.

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Chartered Accountants Licence No. L1065369, Management Consultants Licence No. L1065290, Commercial Register No. 1230865, Tax Card No 8055889



Independent Auditor's Report to the Board of Directors of Ahli Bank SAOG on the financial statements of Ahli Islamic – Window (continued)

Emphasis of matter

We draw attention to the fact that, as described in note 2.1, the Window of the Bank is not a separate legal entity. These financial statements, therefore, represent the Ahli Islamic - Window which is not a separate stand-alone legal entity. Our opinion is not modified with respect to this matter.

Other information

The Bank's Board of Directors are responsible for the other information. The other information comprises the annual report of the Shari'a Supervisory Board, Management Discussion and Analysis Report and 2020 Disclosure Requirements under Pillar III of Basel II (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.

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, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Bank's Board of Directors for the financial statements

These financial statements and the Window's undertaking to operate in accordance with Islamic Shari'a Rules and Principles, as determined by the Shari'a Supervisory Board, are the responsibility of the Bank's Board of Directors.

The Bank's Board of Directors are responsible for the preparation and fair presentation of the financial statements in accordance with the Financial Accounting Standards issued by the AAOIFI as modified by the CBO and the relevant requirements of the CBO and for such internal control as the Bank's Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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



Independent Auditor's Report to the Board of Directors of Ahli Bank SAOG on the financial statements of Ahli Islamic — Window (continued)

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 Auditing Standards for Islamic Financial Institutions issued by AAOIFI will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Auditing Standards for Islamic Financial Institutions issued by AAOIFI, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Window's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Bank's Board of Directors.
- Conclude on the appropriateness of the Bank's Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Window's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Window to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



Independent Auditor's Report to the Board of Directors of Ahli Bank SAOG on the financial statements of Ahli Islamic – Window (continued)

Report on other legal and regulatory and Shari'a requirements

As required by clause no. 1.4.3 of Title 3 'Accounting Standards and Auditor Reports' of Islamic Banking Regulatory Framework, we report that, we have:

- a) received all required information and explanations to prepare the report; and
- b) carried out any other procedures considered necessary as required by AAOIFI and the Central Bank of Oman.

Further we report that the Window has complied with the Islamic Shari'a Principles and Rules as determined by the Shari'a Supervisory Board of the Window during the period under audit.

A handwritten signature in blue ink, appearing to read 'Mohammed Al-Harbi', is written over the text of the report.

Muscat, Sultanate of Oman
9 March 2021

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

2019 US\$ '000	2020 US\$ '000		Note	2020 RO '000	2019 RO '000
ASSETS					
81,818	24,112	Cash and balances with Central Bank of Oman	6	9,283	31,500
1,213	9,060	Due from banks	7	3,488	467
122,714	111,151	Murabaha receivables	8	42,793	47,245
398,629	449,993	Musharaka receivables	9	173,247	153,472
89,169	75,056	Investment securities	10	28,896	34,330
346,299	332,966	Ijarah assets - Ijarah Muntahia Bittamleek	11	128,192	133,325
1,434	1,455	Credit Card receivables	12	560	552
886	1,291	Service ijarah	13	497	341
3,910	4,324	Property and equipment	15	1,665	1,505
6,796	16,424	Other assets	16	6,324	2,617
<u>1,052,868</u>	<u>1,025,832</u>	TOTAL ASSETS		<u>394,945</u>	<u>405,354</u>
LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY					
370,486	148,579	Due to banks	17	57,203	142,637
347,333	427,602	Wakala deposits	18	164,627	133,723
42,075	58,551	Customers' current accounts		22,542	16,199
26,476	14,757	Other liabilities	19	5,681	10,193
786,370	649,489	TOTAL LIABILITIES		250,053	302,752
148,808	255,312	Equity of investment account holders	20	98,295	57,291
<u>935,178</u>	<u>904,801</u>	TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS		<u>348,348</u>	<u>360,043</u>
64,935	64,935	Share capital	21	25,000	25,000
(55)	(514)	Investment fair value reserve		(198)	(21)
3,831	11,826	Impairment reserve		4,553	1,475
839	-	Special Reserve		-	323
48,140	44,784	Retained earnings		17,242	18,534
<u>117,690</u>	<u>121,031</u>	TOTAL OWNERS' EQUITY		<u>46,597</u>	<u>45,311</u>
<u>1,052,868</u>	<u>1,025,832</u>	TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY		<u>394,945</u>	<u>405,354</u>
47,732	44,133	Contingent liabilities and commitments	22	16,991	18,377

The financial statements and notes 1 to 34 were approved by the Board of Directors on 27 January 2021 and signed on their behalf by:



Hamdan Ali Nasser Al Hinai
Chairman



Said Abdullah Al Hatmi
Chief Executive Officer

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

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STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

2019	2020		2020	2019
US\$ '000	US\$ '000	Note	RO '000	RO '000
47,888	43,984	Income from financing activities	16,934	18,437
1,636	4,467	Income from investing activities	1,720	630
208	299	Other operating income	115	80
(2,003)	(5,597)	Net impairment on financial assets	(2,155)	(771)
47,729	43,153		16,614	18,376
(5,153)	(5,442)	Return to investment account holders	(2,095)	(1,984)
2,086	1,865	Islamic Windows' share as Mudarib	718	803
(3,067)	(3,577)	Return to investment account holders before zakah	(1,377)	(1,181)
44,662	39,576	Islamic Window's share in income from financing and investing activities (as Mudarib and Fund owner)	15,237	17,195
2,257	1,642	Other operating income from banking services	632	869
(17,997)	(12,218)	Profit paid on due to banks	(4,704)	(6,929)
(10,483)	(15,070)	Profit paid on wakala deposits	(5,802)	(4,036)
18,439	13,930	Net operating income	5,363	7,099
(4,431)	(6,301)	Staff expenses	(2,426)	(1,706)
(844)	(1,073)	Depreciation	(413)	(325)
(2,263)	(2,979)	Other operating expenses	(1,147)	(871)
(7,538)	(10,353)	Total expenses	(3,986)	(2,902)
10,901	3,577	Profit before taxation	1,377	4,197
(1,636)	223	Taxation	86	(630)
9,265	3,800	Profit for the year	1,463	3,567
		Other comprehensive income / (expense)		
		Items that will not be reclassified to profit or loss		
36	(11)	Equity investment at FVOCI - net changes in fair value	(4)	14
		Items that will be reclassified to profit or loss		
1,109	(448)	Debt investment at FVOCI - net changes in fair value	(173)	427
1,145	(459)	Other comprehensive income / (expense) for the year	(177)	441
10,410	3,341	Total comprehensive income for the year	1,286	4,008

The notes 1 to 34 and other explanatory information form an integral part of these financial statements.

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STATEMENT OF CHANGES IN OWNERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	Share capital	Investment fair value reserve	Impairment reserve	Special Reserve	Retained earnings	Total
		RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Balance at 1 January 2020		25,000	(21)	1,475	323	18,534	45,311
Profit for the year		-	-	-	-	1,463	1,463
Transfer to impairment reserve		-	-	3,078	-	(3,078)	-
Transfer to special reserve		-	-	-	(323)	323	-
Other comprehensive income		-	(177)	-	-	-	(177)
At 31 December 2020		25,000	(198)	4,553	-	17,242	46,597
At 31 December 2020 (US\$ '000)		64,935	(514)	11,826	-	44,784	121,031

		Share capital	Investment fair value reserve	Impairment reserve	Special Reserve	Retained earnings	Total
		RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Balance at 1 January 2019		25,000	(462)	1,954	323	14,488	41,303
Profit for the year		-	-	-	-	3,567	3,567
Transfer from impairment reserve		-	-	(479)	-	479	-
Other comprehensive income		-	441	-	-	-	441
Cash Dividend paid		-	-	-	-	-	-
At 31 December 2019		25,000	(21)	1,475	323	18,534	45,311
At 31 December 2019 (US\$ '000)		64,935	(55)	3,831	839	48,140	117,690

The notes 1 to 34 and other explanatory information form an integral part of these financial statements.

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STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

2019 US\$ '000	2020 US\$ '000	Note	2020 RO '000	2019 RO '000
CASH FLOWS FROM OPERATING ACTIVITIES				
10,901	3,577	Profit for the year	1,377	4,197
Adjustments for:				
844	1,073	Depreciation - property and equipment	413	325
19,044	10,345	Depreciation - Ijarah Muntahia Bittamleek	3,983	7,332
2,003	5,597	Net impairment on financial assets	2,155	771
32,792	20,592	Operating profit before change in operating assets and liabilities	7,928	12,625
(540)	10,694	Decrease / (Increase) in Murabaha receivables	4,117	(208)
(65,886)	(56,335)	Increase in Musharaka receivables	(21,689)	(25,366)
(283)	(405)	Increase in Service ijarah receivables	(156)	(109)
(52)	(26)	Increase in Credit card receivables	(10)	(20)
(3,283)	(9,653)	Increase in other assets	(3,716)	(1,264)
219,110	(171,057)	(Decrease) / Increase in due to banks	(65,857)	84,357
(5,083)	80,270	Increase / (Decrease) in Wakala deposits	30,904	(1,957)
15,249	16,475	Increase in customers' current accounts	6,343	5,871
14,842	(10,086)	(Decrease) / Increase in other liabilities	(3,883)	5,714
16,584	106,506	Increase in equity of investment account holders	41,004	6,385
223,450	(13,025)	Cash (used in) / generated from operations	(5,015)	86,028
(2,457)	(1,471)	Tax paid	(566)	(946)
220,993	(14,496)	Net cash (used in) / generated from operating activities	(5,581)	85,082
CASH FLOWS FROM INVESTING ACTIVITIES				
(50,148)	3,312	Decrease / (Increase) Investment in Ijarah assets - Ijarah Muntahia Bittamleek	1,275	(19,307)
(50,774)	(29,197)	Purchase of investments	(11,241)	(19,548)
-	42,857	Proceeds from sale / maturity of investment	16,500	-
(2,134)	(1,487)	Purchase of property and equipment	(573)	(822)
(103,056)	15,485	Net cash generated from / (used in) investing activities	5,961	(39,677)
117,937	989	NET CHANGE IN CASH AND CASH EQUIVALENTS	380	45,405
(86,281)	31,656	Cash and cash equivalents at 1 January	12,187	(33,218)
31,656	32,645	CASH AND CASH EQUIVALENTS AT 31 DECEMBER (Refer below)	12,568	12,187
2019 US\$ 000	2020 US\$ 000		2020 RO '000	2019 RO '000
81,818	24,112	Cash and current balances with Central Bank of Oman	9,283	31,500
1,213	9,060	Due from banks	3,488	467
(51,375)	(527)	Due to banks	(203)	(19,780)
31,656	32,645	Cash and cash equivalents	12,568	12,187

The notes 1 to 34 and other explanatory information form an integral part of these financial statements.

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STATEMENT OF SOURCES AND USES OF CHARITY FUND

FOR THE YEAR ENDED 31 DECEMBER 2020

2019 US\$ '000	2020 US\$ '000		Note	2020 RO '000	2019 RO '000
Sources of charity fund					
3	3	Fund at the beginning of the year		1	1
9	12	Penalties to customer for late payment		4	3
3	-	Contribution from credit card income		-	1
<u>15</u>	<u>15</u>			<u>5</u>	<u>5</u>
Uses of charity fund					
Distributed to charity organizations					
-	3	Association for the Welfare of the Handicapped Children		1	-
-	3	Association for Early Intervention for children with disabilities		1	-
-	3	Omani Bahja Orphan Society		1	-
-	3	Ihsaan Association (Omani Association for Elderly Friends)		1	-
3	-	Dar Al Atta Association		-	1
3	-	Al Noor Association for the Blind		-	1
3	-	Oman Diabetics Association		-	1
3	-	Oman Charitable Organization		-	1
<u>12</u>	<u>12</u>	Total uses of charity fund during the year		<u>4</u>	<u>4</u>
<u>3</u>	<u>3</u>	Undistributed charity fund at the end of the year	19	<u>1</u>	<u>1</u>

The notes 1 to 34 and other explanatory information form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Al Hilal Islamic Banking Services (The Islamic Window) was licensed by Central Bank of Oman (CBO) to operate as an Islamic Banking Window of ahlibank SAOG (The Bank). During the board of directors meeting held on 6 December 2018 it was approved to change the name of the Islamic Window from "Al Hilal Islamic Banking Services" to "ahli islamic" (herein referred to as Islamic Window). Accordingly Islamic Window name was changed effectively from 1 May 2019. The Islamic Window offers a full range of Islamic banking services and products. The principal activities of the Islamic Window include accepting Sharia compliant customer deposits, providing Sharia compliant financing based on Murabaha, Mudaraba, Musharaka Ijarah, and undertaking investment activities and providing commercial banking services and other investment activities permitted under the Islamic Banking Regulatory Framework (IBRF) issued by the CBO. The Islamic Window was operating through a network of twelve branches as at year end (31 December 2019: nine branches).

The registered address of the Islamic Window is PO Box 545, PC 116, Mina Al Fahal, Sultanate of Oman.

The Islamic Window employed 116 employees as at 31 December 2020 (31 December 2019: 77 employees).

2 BASIS OF PREPARATION

2.1 Statement of compliance

The Islamic window is not a separate legal entity. The assets and liabilities presented within the Islamic Window remain the assets and liabilities of the Bank and are not legally separable from the Bank's other assets and liabilities. As such legally, the assets of the Islamic Window may be available to the other claims of the Bank. The separate financial statements of the Islamic Window have been prepared to comply with the requirements of Articles 1.5.1.2 to 1.5.1.4 of Title 2 'General Obligations and Governance' of IBRF issued by the CBO. These financial statements are prepared in accordance with Financial Accounting Standards (FAS) issued by Accounting and Auditing Organisation for Islamic Financial institutions (AAOIFI) as modified by the regulations issued by the CBO in respect of impairment of financing and other receivables and investments (refer note 4.16), the Sharia Rules and Principles as determined by the Sharia Supervisory Board of the Islamic Window and other applicable requirements of CBO. In accordance with the requirements of AAOIFI, for matters which are not covered by AAOIFI and other directives, the Islamic Window uses the relevant International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB).

These financial statements pertain to the Islamic Window operations only and do not include financial results of the Bank. Statement of restricted investment account holders, statement of Qard fund and Zakat are not presented as these are not applicable. Complete set of financial statements of the Bank is presented separately.

2.2 Basis of measurement

The financial statements have been prepared under the historical cost convention except for investments classified as instruments at fair value through equity which have been measured at fair value.

2.3 Functional and presentation currency

The financial statements are prepared in Rial Omani ('RO') which is the functional and reporting currency of the Bank. The United States Dollar ('US\$') amounts shown in the financial statements have been translated from Rial Omani at an exchange rate of RO 0.385 to each US\$, and are shown for the convenience of the user of financial statements only as supplemental information. All financial information presented in Rial Omani and US Dollars has been rounded to the nearest thousand, unless otherwise stated.

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with FAS requires management to make judgments, estimates and assumptions that may affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 5.

2.5 Outbreak of Coronavirus (Covid-19)

The World Health Organization officially declared Covid-19 as a global pandemic on 11 March 2020. From the latter half of Q1-2020, the economic environment and business landscape of the bank have witnessed rapid changes as a result of the unprecedented outbreak of Coronavirus pandemic coupled with the significant depression in the global crude oil prices. Tightening of market conditions, lockdowns, restrictions on trade and movement of people have caused significant disruptions to businesses and economic activities globally and across industries & sectors.

Governments and regulatory authorities across the globe have implemented several measures to contain the impact of the spread of the virus. In line with this, the Central Bank of Oman (CBO), also instituted a host of measures to protect the stability of country's economy. These measures include deferral of loan instalments for the affected borrowers (particularly the corporates and SMEs), deferment and waiver of interest/profit for affected Omani nationals employed in private sector, waiver of point of sale (POS) charges, lowering of regulatory capital ratios and increasing the lending ratio etc (refer CBO circular no. BSD/CB/2020/001 for details).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

3 STANDARDS, AMENDMENTS AND INTERPRETATIONS

Standards, amendments and interpretations effective in 2020 and relevant for the Islamic Window operations

For the year ended 31 December 2020, the Islamic Window has adopted applicable new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on or after 1 January 2020.

The adoption of those standards and interpretations has resulted in changes to the Islamic Window's accounting policies and has not affected the amounts reported for prior periods.

3.1 New standards and amendments have been issued by the International Accounting Standards Board (IASB) but are not yet mandatory for the year ended 31 December 2020:

3.1.1 Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting period and have not been early adopted by the Islamic Window. The management is in the process of assessing the impact of these standards on the financial statements of the Islamic Window.

3.2 The following new standards have been issued by the AAOIFI but are not yet mandatory for the year ended 31 December 2020:

FAS 30 : Impairment, credit losses and onerous commitments

AAOIFI has issued FAS 30 Impairment, Credit losses and onerous commitments (FAS 30) in 2017. The objective of this standard is to establish the principles of accounting and financial reporting for the impairment and credit losses on various Islamic financing, investment and certain other assets of Islamic financial institutions (the institutions), and provisions against onerous commitments enabling in particular the users of financial statements to fairly assess the amounts, timing and uncertainties with regard to the future cash flows associated with such assets and transactions. The standard will be effective from financial periods beginning on or after 1 January 2021 with early adoption permitted. CBO earlier issued its circular 1149 dated 13 April 2017 governing implementation of IFRS 9 Financial Instruments Standard (IFRS 9) for all the banks, which also applies to Islamic banks / windows subject to any specific instructions by the Central Bank for Islamic Banking entities on IFRS 9 if, as and when instructions are issued. The Islamic Window had adopted the IFRS 9, which are similar to FAS 30, with effect from 1 January 2018.

FAS 31 : Investment Agency (Al-Wakala Bi Al-Istithmar)

AAOIFI has issued FAS 31 Investment Agency (Al-Wakala Bi Al-Istithmar) in 2018. The objective of this standard is to establish the principles of accounting and financial reporting for the investment agency (Al-Wakala Bi Al-Istithmar) instruments and the related assets and obligations from both the principal (investor) and the agent perspectives. The standard requires the liabilities under Wakala contract to be treated as off-balance sheet for the agent. The standard will be effective from the financial periods beginning on or after 1 January 2021 with earlier adoption being permitted. Since Islamic Window does not offer Wakala Bi Al-Istithmar to its customers therefore adoption of this standard is not expected to have any impact on its financial statements.

FAS 32 : Ijara

AAOIFI has issued FAS 32 Ijara in 2020. The objective of this standard is to establish the set-out principles for the classification, recognition, measurement, presentation and disclosures of Ijarah transactions including their different forms entered into by the Islamic financial institutions in the capacity of both the lessor and lessee. This standard brings a fundamental shift in the accounting approach for Ijarah transactions, particularly, in the hand of the lessee in contrast to the earlier approach of the off-balance sheet accounting for Ijarah. The standard will be effective from the financial periods beginning on or after 1 January 2021 with earlier adoption being permitted. The Islamic Window is currently evaluating the impact of this standard.

FAS 33 : Investment in Sukuk, shares and similar instruments

AAOIFI has issued FAS 33 Investment in Sukuk, shares and similar instruments in 2019. FAS 33 supersedes the earlier FAS 25 "Investment in Sukuks, shares and similar instruments". The objective of this standard is to set out improved principles for classification, recognition, measurement, presentation and disclosure of investments in Sukuk, shares and other similar instruments of investment made by Islamic Financial Institutions in line with Shari'a principles. It defines the key types of instruments of Shari'a compliant investments and defines the primary accounting treatments commensurate to the characteristics and business model of the institution under which the investments are made, managed and held. This standard shall be effective for the financial periods beginning on or after 1 January 2021 with early adoption permitted. The Islamic Window is currently evaluating the impact of this standard.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

3 STANDARDS, AMENDMENTS AND INTERPRETATIONS *(Continued)*

FAS 34 : Financial Reporting for Sukuk -holders

AAOIFI has issued FAS 34 Financial reporting for Sukuk-holders in 2019. The objective of this standard is to establish the principles of accounting and financial reporting for assets and business underlying the Sukuk to ensure transparent and fair reporting for all stakeholders particularly Sukuk-holders. This standard shall be effective for the financial periods beginning on or after 1 January 2021 with early adoption permitted. The Islamic Window is currently evaluating the impact of this standard.

FAS 35 : Risk Reserve

AAOIFI has issued FAS 35 "Risk Reserves" in 2018. This standard along with FAS 30 'Impairment, Credit losses and onerous commitments' supersede the earlier FAS 11 "Provisions and reserves".

The objective of this standard is to establish the principles of accounting and financial reporting for risk reserves established to mitigate various risks faced by stakeholders, mainly the profit and loss taking investors, of Islamic financial institutions (IFIs / the institutions). The standard defines the accounting principles for risk reserves in line with the best practices of financial reporting and risk management. The standard encourages maintaining adequate risk reserves to safeguarding the interest of profit and loss stakeholders particularly against various risks including credit, market, equity investment risks, as well as, the rate of return risk including displaces commercial risk. This standard shall be effective for the financial periods beginning on or after 1 January 2021 with early adoption permitted only if the Bank early adopts FAS 30 "Impairment, Credit losses and onerous commitments". The Islamic Window is currently evaluating the impact of this standard.

4 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below:

4.1 Foreign currency translation

Transactions in foreign currencies are translated into the respective functional currencies of the operations at the spot exchange rates at the dates of the transactions

4.1 Foreign currency translation (continued)

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange at the reporting date. Any resulting exchange differences are included in 'other operating income' in the statement of comprehensive income.

The non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date the fair value is determined. Foreign exchange differences arising on translation are recognized in the statement of comprehensive income, except for non-monetary financial assets, such as investments classified as at fair value through equity, which are included in 'investments fair value reserve' in statement of changes in owners' equity. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

4.2 Cash and cash equivalents

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

4.3 Due from banks

Due from banks comprise wakala placements and nostro accounts. These are stated at cost, less expected credit loss allowance, if any.

4.4 Murabaha receivable

Murabaha receivables are sales on deferred profits. The Islamic Window arranges a Murabaha transaction by buying a commodity (which represents the object of the Murabaha) and then resells this commodity to customer (beneficiary) after computing a margin of profit over cost. The sale price (cost plus profit margin) is repaid in installments by the customer over the agreed period. Murabaha receivables are stated net of deferred profits and expected credit loss allowance, if any.

4.5 Musharaka

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.6 Investments

Investments comprise investments in debt type and equity type financial instruments.

Investments in these instruments are classified into following categories;

- at amortised cost
- at fair value through statement of income
- at fair value through equity

4.6.1 Instruments at amortised cost

Investments which have fixed or determinable payments and where the Islamic Window has both the intent and ability to hold to maturity are classified as debt type instrument carried at amortised cost. Such investments are carried at amortised cost, less expected credit loss allowance. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such type of instruments is recognized in the statement of comprehensive income, when the instruments are de-recognised or impaired.

4.6.2 Instruments at fair value through statement of income

This includes instruments held for the purpose of generating profits from the short term market fluctuations. These are subsequently re-measured at fair value. All related realized and unrealized gains or losses are included in the statement of comprehensive income.

4.6.3 Instruments at fair value through equity

This includes debt type instruments that are not fair valued through statement of income or not held at amortised cost. Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value less expected credit loss allowance, with unrealized gains or losses recognized in owners' equity until the investment is derecognized at which time the cumulative gain or loss previously recorded in owners' equity is recognised in the statement of equity.

On initial recognition, the Islamic Window makes an irrevocable election to designate certain equity instruments to be classified as investments at fair value through equity. Subsequent to acquisition, these equity instruments are re-measured at fair value with unrealized gains or losses recognized in owners' equity. At time of derecognition of these equity instruments the unrealised gains or losses remains in owners' equity and not recycled to statement of equity .

4.7 Ijarah assets – Ijarah Muntahia Bittamleek

Ijarah assets (Ijarah Muntahia Bittamleek) are stated at cost less accumulated depreciation and any impairment in value. Under the terms of lease, the legal title of the assets passes at the end of the lease term, provided that all the lease installments are settled. Depreciation is calculated on systematic basis to reduce the cost of leased assets over the period of lease. The Islamic Window assesses at each reporting date whether there is objective evidence that these assets are impaired. Impairment losses are measured as the difference between the carrying amount of the asset (including lease rental receivables) and the estimated recoverable amount. Impairment losses, if any, are recognised in the statement of comprehensive income.

4.8 Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Depreciation is provided on a straight-line basis over the estimated useful lives of property and equipment.

The estimated useful lives for the current period are as follows:

	Years
Building	25
Furniture & fixtures	10
Computer and other equipment	5-10
Leasehold improvements	5
Intangibles	10

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.8 Property and equipment *(Continued)*

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each reporting date. Capital work in progress is not depreciated until the asset is put to use.

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

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

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 expenditures are recognised in the income statement as an expense when incurred.

4.9 Due to banks

It comprises of wakala placements from banks and vostro account balances. Wakala payables are stated at cost less amounts repaid.

4.10 Wakala deposits

The Islamic Window accepts deposits from customers under Wakala arrangement under which a return may be payable to customers as agreed in the agreement. There is no restriction on the Islamic Window for the use of funds received under wakala agreement.

4.11 Customers' current accounts

Customers' current accounts are treated on the basis of "Qard". No profit or loss is passed on to current account holders, however the funds of current accounts are treated as equity for the purpose of profit calculation for investments account holders and any profit earned / loss incurred on those funds are allocated to the equity of the Islamic Window.

4.12 Equity of investment account holders

Equity of investment account holders are funds held by the Islamic Window in unrestricted investment accounts, which it can invest at its own discretion. The investment account holder authorises the Islamic Window to invest the account holders' funds in a manner which the Islamic Window deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. The Islamic Window charges management fee (Mudarib fees) to investment account holders. Of the total income from investment accounts, the income attributable to customers is allocated to investment accounts after setting aside provisions, reserves (Profit equalization reserve and Investment risk reserve) and deducting the Islamic Window's share of income as a Mudarib. The allocation of income is determined by the management of the Islamic Window within the allowed profit sharing limits as per the terms and conditions of the investment accounts. Administrative expenses incurred in connection with the management of the funds are borne directly by the Islamic Window and are not charged separately to investment accounts. Investment accounts are carried at their book values and include amounts retained towards profit equalisation and investment risk reserves, if any. Profit equalisation reserve is the amount appropriated by the Islamic Window out of the Mudaraba income, before allocating the Mudarib share, in order to maintain a certain level of return to the deposit holders on the investments. Investment risk reserve is the amount appropriated by the Islamic Window out of the income of investment account holders, after allocating the Mudarib share, in order to cater against future losses for investment account holders. Creation of any of these reserves results in an increase in the liability towards the pool of unrestricted investment accounts.

4.13 Revenue recognition

4.13.1 Due from banks

Income on amounts due from banks is recognised on a time proportion basis over the period of the contract based on the principal amounts outstanding and the profit agreed with the clients.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.13 Revenue recognition *(Continued)*

4.13.2 Murabaha

Income on Murabaha transactions is recognised by proportionately allocating the attributable profits over the period of the transaction where each financial period carries its portion of profit irrespective of whether or not cash is received, net of suspended profit.

4.13.3 Musharaka

Income on Musharaka is recognised on accrual basis, net of suspended profit.

4.13.4 Ijarah

Rentals accrued from ijarah financings net of depreciation charged are taken to the statement of comprehensive income, net of suspended profit.

4.13.5 Income from investments

Income from investments is recognised when earned.

4.13.6 Dividend

Dividend income is recognised when right to receive payment is established.

4.13.7 Fee and commissions

Fee and commission income recognised when earned.

Commission on letters of credit and letters of guarantee are recognised as income over the period of the transaction.

Fees for structuring and arrangement of financing transactions for and on behalf of other parties are recognised when the Islamic Window has fulfilled all its obligations in connection with the related transaction.

4.13.8 Islamic Window share as a Mudarib

The Islamic Windows' share as Mudarib for managing equity of investment accountholders is accrued based on the terms and conditions of the related mudaraba agreement.

4.13.9 Profit suspension

Profit receivable which is doubtful of recovery is excluded from the profit recognised until it is received in cash.

4.14 Provisions

Provisions are recognised when the Islamic Window has a present obligation (legal or constructive) arising from a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

4.15 Taxation

Taxation is calculated and paid by the Bank on an overall basis. Taxation expense in these financial statements represents allocation of such taxation to the Islamic Window.

4.16 Impairment

The Islamic Window assess on a forward-looking basis the expected credit losses (ECL) associated with financial assets measured at amortised cost or fair value through equity which mainly include financings, investments (other than equity investments), interbank placements, financing commitments and financial guarantees. The Islamic Window recognises a loss allowance and provision for such losses at reporting date. The measurement of ECL reflects:

- an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.16 Impairment *(Continued)*

The Islamic Window approach leveraged the existing regulatory capital models and processes for financing portfolios that use the existing Internal Rating based and behavioral credit models. IFRS 9 considers the calculation of ECL by multiplying the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

The Islamic Window measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

Measurement of ECL

Credit loss allowances are measured using a three-stage approach based on the extent of credit deterioration since origination:

Stage 1 – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.

Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

For financial assets in Stage 1 and Stage 2, the Islamic Window calculates profit income by applying the Effective Profit Rate to the gross carrying amount (i.e., without deduction for ECLs).

The key inputs into the measurement of ECL are the term structure of the following variables:

- (i) Probability of default (PD);
- (ii) loss given default (LGD);
- (iii) exposure at default (EAD)

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

Details of these statistical parameters/inputs are as follows:

PD – The probability of default is an estimate of the likelihood of default over a given time horizon.

EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date.

LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the financee, then ECL is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial assets are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.16 Impairment *(Continued)*

Measurement of ECL *(Continued)*

Write off

Financing receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Islamic Window. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the financing impairment account. If a write-off is later recovered, the recovery is credited to the statement of comprehensive income. The policy on write off's remains unchanged.

4.17 Fair value

Fair value is determined for each financial asset individually in accordance with the valuation policies set out below:

- For quoted investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the statement of financial position date.
- For unquoted investments, fair values is determined by reference to recent significant buy or sell transaction with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.
- For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Islamic Window using current profit rates. For investments with similar terms and risk characteristics.
- Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost, less impairment loss, if any.

4.18 De-recognition of financial assets and liabilities

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

- the right to receive cash flows from the asset has expired;
- the Islamic Window retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Islamic Window has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

4.19 Employee terminal benefits

4.19.1 Terminal benefits

End of service benefits are accrued in accordance with the terms of employment of the Islamic Window's employees at the reporting date, having regard to the requirements of the Oman Labour Law 2003, as amended.

Contribution to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurances Law of 1991 are recognised as an expense in the statement of comprehensive income when incurred.

4.19.2 Short term benefits

Short term benefit obligations are measured on an undiscounted basis and are expensed when the related service is provided.

4.20 Earnings prohibited by Sharia

The Islamic Window is committed to avoid recognising any income generated from non-Islamic sources. Accordingly all non-Islamic income is credited to the charity account where the Islamic Window uses these funds for charitable purposes.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.21 Zakah

Zakah is calculated in accordance with FAS 9 Zakah using the net assets method. The Islamic Window will calculate the "Zakah base" based on audited financial statements and after approval from Sharia Supervisory Board, notify the Shareholders of their pro-rata share of the Zakah payable annually. Payment of Zakah on the investment accounts and other accounts is the responsibility of investment account holders.

4.22 Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Islamic Window has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

4.23 Sharia Supervisory Board

The Islamic Window's business activities are subject to the supervision of a Sharia Supervisory Board consisting of members appointed by the general assembly of shareholders.

4.24 Joint and self financed

Assets that are jointly owned by the Islamic Window and the investment account holders are presented as "jointly financed" in the financial statements. All other assets are "self financed".

4.25 Commingling of funds

The funds of Islamic Window are not commingled with the funds of Conventional Operations of the Bank.

5 Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that may affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The Islamic Window's significant accounting estimates are in the followings:

5.1 Financial asset classification

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

5.2 Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and Fair value through equity is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 32.1, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- (a) Determining criteria for significant increase in credit risk;
- (b) choosing appropriate models and assumptions for measurement of ECL;
- (c) establishing the number and relative weightings of forward looking scenarios for each type of product/market and the associated ECL; and
- (d) establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates is provided in note 4.16.

5.3 Useful life of property and equipment and Ijarah Muntahia Bittamleek

Depreciation is charged so as to write off the cost of assets over their estimated useful lives. The calculation of useful lives is based on management's assessment of various factors such as the operating cycles, the maintenance programs, and normal wear and tear using its best estimates.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

6 CASH AND BALANCES WITH CENTRAL BANK OF OMAN

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
11,668	11,437	Cash	4,403	4,492
70,150	12,675	Clearing account with Central Bank of Oman	4,880	27,008
<u>81,818</u>	<u>24,112</u>		<u>9,283</u>	<u>31,500</u>

7 DUE FROM BANKS

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
-	7,792	Wakala placements	3,000	-
1,213	1,268	Nostro account balances	488	467
<u>1,213</u>	<u>9,060</u>		<u>3,488</u>	<u>467</u>

8 MURABAHA RECEIVABLES

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
39,558	32,719	Vehicles	12,597	15,230
85,109	77,951	Personal financing	30,011	32,767
16,870	17,577	Corporate	6,767	6,495
141,537	128,247	Gross receivables	49,375	54,492
(18,210)	(15,613)	Deferred profits	(6,011)	(7,011)
123,327	112,634		43,364	47,481
		Less: Impairment loss allowance		
(288)	(1,104)	Stage 1 and 2	(425)	(111)
(325)	(379)	Stage 3	(146)	(125)
<u>122,714</u>	<u>111,151</u>		<u>42,793</u>	<u>47,245</u>

Murabaha receivables are jointly financed by the Islamic window and investment account holders under Mudaraba and Wakala deposits.

8.1 DEFERRED PROFIT

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
(18,683)	(18,210)	Deferred profit at the beginning of the year	(7,011)	(7,193)
(55,749)	(20,517)	Murabaha sales during the year	(7,899)	(21,469)
49,262	18,366	Murabaha cost of sales	7,071	18,966
(6,487)	(2,151)	Deferred profit on sales	(828)	(2,503)
6,974	4,748	Murabaha income recognised during the period	1,828	2,685
<u>(18,210)</u>	<u>(15,613)</u>	Deferred profit at the end of the year	<u>(6,011)</u>	<u>(7,011)</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

9 MUSHARAKA RECEIVABLES

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
401,629	457,964	Musharaka receivables	176,316	154,627
(3,000)	(1,906)	Less: Impairment loss allowance	(734)	(1,155)
-	(6,065)	Stage 1 and 2	(2,335)	-
-		Stage 3		
<u>398,629</u>	<u>449,993</u>		<u>173,247</u>	<u>153,472</u>

Musharaka receivables are jointly financed by the Islamic window and investment account holders under Wakala deposits.

10 INVESTMENT SECURITIES

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
		Debt type instrument at fair value through equity		
88,449	74,211	Sukuks	28,571	34,053
		Equity type instrument at fair value through equity		
720	845	Open end mutual fund and equity	325	277
<u>89,169</u>	<u>75,056</u>		<u>28,896</u>	<u>34,330</u>

Investment securities are jointly financed by the Islamic window and investment account holders under Wakala deposits.

11 IJARAH ASSETS - IJARAH MUNTAHIA BITTAMLEEK

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
470,808	467,496	Cost	179,986	181,261
(121,636)	(131,982)	Accumulated depreciation	(50,813)	(46,830)
349,172	335,514	Book value	129,173	134,431
		Less: Impairment loss allowance		
(1,961)	(1,701)	Stage 1 and 2	(655)	(755)
(912)	(847)	Stage 3	(326)	(351)
<u>346,299</u>	<u>332,966</u>	Net book value	<u>128,192</u>	<u>133,325</u>

Ijarah assets are jointly financed by the Islamic window and investment account holders under Mudaraba and Wakala deposits.

12 CREDIT CARD RECEIVABLE

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
1,437	1,463	Islamic Credit Card	563	553
		Less: Impairment loss allowance		
(3)	(8)	Stage 1,2 & 3	(3)	(1)
<u>1,434</u>	<u>1,455</u>	Net book value	<u>560</u>	<u>552</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

13 SERVICE IJARAH

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
886	1,291	Service Ijarah	497	341
886	1,291	Net book value	497	341

Service ijarah assets are jointly financed by the Islamic window and investment account holders under Mudaraba and Wakala deposits.

14. FINANCING ACTIVITIES

In accordance with CBO circular BM 1149 Banks should continue to maintain and update the risk classification (i.e. standard, special mention, substandard, etc.) of accounts as per the extant CBO norms, including those on restructuring of loans accounts for regulatory reporting purposes.

14.1 COMPARISON OF PROVISION HELD AS PER IFRS 9 AND REQUIRED AS PER CBO NORMS AS AT 31 DECEMBER 2020:

Disclosure requirements for the year ended 31 December 2020, containing the risk classification-wise gross and net amount outstanding, provision required as per CBO norms, allowance made as per IFRS 9, profit recognised as per IFRS 9 and suspended profit required as per CBO are given below based on CBO circular BM 1149.

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Profit recognised in P&L as per IFRS 9	Suspended profit as per CBO norms
(1)	(2)	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
		(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Standard	Stage 1	267,666	3,658	400	3,258	264,007	267,266	-	-
	Stage 2	44,979	-	677	(677)	44,979	44,302	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		12,645	3,658	1,077	2,581	308,986	311,568	-	-
Special Mention	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	20,246	-	740	(740)	20,246	19,506	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		20,246	-	740	(740)	20,246	19,506	-	-
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	28	7	14	(7)	21	14	-	-
Subtotal		28	7	14	(7)	21	14	-	-
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	10,368	4,715	2,246	2,469	5,259	8,122	-	394
Subtotal		10,368	4,715	2,246	2,469	5,259	8,122	-	394
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	6,626	2,681	1,571	1,110	3,315	5,055	-	630
Subtotal		6,626	2,681	1,571	1,110	3,315	5,055	-	630
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	49,247	-	47	(47)	49,247	49,200	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	9	-	9	(9)	9	-	-	-
Subtotal		49,256	-	56	(56)	49,256	49,200	-	-
Total	Stage 1	316,913	3,658	447	3,211	313,254	316,466	-	-
	Stage 2	65,225	-	1,417	(1,417)	65,225	63,808	-	-
	Stage 3	17,031	7,403	3,840	3,563	8,604	13,191	-	1,024
	Total	399,169	11,061	5,704	5,357	387,083	393,464	-	1,024

Other items disclosed above includes exposure outstanding and respective provisions held against due from banks, investments, other assets, financing commitments and financial guarantees.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2020

14. FINANCING ACTIVITIES

14. FINANCING ACTIVITIES (Continued)

14.2 Restructured Loans

Asset Classifica- tion as per CBO Norms	Asset Classification as per IFRS 9	Gross Carrying Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Carrying Amount as per CBO norms*	Net Carrying Amount as per IFRS 9	Profit recognised in P&L as per IFRS 9	Sus- pended profit as per CBO norms
(1)	(2)	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
		(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
	Stage 1				-	-	-	-	-
Classified as performing	Stage 2	15,181	-	429	(429)	15,181	14,752	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		15,181	-	429	(429)	15,181	14,752	-	-
Classified as non- performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	8,925	2,671	1,626	1,045	5,595	7,299	-	659
Sub total		8,925	2,671	1,626	1,045	5,595	7,299	-	659
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	15,181	-	429	(429)	15,181	14,752	-	-
	Stage 3	8,925	2,671	1,626	1,045	5,595	7,299	-	659
Total	Total	24,106	2,671	2,055	616	20,776	22,051	-	659

*Net of provisions and suspended profit as per CBO norms

14.3 IMPAIRMENT CHARGE AND PROVISIONS HELD

	As per CBO Norms	As per IFRS 9	Difference
Impairment loss charged to profit and loss account	5,776	2,155	3,621
Provisions required as per CBO norms/ held as per IFRS 9	11,061	5,704	5,357
Gross NPL ratio (percentage)	4.86%	4.86%	-
Net NPL ratio (percentage)	2.46%	3.77%	-1.31%

In accordance with CBO requirements, where the aggregate provision on portfolio and specific basis computed as per CBO norms is higher than the impairment allowance computed under IFRS 9, the difference, net of the impact of taxation, is transferred to an impairment reserve as an appropriation from the retained earnings.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

14. FINANCING ACTIVITIES *(Continued)*

14.4 COMPARISON OF PROVISION HELD AS PER IFRS 9 AND REQUIRED AS PER CBO NORMS AS AT 31 DECEMBER 2019:

Disclosure requirements for the year ended 31 December 2019, containing the risk classification-wise gross and net amount outstanding, provision required as per CBO norms, allowance made as per IFRS 9, profit recognised as per IFRS 9 and suspended profit required as per CBO are given below based on CBO circular BM 1149.

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount RO '000	Provision required as per CBO Norms RO '000	Provision held as per IFRS 9 RO '000	Difference between CBO provision required and provision held RO '000	Net Amount		Profit recognised in P&L as per IFRS 9 RO '000	Suspended profit as per CBO norms RO '000
						as per CBO norms*	as per IFRS 9		
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(-10)	(8) = (3)-(5)	(9)	(10)
Standard	Stage 1	295,384	3,697	391	3,306	291,687	294,994	-	-
	Stage 2	3,571	-	38	(38)	3,571	3,533	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		298,955	3,697	429	3,268	295,258	298,527	-	-
Special Mention	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	37,458	-	1,593	(1,593)	37,458	35,865	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		37,458	-	1,593	(1,593)	37,458	35,865	-	-
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	358	93	164	(75)	266	194	-	3
Subtotal		358	93	164	(75)	266	194	-	3
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	253	121	117	(5)	132	136	-	9
Subtotal		253	121	117	(5)	132	136	-	9
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	409	390	235	127	19	174	-	28
Subtotal		409	390	235	127	19	174	-	28
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	73,748	-	27	(27)	73,748	73,721	-	-
	Stage 2	60	-	-	-	60	60	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		73,808	-	27	(27)	73,808	73,781	-	-
Total	Stage 1	369,132	3,697	418	3,279	365,435	368,714	-	-
	Stage 2	41,089	-	1,631	(1,631)	41,089	39,458	-	-
	Stage 3	1,020	603	516	47	417	504	-	40
Total	Total	411,241	4,300	2,565	1,695	406,941	408,676	-	40

Other items disclosed above includes exposure outstanding and respective provisions held against due from banks, investments, other assets, financing commitments and financial guarantees.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

14. FINANCING ACTIVITIES *(Continued)*

14.5 RESTRUCTURED LOANS

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Carrying Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Carrying Amount as per CBO norms*	Net Carrying Amount as per IFRS 9	Profit recognised in P&L as per IFRS 9	Suspended profit as per CBO norms
(1)	(2)	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
		(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Classified as performing	Stage 1				-	-	-	-	-
	Stage 2	23,392	323	802	(479)	23,069	22,590	-	-
	Stage 3	112	53	47	6	59	65	-	-
Subtotal		23,504	376	849	(473)	23,128	22,655	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	-	-	-
Sub total		-	-	-	-	-	-	-	-
Total	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	23,392	323	802	(479)	23,069	22,590	-	-
	Stage 3	112	53	47	6	59	65	-	-
	Total	23,504	376	849	(473)	23,128	22,655	-	-

*Net of provisions and suspended profit as per CBO norms

14.6 IMPAIRMENT CHARGE AND PROVISIONS HELD

	As per CBO Norms	As per IFRS 9	Difference
Impairment loss charged to profit and loss account	207	771	(564)
Provisions required as per CBO norms/ held as per IFRS 9	4,300	2,565	1,735
Gross NPL ratio (percentage)	0.30%	0.30%	-
Net NPL ratio (percentage)	0.11%	0.15%	-0.04%

In accordance with CBO requirements, where the aggregate provision on portfolio and specific basis computed as per CBO norms is higher than the impairment allowance computed under IFRS 9, the difference, net of the impact of taxation, is transferred to an impairment reserve as an appropriation from the retained earnings.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

15 PROPERTY AND EQUIPMENT

	Building RO '000	Leasehold improve- ments RO '000	Computer and other equi pment RO '000	Intangi- bles RO '000	Furniture RO '000	ROU Assets RO '000	Capital work in progress RO '000	Total RO '000
Cost:								
At 1 January 2020	477	564	495	985	100	661	2	3,284
Additions	-	132	4	-	19	418	-	573
Disposals / scrapped	-	-	(36)	-	-	-	-	(36)
At 31 December 2020	477	696	463	985	119	1,079	2	3,821
Accumulated depreciation:								
At 1 January 2020	116	423	381	641	89	129	-	1,779
Depreciation	19	44	28	73	5	244	-	413
Disposals / scrapped	-	-	(36)	-	-	-	-	(36)
At 31 December 2020	135	467	373	714	94	373	-	2,156
Net book value as at								
At 31 December 2020	342	229	90	271	25	706	2	1,665
At 31 December 2020 (US\$ '000)	888	595	233	704	65	1,834	5	4,324

	Building RO '000	Leasehold improve- ments RO '000	Computer and other equi pment RO '000	Intangi- bles RO '000	Furniture RO '000	ROU Assets RO '000	Capital work in progress RO '000	Total RO '000
Cost:								
At 1 January 2019	477	467	473	951	86	-	36	2,490
Additions	-	123	23	34	15	661	(34)	822
Disposals / scrapped	-	(26)	(1)	-	(1)	-	-	(28)
At 31 December 2019	477	564	495	985	100	661	2	3,284
Accumulated depreciation:								
At 1 January 2019	97	421	345	541	76	-	-	1,480
Depreciation	19	28	36	100	13	129	-	325
Disposals / scrapped	-	(26)	-	-	-	-	-	(26)
At 31 December 2019	116	423	381	641	89	129	-	1,779
Net book value as at								
At 31 December 2019	361	141	114	344	11	532	2	1,505
At 31 December 2019 (US\$ '000)	938	366	296	894	29	1,382	5	3,910

16 OTHER ASSETS

2019 US\$ '000	2020 US\$ '000		2020 RO '000	2019 RO '000
5,881	15,669	Profit receivable on financing	6,033	2,264
395	329	Profit receivable on sukuks	127	152
421	291	Prepayments	112	162
99	158	Others	61	39
-	(23)	Impairment loss allowance	(9)	-
6,796	16,424		6,324	2,617

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

17 DUE TO BANKS

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
370,291	148,052	Wakala acceptances	57,000	142,562
195	527	Vostro account balances	203	75
<u>370,486</u>	<u>148,579</u>		<u>57,203</u>	<u>142,637</u>

18 WAKALA DEPOSITS

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
176,317	45,379	Financial institutions	17,471	67,882
171,016	382,223	Others	147,156	65,841
<u>347,333</u>	<u>427,602</u>		<u>164,627</u>	<u>133,723</u>

19 OTHER LIABILITIES

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
18,966	8,140	Profit payable	3,134	7,302
5,340	4,395	Accrued expenses and payable	1,692	2,056
3	3	Charity payable	1	1
1,266	1,824	Lease liability	702	487
839	327	Others	126	323
62	68	Impairment loss allowance	26	24
<u>26,476</u>	<u>14,757</u>		<u>5,681</u>	<u>10,193</u>

20 EQUITY OF INVESTMENT ACCOUNT HOLDERS

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
148,808	255,312	Saving and call accounts	98,295	57,291
<u>148,808</u>	<u>255,312</u>		<u>98,295</u>	<u>57,291</u>

The average profit rate for the investment account holders during the year was 1.42% (2019: 2.44%). Profit sharing ratio of mudarib as at 31 December 2020 was 30% (2019: 40%)

During the period there is no appropriation to profit equalisation reserve and investment risk reserve and no provision has been charged to income attributable to investment account holders.

21 SHARE CAPITAL

The allocated share capital of the Islamic Window is RO 25 million (equivalent to US\$ 64.935 million).

22 CONTINGENT LIABILITIES AND COMMITMENTS

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
27,057	32,842	Guarantees	12,644	10,417
20,675	11,291	Financing Commitment	4,347	7,960
<u>47,732</u>	<u>44,133</u>		<u>16,991</u>	<u>18,377</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

23 INCOME FROM FINANCING ACTIVITIES

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
21,932	23,888	Musharaka	9,197	8,444
18,982	15,348	Rental income on ijarah assets	5,909	7,308
6,974	4,748	Murabaha	1,828	2,685
<u>47,888</u>	<u>43,984</u>		<u>16,934</u>	<u>18,437</u>

24 INCOME FROM INVESTING ACTIVITIES

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
1,587	4,127	Income from investments	1,589	611
49	340	Income from wakala placements	131	19
<u>1,636</u>	<u>4,467</u>		<u>1,720</u>	<u>630</u>

25 OTHER OPERATING INCOME

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
208	299	Fee and commission, net	115	80
<u>208</u>	<u>299</u>		<u>115</u>	<u>80</u>

26 OTHER OPERATING INCOME FROM BANKING SERVICES

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
2,106	1,444	Fee and commission, net	556	811
29	91	Foreign exchange gain, net	35	11
121	105	Service charges and other	41	47
<u>2,257</u>	<u>1,642</u>		<u>632</u>	<u>869</u>

27 STAFF EXPENSES

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
2,273	3,309	Salaries and wages	1,274	875
2,158	2,992	Allowances	1,152	831
<u>4,431</u>	<u>6,301</u>		<u>2,426</u>	<u>1,706</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

28 OTHER OPERATING EXPENSES

2019 US\$ '000	2020 US\$ '000		2020 RO '000	2019 RO '000
1,558	2,070	Operating and administration costs	797	600
255	322	Occupancy costs	124	98
356	501	Advertisement costs	193	137
94	86	Shariah Supervisory Board related expenses	33	36
<u>2,263</u>	<u>2,979</u>		<u>1,147</u>	<u>871</u>

29 ZAKAH

Zakah is directly borne by the owners and unrestricted investment accountholders. The Islamic Window does not collect or pay Zakah on behalf of its owners and its investment accountholders.

30 RELATED PARTY TRANSACTIONS

In the ordinary course of business the Islamic Window enters into transactions with major shareholders, directors, senior management, Sharia Supervisory Board and their related concerns. These transactions are conducted on an arm's length basis and are approved by the Islamic Window's management and Board of Directors.

The year end balances in respect of related parties included in the statement of financial position are as follows:

2019 US\$ '000	2020 US\$ '000		2020 RO '000	2019 RO '000
Directors, Shariah Supervisory Board and senior management				
7	59	Financing assets	23	3
619	1,359	Customers' deposits	523	238
Major shareholders and others				
61	398	Nostro account balances	153	23
386	499	Investment securities	192	149
370,292	148,447	Due to banks - Wakala acceptances	57,152	142,562

The income and expenses in respect of related parties included in the statement of comprehensive income are as follows:

2019 US\$ '000	2020 US\$ '000		2020 RO '000	2019 RO '000
Directors, Shariah Supervisory Board and senior management				
533	8	Profit earned	3	205
94	86	Shariah Supervisory Board related expenses	33	36
82	-	Other operating expenses	-	32
Major shareholders and others				
17,364	11,701	Profit paid on due to banks	4,505	6,685

The Islamic Window has not rented any branch premises from a Director during the year 2020. (2019 - RO 0.032 million equivalent to US\$ 0.083 million).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

31 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is an amount for which an asset could be exchanged, or liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair value of investments classified as fair value through equity as at 31 December 2020 is RO 28,896 million equivalent to US\$ 75,056 million (31 December 2019 is RO 34,330 million equivalent to US\$ 89,169 million) with cost amounts to RO 28,941 million equivalent to US\$ 75,171 million (31 December 2019: RO 34,354 million equivalent to US\$ 89,231 million).

Other than investments the Islamic Window considers that the fair value of other financial instruments is not significantly different to their carrying value.

Valuation of financial instruments:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The table below analysis of financial instruments measured at fair value at the reporting date:

	2020	2020	2020	2019	2019	2019
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
	Level 1	Level 2	Total	Level 1	Level 2	Total
Financial assets						
Investment - debt type instruments at fair value through equity	3,367	25,203	28,571	3,314	30,739	34,053
Investment - equity type instrument at fair value through equity	-	325	325	-	277	277
	<u>3,367</u>	<u>25,528</u>	<u>28,895</u>	<u>3,314</u>	<u>31,016</u>	<u>34,330</u>
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Financial assets						
Investment - debt type instruments at fair value through equity	8,748	65,463	74,211	8,608	79,841	88,449
Investment - equity type instrument at fair value through equity	-	845	845	-	720	720
	<u>8,748</u>	<u>66,308</u>	<u>75,056</u>	<u>8,608</u>	<u>80,561</u>	<u>89,169</u>

No financial instruments are carried at level 3 fair values as on 31 December 2020 (31 December 2019: Nil)

32 RISK MANAGEMENT

Risk management is an integral part of the Islamic Window's decision making process. The Board of Directors and executive risk committee guide and assist the overall management of the Islamic Window's statement of financial position risks. The Islamic Window manages exposures by setting limits approved by the Board of Directors. The Islamic Window has exposure to the following risk from its use of financial instruments:

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

32 RISK MANAGEMENT *(Continued)*

32.1 CREDIT RISK

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The Islamic Window controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are mostly secured by the personal guarantees of the counterparty, by collateral in form of mortgage of the objects financed or other tangible security.

32.1.1 TYPE OF CREDIT RISK

Financing contracts mainly comprise Murabaha receivables, Musharaka and Ijarah assets.

32.1.1.1 MURABAHA RECEIVABLE

The Islamic Window finances these transactions through buying a commodity which represents the object of the murabaha and then resells this commodity to the murabaha (beneficiary) at a profit. The sale price (cost plus the profit margin) is repaid in installments by the murabaha over the agreed period. The transactions are secured at times by the object of the murabaha and other times by a total collateral package securing the facilities given to the client.

32.1.1.2 MUSHARAKA

An agreement between the Islamic Window and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared as per the agreement set between both parties while the loss is shared in proportion to their shares of capital or the enterprise.

32.1.1.3 IJARAH - IJARAH MUNTAHIA BITTAMLEEK

This is a lease whereby the legal title of the leased asset passes to the lessee at the end of the Ijarah (lease) term, provided that all Ijarah instalments are settled.

32.1.1.4 SERVICE IJARAH

This is lease of services against agreed rentals. The Islamic Banking Window purchases services from third party, service provider by making full payment and then lease it to the customer through Service Ijara Contract.

32.1.1.5 CREDIT CARD RECIEVABLES

The Islamic Banking Window takes a fee for the credit card services and there are no charges taken on the amount utilized since, it is based on the Qard principle.

32.1.2 Credit risk measurement

(a) Financings (including Loan commitments and guarantees)

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Islamic Window measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

(b) Credit risk grading

The Islamic Window uses internal credit risk grading that reflect its assessment of the probability of default of individual counterparties. The bank's internal Risk Rating (RR) system is developed as a 10 grade system - enumerated from RR 1 to RR 10 - to risk rate a customer and to associate a default probability to each rating grade. The ratings will also assist studying the distribution of borrowers, grade wise exposures, transition of credit risk ratings over time, grade wise defaults, Non-Performing Loans (NPL) etc. Risk appetite will also be set in terms of how much of exposure bank expects in various grade bands. The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

32 RISK MANAGEMENT *(Continued)*

32.1 CREDIT RISK *(continued)*

32.1.2 Credit risk measurement *(continued)*

Credit quality rating	Risk Rating(RR)	Classification
High Standard	RR1 to RR4	Not credit impaired on initial recognition- classified under 'Stage 1'.
Standard	RR5 to RR6	
Special Mention	RR7	Identified SICR since initial recognition but is not deemed to be credit impaired- Classified under 'Stage 2'.
Non performing	RR8 to RR10	Credit impaired- Classified under 'Stage 3'.

32.1.3 Exposure to credit risk

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

	2020				2019
	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000	Total RO '000	Total RO '000
Clearing account with Central Bank of Oman	4,880	-	-	4,880	27,008
Due from banks	3,488	-	-	3,488	467
Financing to customers - Gross	267,657	65,225	17,031	349,913	337,433
Investment securities	28,571	-	-	28,571	34,053
Financing Commitments and financial guarantees	16,991	-	-	16,991	18,377
Gross carrying amount	321,587	65,225	17,031	403,843	417,338
Impairment loss allowance	447	1,417	3,840	5,704	2,564
Carrying amount	321,140	63,808	13,191	398,139	414,774

	2020				2019
	Stage 1 US\$ '000	Stage 2 US\$ '000	Stage 3 US\$ '000	Total US\$ '000	Total US\$ '000
Clearing account with Central Bank of Oman	12,675	-	-	12,675	70,151
Due from banks	9,060	-	-	9,060	1,213
Financing to customers - Gross	695,213	169,416	44,236	908,865	876,450
Investment securities	74,210	-	-	74,210	88,449
Financing Commitments and financial guarantees	44,133	-	-	44,133	47,732
Gross carrying amount	835,291	169,416	44,236	1,048,943	1,083,995
Impairment loss allowance	1,161	3,681	9,974	14,816	6,661
Carrying amount	834,130	165,735	34,262	1,034,127	1,077,334

IMPAIRED FINANCING

The collateral held against impaired financing is RO 10.588 million equivalent to US\$ 27.501 million (31 December 2019 RO 0.188 million equivalent to US\$ 0.488 million).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

32 RISK MANAGEMENT *(Continued)*

32.1 CREDIT RISK *(continued)*

32.1.4 Expected credit loss measurement *(continued)*

Overview of ECL principles

The adoption of IFRS 9 has fundamentally changed the Islamic Window financing loss impairment method by replacing incurred loss approach with a forward looking ECL approach. From 1 January 2018, the Islamic Window has been recording the allowance for expected credit losses for all financing exposure and other debt financial assets not held at fair value through income statement together with financing commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

The ECL Allowance is based on the credit losses expected to arise over the life of the asset (Lifetime ECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on 12 months expected credit loss (12 month ECL). The 12 month ECL is the portion of lifetime ECL that represent the ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Islamic Window has established a policy to perform an assessment on a monthly basis whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Islamic Window groups its financing exposure into Stage 1, Stage 2 and Stage 3, as classified below:

Stage 1

When financing are first recognised, the Islamic Window recognises an allowance based on 12 month ECLs. Stage 1 financing exposure also include facilities where the credit risk has improved and the financing exposure has been reclassified from stage 2.

Stage 2

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

Stage 3

Financing exposure considered credit impaired. The Islamic Window records an allowance for lifetime ECLs.

Measurement of ECL

The key inputs into the measurement of ECL are given in note 4.16.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

ECL Exposure of financial assets and off-balance sheet

The following table contains an analysis of stagewise reconciliation of loss allowance from the opening to the closing balance of financial assets / off balance sheet items by class of financial instrument.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

32 RISK MANAGEMENT *(Continued)*

32.1 CREDIT RISK *(continued)*

32.1.4 Expected credit loss measurement *(continued)*

Movement in Impairment allowance and provision

	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000	Total RO '000
Opening balance as at 1 January 2020				
Financings	391	1,631	516	2,538
Investment Securities & Due from Banks	3	-	-	3
Financing commitments and financial guarantees	24	-	-	24
Other assets	-	-	-	-
Net transfer between stages				
Financings	91	(830)	739	-
Investment Securities & Due from Banks	-	-	-	-
Financing commitments and financial guarantees	5	(5)	-	-
Other assets	-	-	-	-
Charge for the Year (net)				
Financings	(82)	616	2,576	3,110
Investment Securities & Due from Banks	18	-	-	18
Financing commitments and financial guarantees	(3)	5	-	2
Other assets	-	-	9	9
Closing balance as at 31 December 2020				
Financings	400	1,417	3,831	5,648
Investment Securities & Due from Banks	21	-	-	21
Financing commitments and financial guarantees	26	-	-	26
Other assets	-	-	9	9

Note: Charge for the year includes suspended profit of RO 0.984 Mn

32.1.5 Significant increase in credit risk (SICR)

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Islamic Window considers both quantitative and qualitative information and analysis, based on the Islamic Window's historical experience and expert credit assessment and including forward-looking information. Retail facilities use the number of days past due (DPD) to determine significant increase in credit risk. For non-retail facilities, internally derived credit ratings have been identified as representing the best available determinant of credit risk. The Islamic Window assigns each facility a credit rating at initial recognition based on qualitative and quantitative information available about the borrower. Credit risk is deemed to have increased significantly if the credit rating has significantly deteriorated at the reporting date relative to the credit rating at the date of initial recognition. In addition, as a backstop, the Islamic Window considers that significant increase in credit risk occurs when an asset is more than 30 DPD.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

32 RISK MANAGEMENT *(Continued)*

32.1 CREDIT RISK *(continued)*

32.1.5 Significant increase in credit risk (SICR) *(continued)*

The following quantitative guidelines are used to determine the staging of accounts:

1. An account will migrate to stage 2 if any of the changes in rating below are met;
 - For risk ratings 1 – 4: ≥ 3 notch downgrade
 - For risk rating 5: 2 notch downgrade
 - For risk rating 6 : 1 notch downgrade
2. An account will also migrate to stage 2 if it is more than 30 days past due
3. An account will also be considered stage 2 if has been placed under special mention

In addition to the above, qualitative criteria as per the CBO circular BM 1149 dated 13 April 2017 are being considered for assessing the significant increase in credit risk to corporate customers with limits of OMR 500,000 or more.

32.1.6 Definition of default

The Islamic Window considers a financial asset to be in default when:

- ~ the borrower is unlikely to pay its credit obligations to the Islamic Window in full, without recourse by the Islamic Window to actions such as realising security (if any is held); or
- ~ the borrower is past due more than 90 days on any material credit obligation of the Islamic Window.
- ~ In assessing whether the borrower is in default, the Islamic Window considers indicators that are;
- ~ qualitative - e.g. breaches of covenant
- ~ quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Islamic Window; and
- ~ based on data developed internally and obtained from external sources.

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

Macroeconomic factors, forward looking information (FLI) and multiple scenarios

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

Based on advice from Credit Risk Committee and after considering of external information, the Islamic Window formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing additional economic scenarios and considering the relative probabilities of each outcome.

In its models, the Islamic Window relies on a broad range of forward looking information as economic inputs, such as: real gross domestic product (GDP) growth and oil revenue (as % of GDP). The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are made as temporary adjustments using expert credit judgement.

Covid-19 impact on the Bank

The assessment of Significant Increase in Credit risk (SICR) and the measurement of ECLs are based on reasonable and supportable information that is available without undue cost or effort. In assessing forecast conditions, consideration has been given both to the effects of COVID-19 and the significant government support measures being undertaken. Relief measures, such as payment holidays, has not automatically lead to loans being measured on the basis of lifetime losses and considerable judgment was made to measure ECLs at this time. When it was not possible to reflect such information in the models, post-model overlays or adjustments were considered. This is consistent with guidelines issued by CBO during the year.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

32 RISK MANAGEMENT *(Continued)*

32.1 CREDIT RISK *(continued)*

The Risk department of the Bank is primarily responsible for overseeing the Islamic Window adequacy on ECL. It closely monitors the impact of COVID-19 by an ongoing review of the portfolio including a review of all individually significant exposures in the directly impacted industries and sectors. SME customers are evaluated based on the stability of the business owner and business and any short term cash flow mismatches are supported by the Bank.

Impact on SICR

The exercise of the deferment option by a customer, in its own, is not considered by the Islamic Window as triggering SICR. However, as part of the Islamic Window evaluation process especially given the current economic situation due to after effects of lock down, the Islamic Window obtained further information from the customer to understand their financial position and ability to repay the amount and in case where indicators of significant deterioration were noted, the customers' ratings and accordingly exposure staging were adjusted, where applicable.

Covid 19 Impact on ECL allowance

The Islamic Window's models have been constructed and calibrated using historical trends and correlations as well as forward looking economic scenarios. The severity of the current macro-economic projections and the added complexity caused by the various support schemes and regulatory guidance across the main regions in which the Bank operates could not be reliably modelled for the time being. As a consequence, the existing models may generate results that are either overly conservative or overly optimistic depending on the specific portfolio / segment. As a result, post-model adjustments (PMA) are needed.

As on the reporting date, collective provision held by the Islamic Window through management overlays amounts to 5.79 % of total impairment based on latest available PD term structure, macro-economic forecasts and on exposure on certain large sector customer. This is in addition to the existing ECL provision considered on a conservative practices to mitigate any unforeseen impacts in the portfolio. The Islamic Window will continue to reassess and appropriately adjust such overlays on a regular basis throughout the affected period.

32.2 LIQUIDITY RISK

Liquidity risk is the risk that the Islamic Window will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a regular basis.

The Islamic Window's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its obligation when due, under normal and stressed conditions without incurring unacceptable losses or risking damage to the Islamic Window's reputation. The Islamic Window has put in place an approved Contingency Liquidity Plan to facilitate management of liquidity.

Liquidity risk is managed by the Islamic Window through closely monitoring the liquidity gap against the limit fixed.

Adequate liquidity is ensured by Treasury, which receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, placements with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Islamic Window as a whole. In this process due care is taken to ensure that the Islamic Window complies with all the Central Bank of Oman regulations and the liquidity ratios were in compliance with regulatory requirements as of year ended 31 December 2020.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

32 RISK MANAGEMENT *(Continued)*

32.2 LIQUIDITY RISK *(continued)*

The following table summarises the maturity profile of the Islamic Window assets and liabilities as on the reporting date. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date and do not take account of the effective maturities as indicated by the Islamic Window's deposit retention history and the availability of liquid funds.

	Upto three months	Above three months to twelve months	Above one year to five years	More than five years	Total
31 December 2020	RO '000	RO '000	RO '000	RO '000	RO '000
Assets					
Cash and balances with Central Bank of Oman	9,283	-	-	-	9,283
Due from banks	3,488	-	-	-	3,488
Financing assets	8,714	13,735	60,496	262,344	345,289
Investment securities	19,372	9,524	-	-	28,896
Property and equipment	-	-	-	1,665	1,665
Other assets	4,998	1,326	-	-	6,324
Total assets	45,855	24,585	60,496	264,009	394,945
Liabilities, equity of investment account holders and owners' equity					
Due to banks	10,203	6,000	41,000	-	57,203
Customers' deposits	41,935	75,438	109,457	58,634	285,464
Other liabilities	2,751	981	1,391	558	5,681
Shareholder's fund	-	-	-	46,597	46,597
Total liabilities, equity of investment account holders and owners' equity	54,889	82,419	151,848	105,789	394,945
Net liquidity gap	(9,034)	(57,834)	(91,352)	158,220	-
Cummulative liquidity gap	(9,034)	(66,868)	(158,220)	-	-

	Upto three months	Above three months to twelve months	Above one year to five years	More than five years	Total
31 December 2020	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Assets					
Cash and balances with Central Bank of Oman	24,112	-	-	-	24,112
Due from banks	9,060	-	-	-	9,060
Financing assets	22,634	35,675	157,132	681,415	896,856
Investment securities	50,318	24,738	-	-	75,056
Property and equipment	-	-	-	4,324	4,324
Other assets	12,980	3,444	-	-	16,424
Total assets	119,104	63,857	157,132	685,739	1,025,832
Liabilities, equity of investment account holders and owners' equity					
Due to banks	26,501	15,584	106,494	-	148,579
Customers' deposits	108,922	195,943	284,304	152,296	741,465
Other liabilities	7,144	2,548	3,613	1,452	14,757
Shareholder's fund	-	-	-	121,031	121,031
Total liabilities, equity of investment account holders and owners' equity	142,567	214,075	394,411	274,779	1,025,832
Net liquidity gap	(23,463)	(150,218)	(237,279)	410,960	-
Cummulative liquidity gap	(23,463)	(173,681)	(410,960)	-	-

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

32 RISK MANAGEMENT *(Continued)*

32.2 LIQUIDITY RISK *(continued)*

	Upto three months	Above three months to twelve months	Above one year to five years	More than five years	Total
	RO '000	RO '000	RO '000	RO '000	RO '000
31 December 2019					
Assets					
Cash and balances with Central Bank of Oman	31,500	-	-	-	31,500
Due from banks	467	-	-	-	467
Financing assets	5,978	17,270	62,273	249,414	334,935
Investment securities	20,770	10,246	2,476	838	34,330
Property and equipment	-	-	-	1,505	1,505
Other assets	264	2,353	-	-	2,617
Total assets	58,979	29,869	64,749	251,757	405,354
Liabilities, equity of investment account holders and owners' equity					
Due to banks	30,630	31,007	81,000	-	142,637
Customers' deposits	69,572	45,543	57,166	34,932	207,213
Other liabilities	5,382	1,663	2,306	842	10,193
Shareholder's fund	-	-	-	45,311	45,311
Total liabilities, equity of investment account holders and owners' equity	105,584	78,213	140,472	81,085	405,354
Net liquidity gap	(46,605)	(48,344)	(75,723)	170,672	-
Cummulative liquidity gap	(46,605)	(94,949)	(170,672)	-	-
	Upto three months	Above three months to twelve months	Above one year to five years	More than five years	Total
	RO '000	RO '000	RO '000	RO '000	RO '000
31 December 2019					
Assets					
Cash and balances with Central Bank of Oman	81,818	-	-	-	81,818
Due from banks	1,213	-	-	-	1,213
Financing assets	15,527	44,857	161,748	647,830	869,962
Investment securities	53,948	26,613	6,431	2,177	89,169
Property and equipment	-	-	-	3,910	3,910
Other assets	686	6,110	-	-	6,796
Total assets	153,192	77,580	168,179	653,917	1,052,868
Liabilities, equity of investment account holders and owners' equity					
Due to banks	79,558	80,538	210,390	-	370,486
Customers' deposits	180,706	118,294	148,483	90,733	538,216
Other liabilities	13,980	4,319	5,990	2,187	26,476
Shareholder's fund	-	-	-	117,690	117,690
Total liabilities, equity of investment account holders and owners' equity	274,244	203,151	364,863	210,610	1,052,868
Net liquidity gap	(121,052)	(125,571)	(196,684)	443,307	-
Cummulative liquidity gap	(121,052)	(246,623)	(443,307)	-	-

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

32 RISK MANAGEMENT *(Continued)*

32.3 MARKET RISK

Market risk arises from fluctuations in profit rates, equity prices and foreign exchange rates.

32.3.1 PROFIT RATE RISK

Profit rate risk is the risk that the Islamic Window will incur a financial loss as a result of mismatch in the profit rate on the Islamic Window's assets and investment account holders. The profit distribution to investment account holders is based on profit sharing agreements. Therefore, the Islamic Window is not subject to any significant profit rate risk.

However, the profit sharing agreements will result in displaced commercial risk when the Islamic Window's results do not allow the Islamic Window to distribute profits in line with the market rates.

Basel-II Accord has recommended for assessing the impact of profit rate risk by applying upto 200 basis points profit rate sensitivity. Earning impacts of 200 basis points parallel shift in profit rate is provided below;

	2020	2020	2019	2019
	RO '000	US\$ '000	RO '000	US\$ '000
Net profit earned	6,771	17,587	6,921	17,977
Impact of +200 bps profit rate increase	877	2,278	485	1,260
Impact of -200 bps profit rate decrease	(877)	(2,278)	(485)	(1,260)

32.3.2 FOREIGN EXCHANGE RISK

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

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
5,891	11,553	US Dollar	4,448	2,268
16	127	Euro	49	6
125	13	UAE Dirham	5	48
275	16	GBP Sterling	6	106
-	140	Others	54	-

The Islamic Window takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors set limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The Islamic window also monitors foreign currency risk as per requirements and the same was within regulatory limit as at 31 December 2020.

Changes in the non-parity foreign currency prices as at 31 December 2020 on net assets is considered negligible.

32.3.3 EQUITY PRICE RISK

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the investment portfolio.

2019	2020		Change	2020	2019
US\$ '000	US\$ '000		(+/-)	RO '000	RO '000
5,891	7,421	Sukuks	10%	2,857	3,404
16	83	Open end mutual fund and equity	10%	32	27

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

32 RISK MANAGEMENT *(Continued)*

32.4 OPERATIONAL RISK

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Islamic Window cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

32.5 CONCENTRATION RISK

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

The Islamic Window seeks to manage its credit risk exposure through diversification of financing activities to avoid undue concentration of credit risk with individuals or group of counterparty in specific locations or businesses. It also obtains appropriate security.

	2020					
	Murabaha, gross	Musharaka, gross	Ijarah Muntahia Bittamleek	Other financings, gross	Due from banks	Investment securities
<i>Concentration by industry</i>	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Sovereign	-	-	-	-	-	27,717
Corporate	6,429	145,984	53,865	-	-	1,179
Personal	36,935	30,332	75,308	1,060	-	-
Banks	-	-	-	-	3,488	-
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Sovereign	-	-	-	-	-	71,994
Corporate	16,699	379,179.0	139,909	-	-	3,062
Personal	95,935	78,785.0	195,605	2,754	-	-
Banks	-	-	-	-	9,060	-
	2019					
Concentration by industry	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Sovereign	-	-	-	-	-	33,214
Corporate	6,080	137,435	56,810	-	-	1,116
Personal	41,401	17,192	77,621	894	-	-
Banks	-	-	-	-	467	-
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Sovereign	-	-	-	-	-	86,270
Corporate	15,792	356,974	147,558	-	-	2,899
Personal	107,535	44,655	201,614	2,323	-	-
Banks	-	-	-	-	1,213	-

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

32 RISK MANAGEMENT *(Continued)*

32.5 CONCENTRATION RISK *(Continued)*

	2020					
	Murabaha, gross	Musharaka, gross	Ijarah Muntahia Bittamleek	Other financings, gross	Due from banks	Investment securities
Concentration by location	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Oman	43,364	176,316	129,173	1060	3,152	28,072
Other GCC countries	-	-	-	-	129	-
Unites States of America	-	-	-	-	-	-
OECD countries	-	-	-	-	-	-
Others	-	-	-	-	207	824
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Oman	112,634	457,964	335,514	2,754	8,187	72,916
Other GCC countries	-	-	-	-	335	-
Unites States of America	-	-	-	-	-	-
OECD countries	-	-	-	-	-	-
Others	-	-	-	-	538	2,140

	2019					
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
<i>Concentration by location</i>						
Oman	47,481	154,627	134,431	894	-	33,512
Other GCC countries	-	-	-	-	82	-
Unites States of America	-	-	-	-	-	-
OECD countries	-	-	-	-	-	-
Others	-	-	-	-	385	818
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Oman	123,327	401,629	349,172	2,322	-	87,044
Other GCC countries	-	-	-	-	213	-
Unites States of America	-	-	-	-	-	-
OECD countries	-	-	-	-	-	-
Others	-	-	-	-	1,000	2,125

Concentration by location for financings is measured based on the location of the entity holding the asset, which has a high correlation with the location of the customer. Concentration by location for investment securities is measured based on the location of the issuer of the security.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

33 CAPITAL MANAGEMENT

The primary objectives of the Islamic Window's capital management are to ensure that the Islamic Window complies with externally imposed capital requirements and that the Islamic Window maintains strong credit ratings and healthy capital ratio in order to support its business and to maximize shareholders value.

The Islamic Window manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Islamic Window may adjust the amount of dividend payment to shareholders or issue, return capital to shareholders or issue capital securities. However, no changes are made in the objectives, policies and processes from the previous years as far as management of capital is concerned.

The risk asset ratio is calculated in accordance with the capital adequacy guidelines of the Basel Committee on Banking Supervision and CBO Circulars BM 1009 'Guidelines on Basel II' and BM 1114 'Regulatory Capital and Composition of Capital Disclosure requirements under Basel III' effective from 31 December 2014. During the year, as part of the covid 19 relief measures CBO has lowered the Capital Conversion Buffer (CCB) requirement by 50% from 2.5% to 1.25%. In order to smoothen the higher volatility in ECL computation and its impact on regulatory capital of the banks amid covid-19 outbreak, CBO has issued a new requirement to apply a "prudential filter" approach on IFRS 9 expected credit loss (ECL) provisions on calculating the regulatory capital. Any increase in the Stage 2 provisioning compared to December 31, 2019 will be added back to regulatory capital while these provisions will be gradually phased-in during a five-year period ending 31 December 2024. The risk asset ratio is calculated in accordance with the capital adequacy guidelines of the Basel Committee on Banking Supervision, IBRF and CBO Circular BM 1114 'Regulatory Capital and Composition of Capital Disclosure requirements under Basel III' effective from 31 December 2013. The Capital buffers are maintained at the Bank level in accordance with BM 1140 'Concept paper on capital buffer requirements under Basel III' dated 30 December 2015.

2019	2020		2020	2019
US\$ '000	US\$ '000		RO '000	RO '000
111,408	107,795	Common Equity Tier 1 (CET1)	41,501	42,892
-	-	Additional Tier 1	-	-
111,408	107,795	Tier 1	41,501	42,892
3,940	2,593	Tier 2	998	1,517
<u>115,348</u>	<u>110,388</u>	Total regulatory capital	<u>42,499</u>	<u>44,409</u>
		Risk weighted assets		
788,044	932,935	Credit risk	359,180	303,397
12,291	6,831	Market risk	2,630	4,732
38,486	39,247	Operational risk	15,110	14,817
<u>838,821</u>	<u>979,013</u>	Total risk weighted assets	<u>376,920</u>	<u>322,946</u>
		Capital adequacy ratio		
13.28%	11.01%	CET1 capital expressed as a percentage of total risk weighted assets	11.01%	13.28%
13.28%	11.01%	Total tier I capital expressed as a percentage of total risk weighted assets	11.01%	13.28%
0.47%	0.26%	Tier II capital expressed as a percentage of total risk weighted assets	0.27%	0.47%
13.75%	11.28%	Total regulatory capital expressed as a percentage of total risk weighted assets	11.28%	13.75%

Covid 19 impact on Capital adequacy:

Besides, the Islamic Window has also applied in its capital adequacy calculations the "Prudential filter" under interim adjustment arrangement for Stage-1 and Stage-2 ECL, as mentioned above. The impact of above filter on the bank's regulatory capital is 3 bps.

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

34 SOCIAL RESPONSIBILITY

The Islamic Window discharges its social responsibilities through donations to charitable causes and organisations.

Report of the Auditors - page 178 - 181



ahli islamic

BASEL II PILLAR III AND BASEL III Report

For the year ended 31 December 2020

NC

FOR



DECEMBER 2020

FINANCIAL STATEMENTS *(continued)*

Report of factual findings to the Board of Directors of Ahli Bank SAOG (the "Bank") in respect of Basel II - Pillar III and Basel III Disclosures of Ahli Islamic - the Window

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman (CBO) Islamic Banking Regulatory Framework (IBRF) with respect to the Basel II - Pillar III Disclosures and Circular No. BM 1114 dated 17 November 2013 with respect to the Basel III Disclosures (the disclosures) of Ahli Islamic (the indow) of the Bank set out on pages 1 to 37 as at and for the year ended 31 December 2020. The disclosures were prepared by the management in accordance with the related requirements of the IBRF issued by CBO and Circular No. BM 1114 dated 17 November 2013 and letter BSD/CB/2020/005 dated 3 June 2020. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon-procedures engagements.

The procedures, as set out in Article 10.1.2 of title 5 'Capital Adequacy' of the IBRF, were performed solely to assist you in evaluating the Window of the Bank's compliance with the disclosure requirements set out in the IBRF issued by the CBO and Circular No. BM 1114 dated 17 November 2013 and letter BSD/CB/2020/005 dated 3 June 2020.

We report our findings as follows:

- Based on performance of the procedures detailed above, we found the disclosures free from any material misrepresentation.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the disclosures.

Had we performed additional procedures or had we performed an audit or a review of the disclosures in accordance with International Standards on Auditing or International Standards on Review Engagements other matters might have come to our attention that would have been reported to you.

Our report is 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 or to be distributed to any other parties other than the CBO. This report relates only to the accompanying Window's disclosures and does not extend to any financial statements of the Window or the Bank taken as a whole or to any other reports of the Window or the Bank.

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 Window or 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 Window or the Bank.

**9 March 2021
Muscat, Sultanate of Oman**

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Commercial Register No. 1230663. Tax Card No. 926666

Basel II Pillar III and Basel III Report

31 December 2020

1. INTRODUCTION

ahli islamic (the Islamic window) was licensed by Central Bank of Oman (CBO) to operate as an Islamic Banking Window of ahlibank SAOG (the Bank). The Islamic window was operating through a network of twelve branches as at year end (31 December 2019: nine branches).

The following report presents the qualitative and quantitative disclosures related to capital adequacy, risk profile and control process of the Islamic window on a standalone basis as per the requirements of CBO. These disclosures are intended to complement the minimum capital requirements and supervisory review process of Basel framework. They should be read in conjunction with the financial statements as of 31st December 2020.

Outbreak of Coronavirus (Covid-19)

The World Health Organization officially declared Covid-19 as a global pandemic on 11 March 2020. From the latter half of Q1-2020, the economic environment and business landscape of the bank have witnessed rapid changes because of the unprecedented outbreak of coronavirus pandemic coupled with the significant depression in the global crude oil prices. Tightening of market conditions, lockdowns, restrictions on trade and movement of people have caused significant disruptions to businesses and economic activities globally and across industries and sectors.

Governments and regulatory authorities across the globe have implemented several measures to contain the impact of the spread of the virus. In line with this, the Central Bank of Oman (CBO), also instituted a host of measures to protect the stability of country's economy. These measures include deferral of loan instalments for the affected borrowers (particularly the corporates and SMEs), deferment and waiver of interest/profit for affected Omani nationals employed in private sector, waiver of point of sale (POS) charges, lowering of regulatory capital ratios and increasing the lending ratio etc. (refer CBO circular no. BSD/CB/2020/001 for details). The related further details are provided in note 32 on the financial statements with regard to impact of Covid19 and various measures taken by the Islamic Window on it.

2. SCOPE

The scope of application of this report is the Islamic window operations of Ahlibank SAOG only. There are no restrictions on the transfer of funds from the Bank to Islamic window, however, under the Islamic Banking regulatory framework (IBRF), Islamic window cannot place funds with the Bank. The Islamic window does not hold controlling interest in any other entity.

3. CAPITAL STRUCTURE

Qualitative Disclosure

The primary objective of the Bank's Capital management framework is to ensure stability by maintaining adequate amount of high quality capital to commensurate its risk profile. Healthy levels of capital, support the Bank in attaining strong credit rating and maximizing shareholders value. The framework ensures compliance with regulatory capital requirements set by CBO.

The regulatory capital of the Islamic window is calculated as per the guidelines of CBO and is broadly classified in two categories, Tier I and Tier II capital. Tier 1 capital is composed of core capital and is further classified into Common Equity Tier 1 capital ('CET1') and Additional Tier 1 capital ('AT1'). CET1 includes paid up capital, legal reserves and retained earnings reduced by deferred tax asset and cumulative unrealised losses on FVOCI investments. AT1 capital consists of perpetual capital instruments as specified under Basel III framework, however, Islamic window does not have any such instruments outstanding as of the report date. Tier II capital is composed of undisclosed reserves, cumulative fair value gains on FVOCI investments and general financing loss provisions as per IFRS 9. Equity of unrestricted investment account holders (URIA) is not considered as part of regulatory capital. The Islamic window does not hold any funds from restricted investment account holders (RIA).

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

3. CAPITAL STRUCTURE *(Continued)*

Quantitative Disclosure

The Islamic window's capital structure as at 31 December 2020, based on the CBO guidelines is as follows:

Elements of Capital – RO '000	2020	2019
Tier I Capital		
Share capital	25,000	25,000
Retained earnings	17,242	18,534
Common Equity Tier I before deductions	42,242	43,534
Deductions:		
Cumulative unrealized losses and intangibles recognized directly in equity	(741)	(642)
Common Equity Tier 1	41,501	42,892
Additional Tier I Capital	-	-
Tier I capital after all deductions	41,501	42,892
Tier II Capital		
Revaluation reserves / cumulative fair value gains on FVOCI Instruments	113	122
Stage 1 & Stage 2 expected credit losses	885	1,395
Total Tier II Capital	998	1,517
Total Regulatory Capital	42,499	44,409

CAPITAL ADEQUACY

Qualitative disclosures

The Islamic window's capital management framework sets out to define, measure, raise and deploy capital in a coordinated and consistent manner. Its objective is to maximize its return on capital and at the same time, provide an adequate cushion to cover any unexpected losses. The Islamic window manages its capital in an integrated manner with the aim of maintaining strong capital ratios. This calls for a balanced approach: maintaining capital levels that are sufficient to provide a high return to shareholders; meeting the requirements of regulators, rating agencies and other stakeholders (including deposit holders and senior creditors), and supporting future business growth. The cost of capital and its composition in terms of its quality and stability is also considered.

The capital management process of Islamic window is aligned with the strategic planning process of the Bank. Capital planning is carried out in conjunction with the strategic business and financial planning exercise. The Bank maintains a five year rolling strategic plan which is updated and reviewed by the Board of Directors on an annual basis. Capital requirements are assessed based on projected business plans and budget. The Islamic window uses a prudential building-block approach as the measurement technique to assess capital adequacy for current and future activities, which is compared with the eligible capital.

The Pillar 1 regulatory capital adequacy is assessed for Credit, Operational and Market risks based on CBO prescribed calculation methodology under Basel II framework. For Credit risk, Standardized Approach is adopted based on external rating from CBO's recognized External Credit Assessment Institutions (ECAI), namely Moody's, Standard & Poor's, Fitch and Capital Intelligence. For Operational risk and Market risk, Basic Indicator Approach and Standardized Approach are used, respectively. As a matter of prudence, assets funded through URIA funds (jointly financed assets) are risk weighted as if they are 100% owned by the Islamic window.

The Islamic window's total capital adequacy ratio is 11.28% and Tier 1 capital adequacy ratio is 11.01% as against the CBO requirement of 11% and 9%, respectively, as at 31st December 2020.

In addition to Pillar I minimum capital requirements under the base case, the Bank also determines additional capital requirements for Pillar II risks (i.e. liquidity risk, Rate of Return Risk, concentration risk and other risks including strategic, reputational, legal risks, Shariah non-compliance risk, etc.), utilizing quantification methodologies and stress testing scenarios. The ICAAP is an integral part of capital adequacy assessment and is a bi-annual comprehensive exercise, whereby, the Bank re-evaluates its capital adequacy in regards to material risks, internal organization and business plans. The Bank has completed the ICAAP exercise for years 2020-2023 and has determined that it is adequate capitalized to undertake its planned business activities.

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

3. CAPITAL STRUCTURE *(Continued)*

Capital adequacy disclosures – RO '000

S.No	Details - As on 31 December 2020	Gross balances (book value)	Net balances (book value)	Risk weighted assets
1	On-balances sheet items	397,617	396,523	352,751
2	Off-balance sheet items	6,363	6,363	6,363
3	Derivatives	329	329	66
4	Market risk	-	-	2,630
5	Operational Risk	-	-	15,110
	Total	404,309	403,215	376,920
6	Tier 1 capital			41,501
7	Tier 2 capital			998
8	Total Regulatory Capital			42,499
8.1	Capital requirement for credit risk			39,510
8.2	Capital requirement for market risk			289
8.3	Capital requirement for operational risk			1,662
9	Total required capital			41,461
10	CET 1 ratio			11.01%
11	Tier 1 ratio			11.01%
12	Total capital ratio			11.28%

In order to smoothen the higher volatility in ECL computation and its impact on regulatory capital of the banks amid covid-19 outbreak, CBO has issued a new requirement to apply a "prudential filter" approach on IFRS 9 expected credit loss (ECL) provisions on calculating the regulatory capital. Any increase in the Stage 2 provisioning compared to December 31, 2019 will be added back to regulatory capital while these provisions will be gradually phased-in during a five-year period ending 31 December 2024.

Besides, the Islamic Window has also applied in its capital adequacy calculations the "Prudential filter" under interim adjustment arrangement for Stage-1 and Stage-2 ECL, as mentioned above. The impact of above filter on the bank's regulatory capital is 3 bps. Although above measures are not exhaustive and may not fully counteract the impact of COVID-19 in the short run, they will mitigate the long-term negative impact of the pandemic. In response to this crisis, the Islamic Window continues to monitor and respond to all liquidity and funding requirements. As at the reporting date the capital position of the Islamic Window remains strong and is well placed to absorb the impact of the current disruption.

S.No	Details - As on 31 December 2019	Gross balances (book value)	Net balances (book value)	Risk weighted assets
1	On-balances sheet items	409,366	408,272	296,580
2	Off-balance sheet items	5,208	5,208	5,208
3	Derivatives	2,174	2,174	1,609
4	Market risk	-	-	4,732
5	Operational Risk	-	-	14,817
	Total	416,748	415,654	322,946

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

3. CAPITAL STRUCTURE *(Continued)*

S.No	Details - As on 31 December 2019	Gross balances (book value)	Net balances (book value)	Risk weighted assets
6	Tier 1 capital			42,892
7	Tier 2 capital			1,517
8	Total Regulatory Capital			44,409
8.1	Capital requirement for credit risk			33,374
8.2	Capital requirement for market risk			520
8.3	Capital requirement for operational risk			1,630
9	Total required capital			35,524
10	CET 1 ratio			13.28%
11	Tier 1 ratio			13.28%
12	Total capital ratio			13.75%

Capital adequacy disclosures – RO '000

i. Computation of Capital adequacy ratio – RO '000

S.No	Simple Approach	2020	2019
1	Tier I capital (after supervisory deductions)	41,501	42,298
2	Tier II capital (after supervisory deductions and up to eligible limits)	998	1,517
3	Risk weighted assets – banking book	359,180	303,397
4	Risk weighted assets – operational risk	15,110	14,817
5	Total Risk Weighted Assets – Banking Book + Operational Risk	374,290	318,214
6	Minimum required capital to support RWAs of banking book and operational risk	41,172	35,004
6.1	i) Minimum required Tier I capital for banking book and operational risk	33,686	28,639
6.2	ii) Tier II capital required for banking book and operational risk	7,486	6,364
7	Tier I capital available for supporting trading book	1,327	8,811
8	Tier II capital available for supporting trading book	-	-
9	Risk Weighted Assets – trading book	2,630	4,732
10	Total capital required to support trading book	289	520
11	Minimum Tier I capital required for supporting trading book	82	148
12	Total Regulatory Capital	42,499	44,409
13	Total Risk Weighted Assets – Whole bank	376,920	322,946
14	BIS Capital Adequacy Ratio	11.28%	13.75%

ii. Capital adequacy ratio (RO '000)

	2020	2019
Total risk weighted assets	376,920	322,946
Total eligible capital	42,499	44,409
Capital adequacy ratio	11.28%	13.75%

iii. Ratio of total capital to total assets (RO '000)

	2020	2019
Total capital	42,499	44,409
Total assets	394,945	405,354
Total capital to total assets	10.76 %	10.96 %

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

3. CAPITAL STRUCTURE *(Continued)*

iv. Capital requirements according to different risk categories for each Shariah compliant financing contract (RO '000)

	2020	2019
Balances with Central bank of Oman	-	-
Sovereign	91	90
Due from Banks	84	173
Murabaha receivables	4,726	5,169
Musharaka receivables	19,156	15,897
Ijarah assets – Ijarah Muntahia Bittamleek	14,043	10,555
Service Ijarah	55	61
Credit card receivables	62	38
Other Assets & off balance sheet items	1,293	1,391
Total	39,510	33,374

4. RISK MANAGEMENT OF THE BANK

Risk Management Principles

Risk is an inherent part of the Bank's business activities. The primary goal of risk management is to ensure that the Bank's asset and liability profile, its trading positions and its credit and operational activities do not expose it to losses that could threaten its survival.

The Bank has an independent Risk Management Department (RMD) that monitors the core risk areas and reports to the Executive Risk Committee (a Board Committee). RMD assists in ensuring that risk exposures are managed within the Board approved risk appetite. Primary responsibility for the management of risk lies with the business and operational areas are responsible for the generation of risk exposure. Risk management provides an in-depth check against risk decisions and an ongoing platform to evaluate, monitor and sanction risk at the individual transaction and overall portfolio level.

Risk Management Structure

The Bank's risk management department reports directly to the Executive Risk Committee (a Board Committee). The Bank's Risk Management includes the following four elements:



Risk framework

The Board of Directors (BOD) ensures that the senior management establishes a framework that identifies, measures, monitors and reports all relevant significant risks. The risk management department has identified material risks that the Islamic Window is exposed to, and has defined the framework necessary to measure, monitor, and report these risks on a timely basis. Further, the Sharia risk related compliance are one of the KRIs that the Islamic window has been monitoring as part of other KRIs. The following Board and Management committees manage and control material risks to the Bank:

Board Committees:

- Audit & Compliance Committee
- Executive & Credit Committee
- Executive Risk Committee
- Nomination & Remuneration Committee
- Head Office Project Committee

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

4. RISK MANAGEMENT OF THE BANK *(Continued)*

Management Committees:

- Credit & Investment Committee
- Assets & Liabilities Committee
- Credit Risk Management Committee
- Operational Risk Committee
- IT Steering Committee
- New Product Committee
- Special Assets Committee

Policies and Procedures:

The Board of Directors approve the Bank's risk appetite, risk management strategies, policies and the framework for their effective implementation and control, including delegated authorities to the Executive and Credit Committee and Management to approve all risk exposures. In this context, the Board of Directors has approved the following policies:

- | | |
|---|---|
| 1. Anti-Money Laundering Manual | 23. Fraud Risk Management Policy |
| 2. Personal Account Dealing Policy | 24. Fraud Risk Management Framework |
| 3. New Product Policy and Procedures | 25. Liquidity and Funding Policy |
| 4. Voice Recording Policy | 26. Market Risk Policy |
| 5. Compliance Policy | 27. Risk Management-Approach & Framework |
| 6. Corporate Communication and Marketing Policy | 28. Social and Environment Management System Policy |
| 7. Corporate Governance Policy | 29. Security and Safety Policy and Plan |
| 8. Corporate Social Responsibility Policy | 30. Asset Management Policy |
| 9. Dividend Policy | 31. Brokerage Policy |
| 10. Expenses Policy | 32. FATCA Policy |
| 11. Capital Management Policy | 33. Customer Complaints Redressal Policy |
| 12. Disclosure Policy | 34. Profit Distribution Policy |
| 13. Board Remuneration Policy | 35. Charity Policy |
| 14. Financial Institutions Policy | 36. Zakah Policy |
| 15. Human Resources Policy | 37. Cost Sharing Policy |
| 16. Outsourcing Policy | 38. Segregation of Funds Policy |
| 17. Code of Business Conduct | 39. Social Media Policy |
| 18. Information Security Management Policy | 40. Shari'a Governance Manual |
| 19. Business Continuity Management Policy | 41. Electronic Banking Policy |
| 20. Credit and Investment Policy | 42. Classification and Measurement Financial Assets and Liabilities |
| 21. Operational Risk Management Framework | 43. Sanctions Policy |
| 22. Operational Risk Management Policy | |

All policies are subject to periodical reviews. Any change in law or regulation is deemed to be automatically adopted and implemented immediately upon its issuance (i.e. prior to the final amendment of the underlying policy or procedure).

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

The Islamic window has exposure to the following risks:

5. CREDIT RISK

Credit risk arises from the potential financial loss resulting from customers/counterparties failing to honor the terms of their contracts. It also includes the risk of loss in portfolio value as a result of migration from lower risk to higher risk categories. The Islamic window evaluates both settlement and pre-settlement credit risk at the customer level, across all products of the Bank.

Credit risk is the most significant risk incurred by the Islamic window, and proactive management is critical to the Islamic window's long-term success.

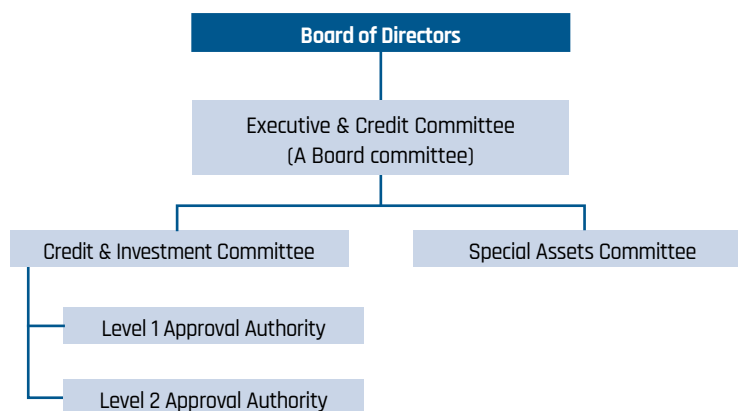
The Islamic window has a comprehensive due diligence system for approving credit facilities, and well-defined policies on controlling credit risk at the counter-party, group, economic sector, and country levels.

All corporate, bank and sovereign credit requires independent credit risk review to be approved by authorities, from Level II to the BOD, depending on their delegated credit approval Jurisdiction (CAJ). All credit approvals are strictly in accordance with the regulatory guidelines issued from time to time by the Central Bank of Oman. Exceptions in retail credit exposure are escalated to Risk Management Department for necessary approvals.

Risk Management ensures that the appropriate policies, guidelines, processes and procedures exist to cover all business areas of credit risk. It also ensures the consistent application of credit standards through a diligent Credit Review function and post approval review of financing and investment assets through a financing review mechanism (LRM) function and the periodic review and updating of credit policies, guidelines and procedures.

The Bank also has a robust system of borrowers' risk ratings that assesses the default risk of corporate borrowers and monitors ratings changes periodically. Ratings by the major credit rating agencies are also used whenever available.

The credit risk management policies are governed through Credit Risk Management Committee, Executive Risk Committee of the Board and the BOD. The following is the structure of credit risk approval:-



The Bank has set up internal limits and approval authorities at various Management and Board Level Committees or the full BOD based on the product category like Commercial Banking Lending, Country Limits or Limits for lending to Banks/FIs or Sovereigns, the legal nature of the borrowers and their credit risk rating.

Transaction risk is concerned with the credit risk of a single counter-party. Risk Management ensures that credit is underwritten according to approved standards and that all risks are highlighted in the credit risk review, including policy exceptions. It includes analyzing and reporting on the nature of on- and off-balance sheet counter-party exposure (size, tenor, complexity and liquidity), including secured and unsecured credit facilities.

Concentration risk arises when the Bank disburses a significant amount of credit to a few borrowers or borrowers located in the same geographical location or those exposed to similar economical/political/other risks. To safeguard against concentration risk, sectoral limits have been set for ensuring that the Islamic window is having a well-diversified portfolio, the same is being reviewed by the Bank on a regular basis.

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

5. CREDIT RISK *(Continued)*

Impairment policy

As a matter of policy, Islamic window creates allowance for impairment of financing contracts promptly and in a consistent manner. The Islamic window has implemented IFRS 9 "Financial Instrument" accounting norm, based on which impairment is assessed on a forward looking expected credit loss (ECL) basis, as required by CBO.

The ECL Allowance is based on the credit losses expected to arise over the life of the asset (Lifetime ECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on 12 months expected credit loss (12 month ECL). The 12 month ECL is the portion of lifetime ECL that represent the ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting date.

All financing assets are classified into one of five risk classification categories, Standard, Special Mention (past due between 60 - 90 days), Substandard (past due between 90 - 180 days), Doubtful (past due between 180 - 365 days) and loss (past due for 365 days or more), as prescribed by CBO.

The bank has established a policy to perform an assessment on a monthly basis whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the bank groups its financing exposure into Stage 1, Stage 2 and Stage 3, as classified below:

Stage 1: When financing are first recognized, the bank recognizes an allowance based on 12 month ECLs. Stage 1 financing exposure also include facilities where the credit risk has improved and the financing exposure has been reclassified from stage 2.

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

Stage 3: Financing exposure considered credit impaired. The Bank records an allowance for lifetime ECLs. The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation of the Bank.
- in case of Treasury and interbank balances, when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

Quantitative Disclosure:

i) Total gross credit risk exposures, plus average gross exposure over the period broken down by major types of credit exposure: (RO '000)

Type of credit exposure	Average Gross Exposure			Total Gross Exposure		
	31-Dec-20	31-Dec-19	% of total financing	31-Dec-20	31-Dec-19	% of total financing
Balances with Central bank of Oman	15,944	31,870	4%	4,880	27,008	1%
Sovereign	28,792	21,747	7%	26,027	31,557	6%
Banks	3,229	3,120	1%	3,817	2,641	1%
Murabaha receivables	45,423	47,377	11%	43,364	47,481	11%
Musharaka receivables	165,472	141,944	40%	176,316	154,627	44%
Ijarah assets – Ijarah Muntahia Bittamleek	131,802	128,760	32%	129,173	134,431	32%
Service Ijarah	419	287	0%	497	341	0%
Credit card receivables	558	545	0%	563	553	0%
Other Assets & off balance sheet items	18,890	13,665	5%	19,672	18,109	5%
Total	410,529	389,315	100%	404,309	416,748	100%

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

5. CREDIT RISK *(Continued)*

ii) Credit exposure by risk weighted assets: (RO '000)

Type of credit exposure	As of 31 December 2020	
	Gross Balance	Risk Weighted Assets
Balances with Central bank of Oman	4,880	-
Sovereign	26,027	824
Banks	3,817	763
Murabaha receivables	43,364	42,967
Musharaka receivables	176,316	174,148
Ijarah assets – Ijarah Muntahia Bittamleek	129,173	127,668
Service Ijarah	497	497
Credit card receivables	563	563
Other Assets & off balance sheet items	19,672	11,750
Total	404,309	359,180

Type of credit exposure	As of 31 December 2019	
	Gross Balance	Risk Weighted Assets
Balances with Central bank of Oman	27,008	-
Sovereign	31,557	818
Banks	2,641	1,703
Murabaha receivables	47,481	46,992
Musharaka receivables	154,627	144,517
Ijarah assets – Ijarah Muntahia Bittamleek	134,431	95,953
Service Ijarah	341	341
Credit card receivables	553	553
Other Assets & off balance sheet items	18,109	12,520
Total	416,748	303,397

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

5. CREDIT RISK *(Continued)*

iii) Credit exposure by business unit: (RO '000)

			As of 31 December 2020	
Credit exposure	Business Unit	Gross Balance	Risk Weighted Assets	
Balances with Central bank of Oman		4,880	-	
Sovereign		26,027	824	
Banks		3,817	763	
Murabaha receivables	SME	2,162	1,815	
	Corporate	4,266	4,216	
	Retail	36,936	36,936	
Musharaka receivables	SME	1,543	1,187	
	Corporate	144,441	142,629	
	Retail	30,332	30,332	
Ijarah assets – Ijarah Muntahia Bittamleek	SME	2,108	1,618	
	Corporate	51,756	50,741	
	Retail	75,309	75,309	
Service Ijarah	Retail	497	497	
Credit Card Receivable	Retail	563	563	
Other Assets & off balance sheet items		19,672	11,750	
Total		404,309	359,180	

As of 31 December 2019

Credit exposure	Business Unit	Gross Balance	Risk Weighted Assets	
Balances with Central bank of Oman		27,008	-	
Sovereign		31,557	818	
Banks		2,641	1,703	
Murabaha receivables	SME	2,001	1,511	
	Corporate	4,078	4,079	
	Retail	41,402	41,402	
Musharaka receivables	SME	2,150	1,613	
	Corporate	135,285	134,191	
	Retail	17,192	6,526	
Ijarah assets – Ijarah Muntahia Bittamleek	SME	2,319	1,776	
	Corporate	54,491	54,491	
	Retail	77,621	39,685	
Service Ijarah	Retail	341	341	
Credit Card Receivable	Retail	553	553	
Other Assets & off balance sheet items		18,109	12,520	
Total		416,748	303,397	

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

5. CREDIT RISK *(Continued)*

iv) Geographic distribution of exposures by major types of credit exposure: (RO '000)

Type of Credit Exposure	As of 31 December 2020						Total
	Oman	Other GCC Countries	OECD countries	India	Pakistan	Others	
Balances with Central bank of Oman	4,880	-	-	-	-	-	4,880
Sovereign	25,203	-	-	-	-	824	26,027
Banks	3,482	128	-	-	-	207	3,817
Murabaha receivables	43,364	-	-	-	-	-	43,364
Musharaka receivables	176,316	-	-	-	-	-	176,316
Ijarah assets – Ijarah Muntahia Bittamleek	129,173	-	-	-	-	-	129,173
Service ijarah	497	-	-	-	-	-	497
Credit card receivables	563	-	-	-	-	-	563
Other Assets & off balance sheet items	19,672	-	-	-	-	-	19,672
Total	403,150	128	-	-	-	1,031	404,309

Type of Credit Exposure	As of 31 December 2019						Total
	Oman	Other GCC Countries	OECD countries	India	Pakistan	Others	
Balances with Central bank of Oman	27,008	-	-	-	-	-	27,008
Sovereign	30,739	-	-	-	-	818	31,557
Banks	2,174	82	-	-	-	385	2,641
Murabaha receivables	47,481	-	-	-	-	-	47,481
Musharaka receivables	154,627	-	-	-	-	-	154,627
Ijarah assets – Ijarah Muntahia Bittamleek	134,431	-	-	-	-	-	134,431
Service ijarah	341	-	-	-	-	-	553
Credit card receivables	553	-	-	-	-	-	341
Other Assets & off balance sheet items	18,109	-	-	-	-	-	18,109
Total	415,463	82	-	-	-	1,203	416,748

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

5. CREDIT RISK *(Continued)*

v) Industry or counter party type distribution of financing exposures, broken down by major types of credit exposure: (RO '000)

As of 31 December 2020

Economic Sector	Murabaha receivables	Musharaka receivables	Ijarah assets – Ijarah Muntahia Bittamleek	Service Ijarah	Credit card receivables	Total	Off Balance Sheet Exposure
Import Trade	4,066	3,785	105	-	-	7,956	134
Wholesale & Retail Trade	820	24,410	5,563	-	-	30,793	-
Mining & Quarrying	245	-	-	-	-	245	-
Construction	570	57,704	42,900	-	-	101,174	12,582
Manufacturing	277	10,672	650	-	-	11,599	-
Transport & Communication	88	23	27	-	-	138	-
Electricity, Gas & Water	-	-	729	-	-	729	-
Services	362	49,376	3,890	-	-	53,628	5
Personal Financings	36,936	30,332	75,309	497	563	143,637	-
Agriculture & Allied Activities	-	14	-	-	-	14	-
Total	43,364	176,316	129,173	497	563	349,913	12,721

As of 31 December 2019

Economic Sector	Murabaha receivables	Musharaka receivables	Ijarah assets – Ijarah Muntahia Bittamleek	Service Ijarah	Credit card receivables	Total	Off Balance Sheet Exposure
Import Trade	3,885	3,809	105	-	-	7,799	-
Wholesale & Retail Trade	994	13,071	6,995	-	-	21,060	-
Mining & Quarrying	334	23	7	-	-	364	3,651
Construction	184	63,635	43,694	-	-	107,513	-
Manufacturing	71	10,773	1,493	-	-	12,337	3,642
Transport & Communication	109	67	93	-	-	269	1,007
Services	502	46,037	4,423	-	-	50,962	-
Personal Financings	41,402	17,193	77,621	341	553	137,110	10,077
Agriculture & Allied Activities	-	19	-	-	-	19	-
Total	47,481	154,627	134,431	341	553	337,433	18,377

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

5. CREDIT RISK *(Continued)*

vi) Residual contractual maturity of the financing portfolio, broken down by major types of credit exposure: (RO '000)

Time Band	Murabaha receivables	Musharaka receivables	Ijarah assets –		Credit card receivables	As of 31 December 2020	
			Ijarah Muntahia Bittamleek	Service Ijarah		Total	Off Balance Sheet Exposure
Up to 1 month	4,078	-	44	-	563	4,685	12,721
1-3 Months	150	1	11	-	-	162	-
3-6 Months	214	3	97	-	-	314	-
6-9 Months	233	3,562	905	-	-	4,700	-
9-12 Months	302	27	74	5	-	408	-
1-3 Years	5,828	2,151	1,826	57	-	9,862	-
3-5 Years	12,191	7,229	5,796	43	-	25,259	-
Over 5 Years	20,368	163,343	120,420	392	-	304,523	-
Total	43,364	176,316	129,173	497	563	349,913	12,721

* represents notional exposure as per financial statements

Time Band	Murabaha receivables	Musharaka receivables	Ijarah assets –		Credit card receivables	As of 31 December 2019	
			Ijarah Muntahia Bittamleek	Service Ijarah		Total	Off Balance Sheet Expo- sure
Up to 1 month	1,893	720	460	-	277	3,350	1,078
1-3 Months	1,879	1,244	1,532	9	276	4,940	2,614
3-6 Months	4,481	2,202	2,115	13	-	8,811	1,618
6-9 Months	2,087	5,817	2,407	13	-	10,324	3,314
9-12 Months	2,475	2,074	2,195	13	-	6,757	1,527
1-3 Years	15,491	19,748	16,749	100	-	52,088	8,226
3-5 Years	11,093	20,671	17,068	75	-	48,907	-
Over 5 Years	8,082	102,151	91,905	118	-	202,256	-
Total	47,481	154,627	134,431	341	553	337,433	18,377

* represents notional exposure as per financial statements

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

5. CREDIT RISK *(Continued)*

vii) Total financing broken down by major industry or counterparty type: (RO '000)

Economic Sector	Gross financings	Of Which NPLs	ECL stage 1 & 2	ECL stage 3*	As of 31 December 2020	
					Impairment charge/ (reversed) during the Year	Financings written off during the year
Import Trade	7,956	7,956	-	1,166	782	-
Wholesale & Retail Trade	30,793	-	230	-	72	-
Mining & Quarrying	245	16	3	9	(4)	-
Construction	101,174	6,012	454	1,190	630	-
Manufacturing	11,599	2,118	17	1,023	777	-
Transport & Communication	138	-	11	-	(7)	-
Electricity, Gas & Water	729	-	56	-	56	-
Services	53,628	54	463	27	357	-
Personal Financing	143,637	866	582	416	448	-
Agriculture & Allied Activities	14	-	1	-	(1)	-
Total	349,913	17,022	1,817	3,831	3,110	-

* Stage 3 ECL include suspended profit of RO 1.024 mn

* Stage 1&2 includes additional ECL overlays of RO 0.330 mn

As of 31 December 2019

Economic Sector	Gross financings	Of Which NPLs	ECL stage 1 & 2	ECL stage 3*	As of 31 December 2019	
					Impairment charge/ (reversed) during the Year	Financings written off during the year
Import Trade	7,799	105	330	54	12	-
Wholesale & Retail Trade	21,059	13	152	6	62	-
Mining & Quarrying	364	24	5	11	16	-
Construction	107,513	-	1,014	-	327	-
Manufacturing	12,337	-	263	-	258	-
Transport & Communication	269	-	18	-	11	-
Services	50,962	45	112	21	106	-
Personal Financing	137,110	833	126	424	(13)	-
Agriculture & Allied Activities	19	-	2	-	2	-
Total	337,433	1,020	2,022	516	781	-

* Stage 3 ECL include suspended profit of RO 0.040 mn

Basel II Pillar III and Basel III Report (continued)

31 December 2020

5. CREDIT RISK (Continued)

viii) Amount of impaired financing broken down by significant geographical areas including, with the amounts of expected credit loss/specific and general allowances related to each geographical area: (RO '000)

Countries	As of 31 December 2020					
	Gross financings	Of Which NPLs	ECL stage 1 & 2	ECL stage 3*	Impairment charge/ (reversed) during the Year	Financings written off during the year
Oman	349,913	17,022	1,817	3,831	3,110	-
Other GCC Countries	-	-	-	-	-	-
OECD Countries	-	-	-	-	-	-
India	-	-	-	-	-	-
Pakistan	-	-	-	-	-	-
Others	-	-	-	-	-	-
Total	349,913	17,022	1,817	3,831	3,110	-

* Stage 3 ECL include suspended profit of RO 1.024 mn

* Stage 1&2 includes additional ECL overlays of RO 0.330 mn

Countries	As of 31 December 2019					
	Gross financings	Of Which NPLs	ECL stage 1 & 2	ECL stage 3*	Impairment charge/ (reversed) during the Year	Financings written off during the year
Oman	337,433	1,020	2,022	516	781	-
Other GCC Countries	-	-	-	-	-	-
OECD Countries	-	-	-	-	-	-
India	-	-	-	-	-	-
Pakistan	-	-	-	-	-	-
Others	-	-	-	-	-	-
Total	337,433	1,020	2,022	516	781	-

* Stage 3 ECL include suspended profit of RO 0.040 mn

ix) Movement of gross financing during the year: (RO '000)

Details	As of 31 December 2020			
	Stage 1	Stage 2	Stage 3	Total
Opening Balance	295,384	41,029	1,020	337,433
Migration / changes (+ / -)	(43,147)	27,487	15,660	-
New financings	38,261	497	529	39,287
Recovery of financings	(22,832)	(3,788)	(187)	(26,807)
Financing Written Off	-	-	-	-
Closing Balance	267,666	65,225	17,022	349,913

Details	As of 31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Opening Balance	273,553	26,207	631	300,391
Migration / changes (+ / -)	(20,268)	19,656	612	-
New financings	77,033	25,997	42	103,072
Recovery of financings	(34,934)	(30,831)	(265)	(66,030)
Financing Written Off	-	-	-	-
Closing Balance	295,384	41,029	1,020	337,433

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

5. CREDIT RISK *(Continued)*

x) Past due and impaired financing: (RO '000)

As of 31 December 2020

	Murabaha receivables	Musharaka receivables	Ijarah assets – Ijarah Muntahia Bittamleek	Service Ijarah	Credit Card Receivable	Total	Off Balance Sheet Expo- sure *
Neither past due not impaired	36,644	115,112	125,606	497	518	318,377	12,721
Past due but not impaired	2,386	9,302	2,782	-	44	14,514	-
Past due and impaired	4,334	11,902	785	-	1	17,022	-
Total	43,364	176,316	129,173	497	563	349,913	12,721

As of 31 December 2019

	Murabaha receivables	Musharaka receivables	Ijarah assets – Ijarah Muntahia Bittamleek	Service Ijarah	Credit Card Receivable	Total	Off Balance Sheet Expo- sure *
Neither past due not impaired	40,175	66,087	103,230	336	524	210,352	18,374
Past due but not impaired	7,034	88,540	30,454	5	28	126,061	3
Past due and impaired	272	-	747	-	1	1,020	-
Total	47,481	154,627	134,431	341	553	337,433	18,377

Credit risk- Disclosures for portfolios subject to the standardized approach.

Qualitative disclosure

The Islamic window classifies its financial assets in one of the following categories:

- Financing receivables;
- Ijarah assets – Ijarah Muntahia Bittamleek;
- Equity & debt – type instruments; and
- Credit Card receivable

Financing receivables are principally divided into following Islamic products:

- **Murabaha:** An agreement whereby the Islamic Window sells to a customer a commodity or a property which the Islamic Window has purchased and acquired based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises of the cost of the commodity and an agreed profit margin.
- **Financing Ijarah:** An agreement whereby the Islamic Window (lessor) leases an asset or services to a customer (lessee), for a specific period against certain rent installments. Ijarah could end in transferring the ownership of the asset to the lessee at the end of the lease period.
- **Musharaka:** An agreement between the Islamic Window and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing agreement set between both parties while the loss is shared in proportion to their shares of capital in the enterprise.

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

5. CREDIT RISK *(Continued)*

Credit Risk Mitigation (CRM)

Credit Risk Mitigation (CRM) encompasses collateral management and credit guarantee arrangements. The policies and processes for on-and off-balance sheet netting (and the extent to which the Islamic Window makes use of them); policies and processes for collateral valuation and management; and a description of the main types of collateral taken are described below.

The Islamic window normally accepts the following types of collateral:

- Hamish Jiddiyah, Urbun, Profit sharing investment accounts.
- Real estate comprising income-producing and non-income-producing assets.
- Shares listed on recognized stock exchanges located in GCC
- Irrevocable and unconditional guarantees/standby LC issued by acceptable Banks
- Funds subject to meeting approval criteria
- assignment of receivables
- Inventories

The Islamic window also accepts guarantees of individuals and corporates to mitigate risks, wherever applicable, based on adequate assessment of their creditworthiness. In respect of real estate collateral, two valuations are obtained if the value of collateral exceeds a particular level: the lowest valuation is used. The Islamic window also has a mandatory requirement to obtain an insurance policy on real estate collateral (other than land) where the insurance policy is assigned in the Islamic window's favor. Real estate collateral is valued on regular intervals on need basis based on the assessment of risk and economic scenario prevailing.

Management monitors the market value of collateral at regular interval and requests additional collateral in accordance with the underlying agreement in case of shortfall. The management also periodically reviews the collateral cover for determining the adequacy of the allowance for impairment losses. A strong credit administration process ensures effective compliance with terms of approval and documentation.

The simplified approach for collateral recognition under the standardized approach is applied where 0% risk weight is assigned for the exposure covered by cash collateral. All other financing exposures to corporates and retail are assigned 100% risk weight (except retail mortgage financings, which are assigned 35% risk weight). The Islamic window stands in possession of cash collateral of RO 1.094 mn; after application of haircut (0%) to the collateral the exposure stands at RO NIL. The Islamic window has not considered any financial guarantee under credit risk mitigation as of 31 December 2020.

Particulars	RO '000
Gross Exposure - banking book	404,309
Credit risk mitigation	(1,094)
Risk weight impact - for banking book	(44,035)
Risk weighted assets - banking book	359,180
Capital charge for credit risk	39,510

Quantitative Disclosures:

					As of 31 December 2020	
Rating	Impairment allowance as at year end	Financings written off during the year	CBO Classification	IFRS 9 Classification		
1 – 6	746	-	Standard			
7	1,071	-	Special mention	Stage 1 & 2		
8 – 10	3,831	-	Non-performing	Stage 3		
Total	5,648	-				
					As of 31 December 2019	
Rating	Impairment allowance as at year end	Financings written off during the year	CBO Classification	IFRS 9 Classification		
1 – 6	430	-	Standard			
7	1,592	-	Special mention	Stage 1 & 2		
8 – 10	516	-	Non-performing	Stage 3		
Total	2,538	-				

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

6. MARKET RISK:

Qualitative disclosure

Market Risk is the risk of loss resulting from fluctuations in profit rates, asset prices, foreign exchange rates or commodity prices. Substantially all of the Islamic window businesses are subject to the risk that market prices and rates will move and result in profits or losses for the Islamic window. The objective of market risk management is to control risks within acceptable parameters, while optimizing the returns. The Bank has a Market Risk Policy that provides detailed guidelines for management of market risks. The Islamic window uses a combination of risk sensitivities, stress testing, etc. to manage market risks and establish limits. The Islamic window does not take any positions in commodities. All relevant risks and mitigation strategies are discussed below

Rate of Return risk in banking book (RRRBB)

Rate of return risk arises from the possibility that changes in rates of return will adversely affect the economic value of equity or the net income. The Islamic window is exposed to this risk as a result of mismatches or gaps in the rate of return profile of balance sheet assets and funds provided by investment account holders and wakala depositors. While the return on profit sharing agreements is not guaranteed, in case the Islamic window does not distribute profit in line with market rates, it is exposed to Displaced Commercial risk.

The Islamic window's overall goal is to manage rate of return sensitivity so that movements in rates of return do not adversely affect the Islamic window's net income and market value of equity. The Islamic window manages this risk by matching the re-pricing profile of assets and liabilities through various risk management strategies, utilizing tools such as gap analysis and duration. ALCO reviews the risk profile and sensitivities on a monthly basis within the risk appetite approved by the Board of Directors. Profit bearing assets (net of provision) and liabilities according to repricing bucket are as follows:

As of 31 December 2020							
Particular	Effective profit rate	within 3 months	4 to 12 months	1 to 5 years	More than 5 years	Non-sensitive to profit rate	Total
RO'000		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
ASSETS							
Cash and balances with Central Bank of Oman	-	-	-	-	-	9,283	9,283
Due from banks	-	3,488	-	-	-	-	3,488
Financing Assets	5.47%	11,640	17,821	98,689	216,576	563	345,289
Investments	4.46%	-	-	2,514	26,057	325	28,896
Property and equipment	-	-	-	-	-	1,665	1,665
Other assets	-	-	-	-	-	6,324	6,324
Total profit bearing assets		15,128	17,821	101,203	242,633	18,160	394,945
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS							
Due to banks	4.71%	10,203	6,000	41,000	-	-	57,203
Equity of investment accountholders and other liabilities	2.91%	116,444	59,969	82,450	-	32,283	291,145
Shareholders fund	-	-	-	-	-	46,597	46,597
Total	-	126,647	65,969	123,450	-	78,880	394,945
Net gap		(111,519)	(48,147)	(22,247)	242,633	(60,720)	-
Cumulative net gap		(111,519)	(159,666)	(181,914)	60,720	-	-

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

6. MARKET RISK *(Continued)*

Particular	Effective profit rate						As of 31 December 2019	
		within 3 months	4 to 12 months	1 to 5 years	More than 5 years	Non-sensitive to profit rate	Total	
RO'000		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	
ASSETS								
Cash and balances with Central Bank of Oman	-	-	-	-	-	31,500	31,500	
Due from banks	-	467	-	-	-	-	467	
Financing Assets	5.82%	8,311	25,764	98,997	201,310	553	334,935	
Investments	3.06%	-	11,191	2,476	20,386	277	34,330	
Property and equipment	-	-	-	-	-	1,505	1,505	
Other assets	-	-	-	-	-	2,617	2,617	
Total profit bearing assets		8,778	36,955	101,473	221,696	6,452	405,354	
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS								
Due to banks	4.76%	30,630	31,007	81,000	-	-	142,637	
Equity of investment accountholders and other liabilities	2.59%	109,616	30,196	40,957	-	36,637	217,406	
Shareholders fund	-	-	-	-	-	45,311	45,311	
Total	-	140,246	61,203	121,957	-	81,948	405,354	
Net gap		(131,468)	(24,248)	(20,484)	221,696	(45,496)	-	
Cumulative net gap		(131,468)	(155,716)	(176,200)	45,496	-	-	

Foreign Exchange Risk

Foreign exchange risk is the risk that the foreign currency positions taken by the Islamic window may be adversely affected due to volatility in foreign exchange rates. Foreign exchange risk management is ensured through regular measurement and monitoring of open foreign exchange positions within regulatory and internal limits. All foreign exchange exposures are centrally managed by the Treasury and are daily marked to market. Internal Limits have been assigned with respect to overnight open exposures, stop loss limits and authorized currencies to monitor and control foreign exchange exposures.

The foreign exchange transactions carried out by the Bank are on behalf of customers and are on a back-to-back basis. No proprietary foreign exchange positions are assumed by the Islamic window.

The Net open position in all foreign currencies stands at OMR 4.562 mn (OMR 4.448 mn position is in effectively pegged currencies) as on 31 December 2020.

Investment Price Risk

Price risk is the risk of losses from decrease in the market value of individual investments. Each investment is approved after rigorous due diligence and exposures are monitored against prudent exposure limits. The Islamic window does not maintain any trading positions in its portfolio as of 31 December 2020.

The Islamic window's investments in non-trading instruments are monitored within the overall limits and restrictions prescribed by CBO from time to time, and only in Sharia compliant product categories. The fair value of equity investments as of 31 December 2020 is RO 0.325 mn with cost amounts to RO 0.336 mn. The Islamic window also has invested in sukuks carried at fair value through equity. The fair value of investments as of 31 December 2020 is RO 28.572 mn with a cost amounts to RO 28.777 mn.

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

6. MARKET RISK *(Continued)*

Investment Price Risk *(Continued)*

The Bank has set up internal limits and approval authorities at various Management and Board Level Committees or the full Board of Directors, as a percentage of the Capital Base of the Bank, which apply to the Islamic window as well. All investment proposals are routed through the ALCO to the relevant approval authority. The Islamic window's appetite for private subscriptions and unlisted / unquoted equity is low, and such proposals are adequately justified on a case by case basis, and has to be approved at least by the Executive Credit Committee and by the Board if it exceeds limits structured as a proportion of the Bank's Capital Base.

The Bank tries to achieve reasonable diversification of its investment portfolio among the economic sectors, and does not exceed a certain limit of its investment portfolio in any particular industry / sector groups listed below:

- a) Trading and retailing
- b) Real Estate development, management and rental income
- c) Construction / contracting and building materials
- d) Travel / tourism, hotels, restaurants, entertainment, health services and education
- e) Warehousing / storage, logistics, supply management and transportation, utilities and Telecom
- f) Oil and Gas
- g) Banking and Financial Services
- h) Conglomerates or Holding Companies investing in any of the above business lines

Capital Charge:

The Capital Charge for market risk exposures is measured based on Standardized approach in accordance with the guidelines issued by CBO under Circular BM1009. The Islamic window has implemented standardized duration based approach to arrive at capital requirement for bonds and debt securities. The capital charge for foreign exchange is computed based on three month daily average of sum of net long or short positions held by the Bank.

Table showing capital charge for profit Rate, Equity and foreign exchange risk as on 31 December 2020 is given below:

Type of risk (RO '000)	2020	2019
Profit rate risk	-	-
Equity position risk	-	-
Foreign exchange risk	210	379
Percentage of NOP to regulatory capital	10.73%	5.47%
Regulatory ceiling (% to total net worth)	40%	40%

Total risk weighted assets for trading book is RO 2.630 million.

Price Risk

Impact of 10% change in price

Investment type	Change in price	Effect on equity ('000)	
		2020	2019
Regional listed Sukuk	10%	+/- 2,775	+/- 3,157
Foreign listed Sukuk	10%	+/- 82	+/- 247
Listed equities	10%	+/- 32	+/- 27

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

7. LIQUIDITY RISK

Qualitative Disclosure

The Islamic window defines liquidity risk as its ability to meet all present and future financial obligations in a timely manner and without undue effort and cost through unconstrained access to funding at reasonable market rates and without affecting asset growth and business operations.

The following key factors are taken into consideration while assessing and managing the liquidity risk of the Islamic Window:

- ~ The need to have a well-diversified base for funding sources, comprising a portfolio of retail customers, large corporates and institutions, small & medium enterprises, high net worth individuals, without significant concentrations or correlations, thereby diversifying the funding base and mitigating concentration risks.
- ~ Based upon the past behavioral pattern analysis of our main liabilities, management expects large portion of customer deposits to be rolled over at contractual maturity.
- ~ As per the CBO directives, the Bank keeps at least 5% of its demand and time deposits with CBO in the form of clearing balances.
- ~ Commitments for loans and advances are approved after taking into account the Bank's overall liquidity position.

The Islamic window's projected liquidity needs are analyzed, and optimum alternatives to manage the liquidity risk are discussed and approved in ALCO. The risk management department also independently reviews and evaluates the Bank's ability to access liquidity from different sources.

The Treasury and Risk management departments identify liquidity at risk, which is monitored daily and reported periodically to ALCO. Liquidity and funding policy and a contingency liquidity plan have been established by the Bank, which applies to its Islamic window as well.

Liquidity and Funding Policy

The liquidity and funding policy of the Bank, which applies for its Islamic window as well, is intended to ensure that liquidity requirements are prudently and effectively managed such that anticipated and unanticipated funding needs are met on an ongoing basis in a controlled manner at the least possible cost.

The Bank's Asset Liability Committee (ALCO) reviews the Liquidity and funding Policy annually and submits recommendations for changes, if any, to the Bank's Chief Executive Officer (CEO) for review and submission to the Executive Committee and Board as applicable.

There are a number of techniques which the Bank uses to manage its Liquidity position and that of its Islamic Window. The key ones are:

- Placing limits on maturity mismatches
- Maintaining a stock of liquid assets
- Diversification of liabilities
- Access to wholesale markets
- Multi-currency liquidity management

The financing ratio, which is the ratio of the financing to deposits and capital, is monitored on a daily basis in line with the regulatory guidelines. Internally the lending ratio is set at a more conservative basis than required by regulation. The Islamic window also manages its liquidity risk on a monthly basis monitoring the liquid ratio which is a ratio of net liquid assets to total assets.

The Islamic window also maintains significant investments in liquid instruments issued by Governments and banks principally for maintaining liquidity.

The maturity profile of the assets and funding side at the year-end are based on contractual repayment arrangements. The details of the same are provided in note 32.2 of Islamic window financial statements.

The CBO also restricts the limits on lending by the commercial banks. The maximum lending ratio permissible as at 31 December 2020 was 92.5%.

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

7. LIQUIDITY RISK *(Continued)*

Details of the reported financing ratio for the year are as follows:

Ratios	2020	2019
Financing ratio	%	%
Year end	88.18	84.92
Maximum for the year	91.06	86.94
Minimum for the year	84.18	82.61
Average for the year	87.84	86.02
Other Ratios		
Financing to customers to total assets	87.43	82.63
Equity to total assets	11.80	11.18
Liquid assets to total assets	9.15	12.39
Liquid assets to short term liabilities	25.46	26.15
Prime assets to volatile liabilities	18.79	20.27
Liquidity Coverage Ratio	195.33	128.60
Net Stable Funding Ratio	110.04	108.73

Stock of Liquid Assets

An adequate stock of high quality liquid assets provides the Islamic window with the capacity to meet its obligations while any underlying problems affecting liquidity are addressed.

Such assets are clearly identified, their role defined and minimum holding levels are established and agreed by the ALCO. The degree of diversification of the Liquid Assets portfolio is reviewed by the ALCO on a monthly basis.

As per the guidelines of CBO, the bank is required to maintain a Liquidity Coverage Ratio (LCR) of at least 100%. Further, the Net Stable Funding Ratio (NSFR) prescribed at a minimum of 100%. The Islamic window has implemented a more stringent internal requirement for these ratios which are reviewed by ALCO each month. A detailed disclosure on the position of the Bank in regards to these ratios is contained later in this report.

Diversification of liabilities

The Bank and Islamic window seek to maintain a diversified funding base, and monitor the degree of diversification in its liability base on a monthly basis. Depositor concentration is reviewed by the ALCO on a monthly basis.

The liquidity and funding policy recognizes the inherent value of the Bank's term depositors. The Islamic window seeks to establish strong and lasting relationships with depositors and other liability holders so as to foster a stable funding base. Trends in liability balances by category are reviewed by the ALCO on a monthly basis.

The Islamic window also recognizes that an over reliance on short dated inter-bank deposits can lead to difficulties in extreme market conditions. The exposure to such deposits is reviewed by the ALCO on a monthly basis.

Multi-currency liquidity

Where positions in specific foreign currencies are significant to its business, the Islamic window addresses the measurement and management of liquidity in these individual currencies. It is considered appropriate to consolidate several (usually minor) currencies and monitor the aggregate exposure expressed in base currency.

When monitoring exposure in aggregate, the Islamic window assesses the convertibility of individual currencies, the timing of access to funds, the impact of potential disruptions to foreign exchange markets, and exchange risks before presuming that surplus liquidity in one currency can be used to meet a shortfall in another currency.

Performance against limits is monitored daily by Treasury with any exceptions being immediately reported to ALCO members. Review of all liquidity positions against limits is performed by Head of Risk Management and Treasury based on figures produced by the Treasury Middle Office / Finance Department.

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

7. LIQUIDITY RISK *(Continued)*

The Treasurer along with the Head of Risk Management derives and documents the Maturity Profile behavioral adjustments, based on redemptions and withdrawal requests. These are communicated to the ALCO for discussion and acceptance.

Limit Breaches

All liquidity limit (internal) breaches are notified to the Treasurer, the Head of Finance, Head of Risk Management and ALCO members at the earliest possible opportunity. The notification includes:

- The cause of the breach
- The remedial action taken
- The expected duration of the breach if still current.

Immediate action is taken to remedy the breach. Should such action not be possible, the ALCO and the CEO are notified.

Liquidity Contingency Plan:

It is imperative for the Islamic window to maintain an adequate amount of liquid assets as a protection against a possible loss in the event of emergency situation. Bank's Liquidity Contingency Plan (LCP) is approved by Board and addresses the institution's strategy for handling any liquidity crisis. LCP serves as the blueprint for meeting its funding needs under stress environment in a timely manner and at a reasonable cost. It describes policies and procedures for managing or making up cash flow shortfalls in such situations.

Islamic window has adopted quantitative and qualitative key warning indicators which is monitored by Market & Liquidity Risk team and presented to ALCO. The members of the Liquidity Crisis Management Team (LCMT) and ALCO are notified immediately should any of the early warning criteria be breached.

In the event of the plan being invoked, ALCO delegates the responsibility for the management of the Bank's liquidity to the LCMT. The LCMT is comprised of CEO (Chairman), DCEO Wholesale Banking, DCEO – Support Services, Head of Finance, Head of Treasury and Head of Risk.

8. OPERATIONAL RISK

Operational Risk Framework

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, and systems or from external events.

Losses from external events such as a natural disaster that has a potential to damage the Islamic Window's physical assets or electrical or telecommunication failures that disrupt business are relatively easier to define than losses from internal problems such as employee fraud and product flaws. The risks from internal problems are more closely tied to the Islamic Window's specific products and business lines; they are more specific to the Islamic window's operations than the risks due to external events. Operational risks faced by the Islamic window include IT Security, telecom failure, frauds, and operational errors.

Operational risk is identified and controlled through a series of strong internal controls and audits, well-defined segregation of duties and reporting lines, operational manuals and standards. Internal audit independently reviews the effectiveness of the Islamic Window's internal controls and its ability to minimize the impact of operational risks. The Operational Risk Committee that is the owner of this Framework oversees the Islamic window.

The Islamic window identifies and assesses the operational risk inherent in its key material products, activities, processes and systems. It also ensures that before any new products or services, activities, processes or systems are introduced; the associated operational risks are properly assessed and mitigated.

Risk identification is vital to the development of operational risk monitoring and control systems. Risk identification considers internal factors such as the Islamic window's structure, the nature of its activities, the quality of its human resources, organizational changes, and employee turnover. It also examines external factors such as changes in the industry, major political and economic changes, and technological advances.

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

8. OPERATIONAL RISK *(Continued)*

Operational Risk Framework *(Continued)*

The Islamic window has identified the following operational risks and has been implementing an effective framework to manage them:

- Fraud Risk
- Process Risk
- Legal Risk
- People Risk
- Compliance Risk (including risk of Shari'a Non-Compliance)
- IT Risk
- Physical Security Risk

Control and Mitigation of Operational Risk

The Islamic window and the Bank has established policies, processes and procedures to control and mitigate material operational risks. It periodically reviews risk limitation and control strategies and adjusts the operational risk profile accordingly, using appropriate strategies in light of its overall risk appetite and profile.

Towards this, the Islamic window has implemented Operation Risk Self-Assessment (ORSA) procedure for each of its business segments, where operating risk related to each business area is identified; documented and corresponding control processes are defined and documented. The action points arising from ORSA are reviewed and reported at the Operational Risk Committee on a regular basis. The Islamic window also has Key Risk Indicators (KRIs) in place and monitors these on a regular basis. The Islamic window ensures that there is appropriate segregation of duties and personnel are not assigned responsibilities that may create a conflict of interest or enable them to conceal losses, errors or inappropriate actions.

The Islamic window ensures adequate internal audit coverage to verify that operating policies and procedures have been implemented effectively.

The Islamic window takes insurance cover to mitigate operational risk, wherever applicable.

It also ensures that internal practices exist to control operational risk such as:

- Maintaining safeguards for access to, and use of, the Islamic window's assets and records;
- Ensuring staff have appropriate expertise and training;
- Regularly verifying and reconciling transactions and accounts.

Fraud Risk Management

The Islamic window takes effective prevention and detection of fraudulent activities extremely serious and cooperate with the judicial and regulatory authorities and support national, regional and international initiatives to combat fraud. It endeavor to develop a culture of fraud awareness and prevention across all areas of its operations to limit possible financial losses and safeguard the brand and financial reputation of the Islamic window.

Reputation Risk

Reputation Risk is negative public opinion/reaction which could cause damage to the Islamic window's profitability or image. Reputational risk is one of the most complex risks to manage in view of unpredictability, constant change in the operating environment, personnel turnover and multi-cultural environment that the Bank operates in. The Islamic window identifies, measures, monitors and controls reputation risk arising in the following areas:

- Customer service
- Perception of stakeholders regarding Islamic window's commitment to their interests
- Quality of products, services and sales practices
- Reporting to stakeholders and external agencies
- Accuracy of information in communications to the public

There are policies and procedures in place to manage and monitor reputation risk.

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

8. OPERATIONAL RISK *(Continued)*

Reputation Risk *(Continued)*

Social Media risk is an important element of Reputation risk that has emerged with the popularity of social media and digital technologies. The Bank recognizes the importance of effectively managing the interests of the Bank and its customers from this dynamic and unregulated category of risk. The Corporate Communication Department (CCD) is responsible for managing the Bank's social media activities within the guidelines of 'Social Media Policy'.

Business Continuity Risk

The Bank has a documented Business Continuity Policy (BCP) and plan which outlines the Business Continuity process to be followed in a disaster scenario, and undertakes comprehensive testing of all its critical systems and processes; this BCP also applies to the processes and systems pertaining to the Islamic window. The BCP aims to minimize the severity and impact of a disaster while continuing to serve both the business and customers with a lowest achievable detriment in service. The plan considers the following:

- Disaster scenarios and magnitude
- Various steps to mitigate the risk
- Impact on the Bank's business and operations
- The resources required for resuming the operations at the earliest possible time following the disaster
- Operating processes and available systems at the Disaster Recover (DR) site

Business Continuity Test

During the year 2020, the Bank has carried out a comprehensive BCP test including a volume test on a working day in order to test the resilience of the bank's business systems at the DR site. The scope of the test was arrived at based on the Business Impact Analysis (BIA) carried by the Bank and the volume test results were submitted to the Board. The Bank has in place a Crisis Management Team (CMT), and the processes to be followed during a disaster scenario has been detailed out in the BCP documents of the Bank.

Concentration Risk

Concentration risk arises from exposure to a common set of factors that can produce losses large enough to threaten the Bank's health or ability to maintain its core business. Concentration risk can arise from large exposure to counterparty, a sector or country. Concentration risk can be mitigated by formulating limits, by a thorough check on counterparty's quality or adequate collateral support etc.

As part of ICAAP, thresholds for exposure concentrations has been set up, this will trigger additional capital requirements based on concentration in terms of large exposures to counterparties, sector exposure concentration (excluding retail lending) and geographical exposure concentration (other than to Oman).

Information Security Risk

The Islamic window has adopted an Information Security Management System (ISMS) /process and a framework by which the bank ensures, protects and secures information resources that process and maintain information which are vital to its operations. The main component of this framework is the Information Security Policy that provides direction for formulation, implementation, and management of Information Security Management System. Since protection of customer information is the top-most priority, the Bank strives to safeguard the confidentiality, availability and integrity of the data of its customers and business partners at all times.

Compliance Risk (including risk of Shari'a Non-Compliance)

Compliance risk is the potential for financial losses, legal penalties, regulatory sanctions and loss to Bank's reputation that result from non-compliance with laws and regulations that are applicable on the Bank. The Board of Directors have direct responsibility for overseeing the management of the Bank's compliance risk. Senior management are thereafter responsible for ensuring effective management of this risk. They are supported by the Compliance function of the Bank which is an independent function that reports, and has direct access to Board Audit & Compliance Committee. The Bank's 'Compliance Policy' sets the guidelines to manage this important risk type.

Shari'a Governance framework ensures Shari'a compliance at all times and at all levels. Shari'a compliance unit facilitates the senior management in ensuring compliance with Shari'a and Islamic banking stipulations of the Central Bank in all its business activities, operations and transactions. Shari'a compliance unit is extensively involved before a new product or transaction is approved and monitors the implementation of guidelines issued by Shari'a Supervisory Board (SSB). No new product class or transaction type is executed without consulting the Shari'a compliance unit and getting a formal approval from the SSB.

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

8. OPERATIONAL RISK *(Continued)*

Model Risk

Model risk is the potential for ineffective decision making or regulatory non-compliance resulting from the use of insufficiently accurate models, particularly in the areas such as measuring, pricing and managing risks. These models include, but are not limited to, capital calculation model, facility and obligor risk rating models, models to calculate expected credit losses and provisioning, pricing models for investments etc. The Bank manages this risk by following best-practices in regards to governance, data management, model validation and back-testing of its key models.

Other Risks

The Islamic window is also exposed to other risks such as, strategic risk, business cycle risk, legal risk, residual risk, settlement risk etc. However, currently these risks are not significant to the Bank. The Bank follows standard methodologies for arriving at the capital adequacy requirements of these risks. These risks are assessed and such assessments form part of the Bank's ICAAP process.

Operational risk capital charge and risk weighted amount

The Islamic window follows basic indicator approach for determining operational risk. The Capital charge for operational risk under Basic Indicator approach is calculated by taking the average of gross income multiplied by 15%, for each of the last three financial years, excluding years of negative or zero gross income. The gross income includes Net income from financing activities gross of any provisions and depreciation expense on ijarah assets (+) Net income from investment activities (+) fee income (-) investment account holders share of income (-) extraordinary / irregular items of income.

Item (RO '000)	2020	2019	2018
Net Income from financing and investing activities	18,654	19,067	16,588
Other income – net	747	949	619
Gross Income	19,401	20,016	17,207
Net return on equity of unrestricted investment accountholders	(1,377)	(1,181)	(1,312)
Profit on wakala deposits and due to banks	(10,506)	(10,965)	(7,973)
Net Operating Income	7,518	7,870	7,922
Average Income	7,770		
Gross Income times of Alpha (15%)	1,166		
Operational risk based on Basic Indicator Approach	14,569		

Capital Charge for Operational Risk under Basic Indicator Approach as per Basel II is RO 1,209 million as of 31 December 2020. The Risk weighted assets for operational risk as per Basel II is RO 15.110 million.

9. DISPLACED COMMERCIAL RISK

Displaced commercial risk (DCR) refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared to competitor's rates.

The Islamic window has in place a Profit Distribution Policy which specifies detailed guidelines for creation of PER and IRR to mitigate the DCR. The Islamic window may forgo its fee in case DCR arises. Rates of returns are benchmarked with other Banks in the market and reviewed on periodic basis.

An analysis of distribution during the year to IAH's by Islamic window is as follows:

	2020	2019	2018	2017	2016
Total Profits available for distribution	7,596	6,538	5,948	5,196	4,577
Profit Sharing:					
- Profit to Shareholders	5,501	4,554	3,773	3,616	3,938
- Share of IAH	1,377	1,181	1,312	1,580	639
- Mudarib Share	718	803	863	783	447

During the year ended December 2020 there were no appropriations made towards Profit equalization and Investment risk reserve.

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

10. INVESTMENT ACCOUNT HOLDERS

The Islamic window receives deposits by Investment Account Holders (IAH) under mudaraba contract and Wakala bil Istithmar contract. The Islamic window has Unrestricted Account Holders only.

Investment account holders under mudaraba contract

As per the mudaraba contract the investment account holders authorizes the Islamic window to invest the account holders' funds in a manner which the Islamic window deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. Under this arrangement, Islamic window can commingle the equity of investment account holders with its own funds (owner's equity) or with other funds the Islamic window has right to use (current accounts or any other funds not received under Mudaraba mode). As at year end the Islamic window does not have any investment account under restricted mudaraba contract.

Net profit is allocated to the pool participants based on weighted average balance. Participation factor, weights of profit sharing ratios are pre-decided by the management of the bank and are initiated to the investors. Weighted average balance is calculated at the end of the period by multiplying the participation factor with average balance for the period.

Investment account holders under wakala

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

Profit Distribution Mechanism between Shareholders & Depositors under the Common Pool

Participation factor, Weights or profit-sharing ratios are pre decided by the management of the Bank. In case of any change, after approval by the Shariah Supervisory Board these are intimated to the investors before start of the month. Weighted average balance is calculated at the end of the period by multiplying the participation factor with average balance for the period.

The Islamic window has a single pool of comingled assets where the funds of investment accountholders are invested. The Investment Profits are distributed between Mudarib and IAH in the following percentages:

	2020	2019
Unrestricted Investment Accounts Share	70%	60%
Mudarib Share	30%	40%

The Islamic window does not charge Investment accountholders for operating expenses incurred.

Mudaraba fee

Mudaraba fee will be deducted from allocated profit as per the pre-agreed ratio as approved by SSB which will be advised to customers through website or by posting in branches. Islamic window can create reserves as allowed by SSB and CBO for smoothing of returns to investors and risk management purposes. Two types of reserves allowed are Profit Equalization reserve (PER) and Investment Risk reserve (IRR).

Investment Risk Reserve (IRR)

This reserve is created out of the depositors' share of profit out of the Net Profit from the Common Pool. Purpose of the reserve is to offset the effect of future losses. The available balance in the reserve account shall be invested in the Common Pool and the profit earned by investing such balance will be added to the reserve account. The basis for computing the amounts to be appropriated are applied in accordance with SSB directions. This is to secure suitable and competitive return to the depositors in case there are certain extra ordinary circumstances, depressing the return, which were anticipated by the depositors. The disposition of the reserve amount will take place with the prior approval of the SSB. In case the balance in the reserve account is not sufficient to face the competition, the shareholders may grant part of their share of profit to the depositors with the approval of SSB.

Transfer to or from Profit Equalization reserve (PER)

Percentage to be approved by Bank management subject to internal sharia approval that should be appropriated by Islamic window out of the total common pool profit as per the policy before any distribution takes place, in order to ensure certain level of cushion for the Investment portfolio. Any provisions that are required against the Islamic financing assets or investments will be provided in the books as per the policy which will be in adherence to the central bank revised provisioning policy. The balance of the PER shall also be maintained as a current account.

No PER has been created and no transfer has been made during the year ended December 2020.

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

10. INVESTMENT ACCOUNT HOLDERS *(Continued)*

Transfer to or from (IRR)

In case the rate of return to the depositors in a certain profit distribution period is substantially higher than the market rates, Bank's management may decide to deduct, after taking permission from the SSB, a portion of depositors' share of profit and transfer the same to the IRR.

In case the rate of return to the depositors in a certain profit distribution period is lower than the market, Banks's management may decide to compensate the depositors by transferring the required amount from the said reserve account to increase depositors' return.

No IRR has been created and no transfer has been made during the year ended December 2020.

Assignment of a portion of shareholders' profit to depositors

If required, the Islamic window may decide to allocate some portion from their own profit to a specific deposit category(s). This could be either due to increase in the rate of profit announced by other Islamic Financial Institutions / competitors or to encourage a specific category of depositors.

No assignment of shareholder profit to depositors has been made during the year ended December 2020.

I. Equity of Investment Accountholders – by type (RO '000)

Type	Equity of IAH	
	2020	2019
Saving & Call accounts	98,295	57,291

II. Equity of Investment Accountholders – Ratios

RO in '000	2020	2019	2018	2017	2016
Ratios and Returns					
Amount of total net income	2,841	4,748	6,975	5,758	4,617
Average amount of assets	400,150	380,456	328,640	284,225	260,898
ROA (Net income before IA's distribution / total assets)	0.71%	1.25%	2.12%	2.03%	1.77%
Amount of total net income	1,464	3,556	5,663	4,958	4,433
Average amount of shareholder's equity	45,954	43,307	38,580	35,856	33,397
ROE (Net income after IA's distribution / Shareholders equity)	3.19%	8.23%	14.68%	13.83%	13.30%
PSR - Average Profit Paid					
Profit sharing ratio (Mudarib : Investment Accountholders)	30:70	40:60	40:60	40:60	70:30
Average Profit paid to investment accountholders	1.42%	2.27%	2.60%	2.37%	1.27%
Average Profit distributed per type of IAH					
Savings (RO 100 – RO 999.999)	0.26%	0.25%	0.26%	0.26%	0.22%
Savings (RO 1,000 – RO 9,999.999)	0.44%	0.41%	0.42%	0.42%	0.33%
Savings (above RO 10,000)	0.58%	0.57%	0.59%	0.58%	0.55%
Call Account (RO 100 - RO 999.999)	0.03%	0.25%	0.26%	0.30%	0.33%
Call Account (RO 1,000 - RO 9,999.999)	-	0.43%	0.43%	-	-
Al Nama Smart Saving (RO 100 – RO 2,499.99)	0.58%	0.57%	0.59%	0.58%	0.22%
Al Nama Smart Saving (RO 2,500 – RO 49,999.99)	2.08%	2.04%	2.10%	2.08%	1.32%
Al Nama Smart Saving (RO 50,000 – RO 499,999.99)	2.64%	2.59%	2.67%	2.64%	1.54%
Al Nama Smart Saving (500,000 - 999,999.999)	3.19%	3.13%	3.22%	3.19%	1.76%
Al Nama (Above 1,000,000)	3.57%	3.51%	3.60%	3.55%	-
URIA Saving Awqaf	0.43%	0.43%	-	-	-
Qitaf Saving Account	0.25%	0.25%	-	-	-

The Islamic window has no off-balance sheet exposures arising from investment decisions. Further, the Islamic window had no limits imposed on the amount that can be invested in any one type of asset.

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

10. INVESTMENT ACCOUNT HOLDERS *(Continued)*

Assignment of a portion of shareholders' profit to depositors *(Continued)*

III. Assets allocation and distribution of profit (RO '000)

	2020	2019	2018	2017	2016
Average Assets Allocated	153,462	117,524	105,209	86,127	62,114
Total profits	7,596	6,538	5,948	5,196	4,577
Profits to Shareholders	5,501	4,554	3,773	3,613	3,985
Profits to IAH	1,377	1,181	1,312	800	184
Mudarib Share	718	803	863	783	408

The calculation and distribution of profit was based on average balances.

There was no appropriation made towards Profit Equalization Reserve and Investment Risk Reserve.

IV. Computation of pool income for the year ended 31 December 2020 (RO '000)

	2020	2019
Pool income		
Income from financing	16,934	18,437
Income from placements	1,720	630
Distribution of Income		
Revenue generated on Mudaraba funds	7,596	6,538
Profit equalization reserve	-	-
Mudarib share	718	803
Investment risk reserve	-	-
Distributable Profit	6,878	5,735
Share of Profit for IAH and shareholders	6,878	5,735

VI. Investment account holders under wakala (RO '000)

	2020	2019
Average Wakala deposits	149,175	134,702
Average Profit paid to investment accountholders %	3.89	2.99

11. Contract Specific risk

The Bank closely monitors the total risk exposures in each type of financing asset including the relative risk of carried. Following is the total Risk Weighted Assets classified by type of financing as of 31 December 2020

Type of Credit Exposure	RWAs	
	2020	2019
Sovereign	824	818
Banks	763	1,703
Murabaha receivables	42,967	46,992
Musharaka receivables	174,148	144,517
Ijarah assets – Ijarah Muntahia Bittamleek	127,668	95,953
Service Ijarah	497	341
Credit card receivables	563	553
Other Assets & off balance sheet items	11,750	12,520
Total	359,180	303,397

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

12. ZAKAH

Zakah is calculated in accordance with FAS 9 Zakah issued by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) using the net assets method. The Islamic Window will calculate the "Zakah base" based on audited financial statements and after approval from Sharia Supervisory Board, notify the Shareholders of their pro-rata share of the Zakah payable annually, if any. Payment of Zakah on the Investment Accounts and other Accounts is the responsibility of Investments Account Holders.

13. EARNINGS PROHIBITED BY SHARIAH

The Islamic window is committed to avoid recognizing any income generated from non-Islamic sources. Accordingly all non-Islamic income is credited to the charity account where the Islamic Window uses these funds for charitable purposes. During the year ended 20120, no income has been credited to charity account being prohibited by Sharia. Sources and use of charity by fund has been disclosed in statement of sources and uses of charity fund in Financial Statements. With regard to undistributed funds under charity account as of year ended 2020, Islamic window has taken approval from SSB for deferment of disbursement to next year.

14. COMPENSATION POLICY AND REMUNERATION OF SHARIA SUPERVISORY BOARD (SSB)

In line with the CBO guidelines on remuneration disclosure as part of pillar III, the relevant qualitative and quantitative disclosure are presented in the banks Basel II Pillar III.

Following remuneration of Sharia Board has been approved by the general assembly;

Chairman: RO 9,625 per annum (US\$ 25,000 per annum).

Member: RO 6,738 per annum (US\$ 17,500 per annum).

Sitting fee: RO 385 (US\$ 1,000) per meeting per member, maximum of 5 sitting per year.

Details of Sharia Supervisory Board and meetings attended during the year has been disclosed in corporate governance report.

15. GENERAL DISCLOSURES

Shari'a governance

Shari'a governance is the most important feature of the Islamic window. Shari'a governance is defined as a system whereby the Bank attempts and abides by the Shari'a principles in all its activities. The main objective of Shari'a governance framework is to ensure Shari'a compliance at all the times and at all levels and that is to enable the Islamic Window to be perceived as fully Shari'a compliant by all aspects. The key elements of Shari'a governance framework of the Islamic window are as follows:

- i. Shari'a Supervisory Board (SSB)
- ii. Head Shari'a Audit and Compliance/Internal Shari'a Reviewer (Head SAC)
- iii. Shari'a Audit Unit (SAU)
- iv. Shari'a Compliance Unit (SCU)
- v. Shari'a Risk Control Unit (SRCU)

Shari'a audit and compliance department

As per the Shari'a governance structure of the Window, Shari'a Audit and Compliance Unit (SACU) is a full-fledged department of the Bank. The Shari'a Audit and Compliance includes SAU, SCU and SRCU and is led by Head Shari'a Audit and Compliance / Internal Shari'a Reviewer. SACU main function is to objectively examine and evaluate the extent of compliance of the Bank in view of the pronouncements issued by the SSB or its Chairman and in adherence to the regulations issued by CBO

SACU has direct and regular communication with all levels of management, the SSB, and external auditors and it is provided with full and continuous support of management and the SSB to perform its duties. Shari'a Audit and Compliance works under supervision of the SSB to ensure independence and objectivity in performance of department's tasks.

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

15. GENERAL DISCLOSURES *(Continued)*

Trainings

The Sharia Audit and Compliance Department (SACD) prepared a comprehensive training plan for year 2020 and got that approved by the SSB. In accordance with the training plan, Sharia Audit and Compliance prepared material on the Islamic window products and their Shari'a Principles by including essential features of Islamic banking, Sharia governance, Sharia structures of Islamic banking products and their process flows, list of legal documentation and Sharia principles underlying to each product. The training material was made in line with SSB directives, Islamic banking guidelines issued by CBO and AAOIFI Sharia Standards. The trainings were made as mandatory for the related staff of ahli islamic and ahlibank.

The trainings were conducted by Head SAC and Manager Sharia Audit as per SSB approved Training Plan for 2020 for staff of the Bank and through online application. Additionally, staff of Sharia Audit and Compliance was facilitated to attend AAOIFI and IIFM conference for industry updates on Sharia and Islamic banking practices. The SSB members were also facilitated by the Bank to attend AAOIFI conference to go through the industry developments on Sharia governance and compliance.

For 2021, the training plan has been approved by the SSB and annual training budget is in place for employees as part of the bank's overall training and development budget. The continued development, qualification and certification of all Islamic Banking personnel is an ongoing process.

Complaints

ahlibank has devised "Code of Ethics and Fair Practices - Customer Complaints Redressal Policy & Procedure" and same is implemented for the Islamic window with regard to professional ethics as well as procedure to resolve customers' queries and complaints. According to the policy, any Islamic Banking related enquiries and complaints are sent to related department of Islamic banking to address and advice and there is proper mechanism in place and a responsible person is identified who collects complains and send the same to the relevant staff.

The Islamic window has trained customer services representative in all the branches who provide appropriate guidance to customers in selection of relevant products suitable to the individual investors. Further, complete product booklet is available at the branches and on the Bank's website which can be referred in case of any further clarification is required. Customers call center (can contact number 24577177) or walk in any of the branches to register their complaints.

Awareness

The Bank has trained customer services representatives in all the branches and call center staff who provide appropriate guidance to customers with regard to Islamic Banking. Furthermore, product brochures are available at all the branches. Product feature and related SSB Fatawa and glossary of Islamic banking are also available on the website for public information. Additionally, during 2020 Sharia Audit and Compliance team has regularly been meeting with customers and clients and explaining them about Islamic banking products and their conditions.

Related Party

Disclosures related to related party and transactions during 2020 are disclosed in note 30 of Islamic window financial statements.

16. SUBSIDIARIES AND SIGNIFICANT INVESTMENTS

The Islamic Window does not have any subsidiary or other significant equity investments as on 31 December 2020.

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

17. BASEL III REGULATORY CAPITAL DISCLOSURES

Below disclosures are prepared using three step reconciliation approach as defined in the CP2-Guidelines on composition of capital disclosure requirements issued along with the CBO Circular BM 1114.

BASEL III common disclosure template (RO '000)		2020	2019
Common Equity Tier 1 capital: instruments and reserves			
1	Directly issued qualifying common share capital plus related stock surplus	25,000	25,000
2	Retained earnings	17,242	18,534
6	Common Equity Tier 1 capital before regulatory adjustments	42,242	43,534
Common Equity Tier 1 capital: regulatory adjustments			
7	Prudential valuation adjustments	(741)	(642)
28	Total regulatory adjustments to Common equity Tier 1	(741)	(642)
29	Common Equity Tier 1 capital (CET1)	41,501	42,892
Additional Tier 1 capital: instruments			
36	Additional Tier 1 capital before regulatory adjustments	-	-
Additional Tier 1 capital before regulatory adjustments			
43	Total regulatory adjustments to Additional Tier 1 capital	-	-
44	Additional Tier 1 capital (AT1)	-	-
45	Tier 1 capital (T1 = CET1 + AT1)	41,501	42,892
Tier 2 capital: instruments and provisions			
50	Provisions (provision and fair value reserve)	998	1,517
51	Tier 2 capital before regulatory adjustments	998	1,517
Tier 2 capital: regulatory adjustments			
57	Total regulatory adjustments to Tier 2 capital	-	-
58	Tier 2 capital (T2)	998	1,517
59	Total capital (TC = T1 + T2)	42,499	44,409
60	Total risk weighted assets	376,920	322,946
60a	<i>Of which: Credit risk weighted assets</i>	359,180	303,397
60b	<i>Of which: Market risk weighted assets</i>	2,630	4,732
60c	<i>Of which: Operational risk weighted assets</i>	15,110	14,817
Capital Ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	11.01%	13.28%
62	Tier 1 (as a percentage of risk weighted assets)	11.01%	13.28%
63	Total capital (as a percentage of risk weighted assets)	11.28%	13.75%
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement expressed as a percentage of risk weighted assets)	7.000%	7.000%
65	of which: capital conservation buffer requirement	-	-
66	of which: bank specific countercyclical buffer requirement	-	-
67	of which: G-SIB buffer requirement	-	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	0.28%	2.86%
National minima (if different from Basel 3)			
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	7.000%	7.000%
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	9.000%	9.000%
71	National total capital minimum ratio (if different from Basel 3 minimum)	11.000%	11.000%
Amounts below the thresholds for deduction (before risk weighting)			
72	Non-significant investments in the capital of other financials	192	149
Applicable caps on the inclusion of provisions in Tier 2			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	885	1,395
77	Cap on inclusion of provisions in Tier 2 under standardized approach	4,712	3,791

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

17. BASEL III REGULATORY CAPITAL DISCLOSURES *(Continued)*

Step 1: Balance sheet under Regulatory scope of consolidation

Table 2a- Balance sheet under Regulatory Scope of Consolidation (RO '000)

(RO'000)	Balance sheet as in published financial statements	Under regulatory scope of consolidation
Assets		
Cash and balances with Central Bank of Oman	9,283	9,283
Certificates of deposit	-	-
Due from banks	3,488	3,488
Financings, net	345,289	345,289
Investments in securities	28,896	28,896
Placements with banks	-	-
Property and equipment	1,665	1,665
Deferred tax assets	-	-
Other assets	6,324	6,324
Total assets	394,945	394,945
Liabilities		
Due to banks	57,203	57,203
Customer deposits	285,464	285,464
Current and deferred tax liabilities	-	-
Other liabilities	5,681	5,681
Subordinated bonds	-	-
Total liabilities	348,348	348,348
Shareholders' Equity		
Paid-up share capital	25,000	25,000
Share premium	-	-
Legal reserve	-	-
General reserve	-	-
Retained earnings	17,242	17,242
Cumulative changes in fair value of investments	(198)	(198)
Subordinated debt reserve	-	-
Other Reserves	4,553	4,553
Total shareholders' equity	46,597	46,597
Total liability and shareholders' funds	394,945	394,945

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

17. BASEL III REGULATORY CAPITAL DISCLOSURES *(Continued)*

Step 2: Expansion of Balance sheet under Regulatory scope of consolidation

Table 2b – Expansion of Balance Sheet Under Regulatory Scope of Consolidation (RO '000)

Year ended 31 December 2020	31-Dec-20	Under Regulatory scope of consolidation	Reference
Assets			
Cash and balances with CBO	9,283	9,283	
Due from banks	3,488	3,488	
Financings - Net, of which:	345,289	345,289	
- Financings to domestic customers		349,913	
- Provision against financings, of which:		(4,624)	
- Stage 3 Impairment allowance		(2,807)	
- Stage 1 / 2 impairment allowance, of which		(1,817)	
- Amount eligible for T2		885	a
- Amount ineligible for T2		932	
Investments, of which:	28,896	28,896	
- fair value through equity		28,896	
- Stage 1 / 2 impairment allowance, of which		-	
- amount eligible for T2		-	
- amount ineligible for T2		-	
Fixed assets	1,665	1,665	
- Intangibles (CET1 adjustment)		(271)	e
- Other fixed Asset		1,394	
Other assets	6,324	6,324	
Total Assets	394,945	394,945	
Capital & Liabilities			
Paid-up Capital, of which:	25,000	25,000	
- Amount eligible for CET1		25,000	b
Reserves & Surplus; of which	21,597	21,597	
- Amount eligible for CET1		17,242	c
- Amount eligible for T2 (Investments Fair value gains)		113	d
- Investments fair value loss (CET1 adjustment)		(470)	e
- Investments fair value gain unutilized and impairment		159	
- Reserves (impairment reserve - not eligible for CET1)		4,553	
Total Capital	46,597	46,597	
Deposits	285,464	285,464	
Due to banks	57,203	57,203	
Other liabilities and provisions	5,681	5,681	
Other liabilities & provisions , of which		5,681	
'- Stage 1 / 2 impairment allowance, of which		26	
- amount eligible for T2		-	
- amount ineligible for T2		26	
TOTAL	394,945	394,945	

Basel II Pillar III and Basel III Report *(continued)*

31 December 2020

17. BASEL III REGULATORY CAPITAL DISCLOSURES *(Continued)*

Step 3: Step Reconciliation of Regulatory Capital:

Common Equity Tier 1 capital: instruments and reserves (RO' 000)			
Year ended 31 December 2020	Component of regulatory capital reported by Bank	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from step 2	
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	25,000	b
2	Retained earnings	17,242	c
3	Common Equity Tier 1 capital before regulatory adjustments	42,242	
4	Prudential valuation adjustments	(741)	e
5	Total regulatory adjustments to Common equity Tier 1	(741)	
6	Common Equity Tier 1 capital (CET1)	41,501	
Additional Tier 1 capital: instruments			
7	Additional Tier 1 capital (AT1)	-	
	Tier 1 capital (T1 = CET1 + AT1)	41,501	
Tier 2 capital: instruments and provisions			
8	Provisions	885	a
9	Fair value reserve of investments	113	d
	Tier 2 capital before regulatory adjustments	998	
	Tier 2 capital: regulatory adjustments	-	
	Tier 2 capital (T2)	998	
	Total capital (TC = T1 + T2)	42,499	

Basel II Pillar III and Basel III Report *(continued)*

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17. BASEL III REGULATORY CAPITAL DISCLOSURES *(Continued)*

17.1 MAIN FEATURES OF REGULATORY CAPITAL

Year ended 31 December 2020		Common Equity Share Capital
1	ahli islamic	
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA
3	Governing law(s) of the instrument Regulatory treatment	The laws of Oman in the form of Royal Decrees, Ministerial Decisions and CMA and CBO Regulations
4	Transitional Basel III rules	Common Equity Tier 1
5	Post-transitional Basel III rules	Common Equity Tier 1
6	Eligible at solo/group/group & solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Common Equity Share Capital
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	25 million
9	Par value of instrument	-
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	Capital allocated in 2013
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	Statutory approach
32	If write-down, full or partial	Write down fully
33	If write-down, permanent or temporary	Permanent
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	NA

Basel II Pillar III and Basel III Report *(continued)*

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18. Basel III LIQUIDITY DISCLOSURE

The below liquidity disclosure is prepared in accordance with the requirements of the CBO Circular BM 1127 'Basel III – Framework on Liquidity Coverage Ratio (LCR) and LCR disclosure standard' issued on 24 December 2014. The disclosure is based on average of three monthly data points.

LIQUIDITY COVERAGE RATIO (LCR)

Common Disclosure Template

		Year ended 31 December 2020		(RO '000)
		Total Unweighted Value (average)	Total Weighted Value (average)	
High Quality Liquid Assets				
1	Total High Quality Liquid Assets (HQLA)			40,720
Cash Outflows				
2	Retail deposits and deposits from small business customers, of which:	159,529		9,350
3	Stable deposits	3,904		117
4	Less stable deposits	155,624		9,233
5	Unsecured wholesale funding, of which:	50,484		27,009
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	177		44
7	Non-operational deposits (all counterparties)	34,903		11,561
8	Unsecured debt	15,404		15,404
9	Secured wholesale funding			-
10	Additional requirements, of which			
11	Outflows related to derivative exposures and other collateral requirements	13,548		13,548
12	Outflows related to loss of funding on debt products			
13	Credit and liquidity facilities	3,883		388
14	Other contractual funding obligations			
15	Other contingent funding obligations	8		0
16	TOTAL CASH OUTFLOWS			50,295
Cash Inflows				
17	Secured lending (e.g. reverse repos)	-		-
18	Inflows from fully performing exposures	16,469		15,901
19	Other cash inflows	64,023		13,548
20	TOTAL CASH INFLOWS	80,492		29,449
				Total Adjusted Value
21	TOTAL HQLA			40,720
22	TOTAL NET CASH OUTFLOWS			20,846
23	LIQUIDITY COVERAGE RATIO (%)			195.33%

Basel II Pillar III and Basel III Report *(continued)*

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18. Basel III LIQUIDITY DISCLOSURE *(Continued)*

LIQUIDITY COVERAGE RATIO (LCR)

Common Disclosure Template

Year ended 31 December 2019

(RO '000)

	Total Unweighted Value (average)	Total Weighted Value (average)
High Quality Liquid Assets		
1 Total High Quality Liquid Assets (HQLA)		49,574
Cash Outflows		
2 Retail deposits and deposits from small business customers, of which:	56,882	4,432
3 Stable deposits	24,299	1,164
4 Less stable deposits	32,584	3,258
5 Unsecured wholesale funding, of which:	77,411	38,211
6 Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7 Non-operational deposits (all counterparties)	64,764	25,564
8 Unsecured debt	12,647	12,647
9 Secured wholesale funding		-
10 Additional requirements, of which	-	-
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	-	-
14 Other contractual funding obligations	1,938	194
15 Other contingent funding obligations	11,550	11,550
16 TOTAL CASH OUTFLOWS		54,337
Cash Inflows		
17 Secured lending (e.g. reverse repos)	-	-
18 Inflows from fully performing exposures	4,031	2,015
19 Other cash inflows	13,812	13,812
20 TOTAL CASH INFLOWS	17,843	15,828
		Total Adjusted Value
21 TOTAL HQLA		49,574
22 TOTAL NET CASH OUTFLOWS		38,550
23 LIQUIDITY COVERAGE RATIO (%)		128.60%

Basel II Pillar III and Basel III Report *(continued)*

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19. NET STABLE FUNDING RATIO (NSFR): Common Disclosure Template

The below Net Stable Funding Ratio (NSFR) disclosure is presented for year ended 31 December 2020 and prepared in accordance with the requirements of the CBO letter vide circular reference 1147 issued on October 26, 2016.

Sr No.	Particulars	No Maturity	31 December 2020			Weighted Value
			<6 Months	6 Months to < 1 Year	>= 1 Year	
ASF ITEMS						
1	Capital	42,499	-	-	-	42,499
2	Regulatory Capital	42,499	-	-	-	42,499
3	Retail Deposits and Deposits from small Business Customers	113,101	9,545	46,152	19,944	172,960
4	Stable Deposit	21,359	266	327	-	20,855
5	Less Stable Deposit	91,742	9,279	45,825	19,944	152,106
6	Wholesale Funding	37,587	15,167	2,925	87,228	115,068
7	Operational	203	-	-	-	102
7	Other Wholesale Funding	37,384	15,167	2,925	87,228	114,966
8	All other liabilities and equities not included in above categories	21,304	-	-	-	-
9	Total ASF					330,527
RSF ITEMS						
10	Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	1,345
11	Deposits held at other financial institutions for operational purposes	488	-	-	-	244
12	Performing loans to financial institutions secured by non- Level 1 HQLA and unsecured performing loans to financial institutions	-	3,000	-	-	450
13	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which	560	10,833	4,949	332,275	290,605
13	With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk	-	-	-	-	-
	Performing residential mortgages, of which:					
14	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	-	-	-	-
15	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	2,003	1,703
16	All other assets not included in the above categories	-	-	-	5,169	5,169
17	Off-balance sheet items	-	14,613	1,894	483	850
18	Total RSF					300,364
19	NET STABLE FUNDING RATIO					110.04%

Basel II Pillar III and Basel III Report *(continued)*

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19. NET STABLE FUNDING RATIO (NSFR): Common Disclosure Template *(Continued)*

The financial statements and other related disclosures are also available on the ahlibank's website, to view it on the website refer the link <http://ahlibank.com/investor-relations/financial-reports/>.

The Basel II Pillar III disclosures are prepared in accordance with the requirements of Basel II Pillar III disclosures as set out in the CBO circulars BM1009 and BM1027.

Basel III capital and liquidity disclosures are prepared in accordance with CBO Circular BM 1114 'Regulatory Capital and Composition of Capital Disclosure Requirements under Basel III' issued on 17 November 2013, CBO circular dated march 20, 2018 and BM 1127 'Basel III – Framework on Liquidity Coverage Ratio (LCR) and LCR disclosure standard' issued on 24 December 2014, respectively. The NSFR disclosure has been prepared in accordance to CBO Circular reference BM 1147 dated October 26, 2016.

For ahli islamic



Hamdan Ali Nasser Al Hinai

Chairman

Date: 27 January 2021