



# Ahli Islamic

## Financial Statements

For the year ended 31 December 2019



In the name of Allah, The Beneficent, The Merciful

**Ahli Islamic, Ahli Bank SAOG**

**Shari'a Supervisory Board Report**

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

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 (01.01.2019 to 31.12.2019) ended 2019 to ensure that they comply with rules and principles of Islamic Shari'a and with the *Fatawa* issued by the Board.

The Bank's management is responsible for ensuring execution and implementation of resolutions of the Shari'a Supervisory Board and to inform the Shari'a Supervisory 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 is responsible in monitoring implementation of the decisions from Shari'a perspective and to give its opinion based on the Shari'a audit reports of the Bank.

In opinion of the Board:

- a) The contracts, transactions and dealings entered into by the Bank during the year ended 2019 are in compliance with Shari'a rules and principles.
- b) 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.
- c) 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,
- d) The calculation of *Zakah* is in compliance with Shari'a rules and principles.

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

**Shari'a Supervisory Board**



**Dr. Ahmed Mohiyeldin Ahmed**  
(Chairman)



**Dr. Mohammed Taher Al-Ibrahim**



**Dr. Mustain Ali Abdul Hameed**



**Dr. Abdul Raouf Abdullah Al-Tubi**

(Members)

## Resolutions issued by SSB during Year 2019

SSB Meeting	Resolution No.	Detail of the Resolution
<b>SSB 25 Meeting on May 14, 2019</b>	2 (SSB -25 - 2019)	Review and Sharia Opinion on Shari'a Audit Reports of 4th Quarter 2018: I. Shari'a Audit Report of Corporate Banking II. Shari'a Audit Report of Retail III. Shari'a Audit Report of SME IV. Shari'a Audit Report of Trade Finance V. Shari'a Audit Report of Treasury
	3 (SSB - 25- 2019)	Implementation Status of SSB Opinion in Sharia Audit Reports I. Shari'a Audit Report of Corporate Banking for 2nd Quarter 2018 II. Shari'a Audit Report of Retail Banking for 3rd Quarter 2018 III. Shari'a Audit Report of SME for 3rd Quarter 2018
	4 (SSB - 25- 2019)	Review and Approval of Mortgage Contract
	5 (SSB - 25- 2019)	Review and Approval of following Procedures: I. Account Services Procedure Manual II. Payment Services Procedure Manual III. Cash Services Procedure Manual IV. Retail Credit Procedure Manual
	6 (SSB - 25- 2019)	Review of Proposal for Advisory and Annual Review Fee of Corporate Transactions
	<b>SSB meeting on 11.7.2019 SSB-26-2019</b>	2 (SSB-26-2019)
3 (SSB-26-2019)		Review and Approval of Ahli Islamic Credit and Debit Card Proposal
4 (SSB-26-2019)		Review and Sharia Opinion on Shari'a Audit Reports of 1st 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
5 (SSB-26-2019)		Payment of Fee to Muwakkil for Committed Line under Wakala bil Istithmar
6 (SSB-26-2019)		Conventional Insurance of Corporate Ijara Assets
7 (SSB-26-2019)		Sharia Review Process of Retail Transactions at Pre-execution

## Resolutions issued by SSB during Year 2019 (continued)

SSB Meeting	Resolution No.	Detail of the Resolution
<b>SSB meeting on 10.10.2019</b>	2 (SSB-27-2019)	Review of Modification in Prize Draw Account Procedure
<b>27-SSB-2019</b>	3 (SSB-27-2019)	Transaction Information Sheet of National Development Group Company (NDGC)
	4 (SSB-27-2019)	Review and Opinion on Shari'a Audit Reports of 2nd 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
	5 (SSB-27-2019)	Implementation Status of Sharia Reports for 1st 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 of Treasury
	6 (SSB-27-2019)	Sharia Review of IT System and its Checklists I. Sharia Review Checklist - DM cum Forward Ijara II. Sharia System Review Checklist - DM cum Ijarah III. Sharia System Review Checklist - Goods & Auto Murabaha IV. Sharia System Review Checklist - Ijara MBT V. Sharia System Review Checklist - Services Ijara VI. Sharia System Review Checklist- Current Account/Investment Accounts
	7 (SSB-27-2019)	Retail Query about Transfer of a Customer Share to his Wife
	8 (SSB-27-2019)	Qitaf Account Special Terms and Conditions
	9 (SSB-27-2019)	Special Scheme for Home Finance to Reward Loyal Customers
	10 (SSB-27-2019)	Sharia Compliance Inspection of Corporate Assets
	12 (SSB-27-2019)	MENA Fund List of Companies
	2 (SSB-28-2019)	Sharia Audit Plan 2020
	3 (SSB-28-2019)	Sharia Training Plan 2020
	4 (SSB-28-2019)	Ahli Islamic Financing Facility Letter
<b>SSB meeting on 10.12.2019</b>	5 (SSB-28-2019)	Review and Opinion on Shari'a Audit Reports of 3rd Quarter 2019 I. Shari'a Audit Report of Corporate Banking II. Shari'a Audit Report of Retail III. Shari'a Audit Report of SME IV. Shari'a Audit Report of Trade Finance V. Shari'a Audit Report of Treasury
<b>28-SSB-2019</b>	6 (SSB-28-2019)	Status of Sharia Reports I. Shari'a Audit Report of Corporate Banking for 2nd Quarter 2019 II. Shari'a Audit Report of Retail Banking for 2nd Quarter 2019
	8 (SSB-28-2019)	Review and Approval of Oman Sovereign Sukuk SAOG Investment Proposal
	9 (SSB-28-2019)	Review and Approval of Wallet Terms & Conditions
	10 (SSB-28-2019)	Review and Approval of Marketing Activities of Ahli Islamic
	11 (SSB-28-2019)	Review and Approval of Wakala Call Account Agreement

**In the Name of Allah, the Merciful, the Compassionate**

**Fatwa of Shari'a Supervisory Board on**

**Qitaf Savings 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 Tuesday the 1-Rabi al-awwal-1441 that corresponds to October 29, 2019, the Shari'a Supervisory Board (SSB) of Ahli Islamic, Ahli Bank SAOG (the "Ahli Islamic/Bank") issued Shari'a pronouncement of Ahli Islamic Qitaf Savings Account, which details are as follows:

**Sharia Structure of the Product:**

Ahli Islamic Qitaf Savings Account is an investment account that is based on the Shari'a rules of Mudaraba whereby Account Holder (Rabb ul-Mal) invests its funds with Ahli Islamic (Mudarib) through unrestricted Mudaraba contract. Ahli Islamic brings the deposited capital into Mudaraba pool from all the Mudaraba based accounts and invests them into Sharia compliant financings and investment avenues. The profit on the Mudaraba pool is distributed amongst the investors as per the profit sharing ratio 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.

Additionally, Ahli Islamic offers different cash prizes to account holders as Hiba from the Bank's shareholder fund that is based on the draws made on weekly/ monthly/ quarterly or any other periods that Ahli Islamic may decide. The winners are picked randomly by prize draw system and the results of the prize draws are final and conclusive.

**Legal Documents:**

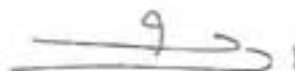
1. Account Opening Application and its Terms and Conditions
2. Special Terms and Conditions for Qitaf Savings Account

**The SSB Opinion:**

Having reviewed the Qitaf Account Deposit product's paper, the terms and conditions, profit distribution and prize draw mechanism, the Shari'a Supervisory Board of the Bank confirms that Qitaf Savings Account is according to the dictates of Shari'a.

And all praise is due to Allah.

**Sharia Supervisory Board**




**Dr. Ahmed Mohiyeldin Ahmed**

(Chairman)



**Dr. Mohammed Taher Al-Ibrahim**



**Dr. Mustain Ali Abdul Hameed**



**Dr. Abdul Raouf Abdullah Al-Tobi**

(Members)

**In the Name of Allah, the Merciful, the Compassionate**

**Fatwa of Shari'a Supervisory Board on**

**Auqaf 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 Tuesday November 26, 2019, the Shari'a Supervisory Board (SSB) of Ahli Islamic, Ahli Bank SAOG (the "Ahli Islamic/Bank") issued Shari'a pronouncement of Ahli Islamic Auqaf Account, which details are as follows:

**Sharia Structure of the Product:**

Ahli Islamic Auqaf Account is an investment account that is based on the Shari'a rules of Mudaraba whereby Account Holder (Rabb ul-Mal) invests its funds with Ahli Islamic (Mudarib) through unrestricted Mudaraba contract.


Ahli Islamic brings the deposited capital into Mudaraba pool from all the Mudaraba based accounts and invests them into Sharia compliant financings and investment avenues. The profit is distributed amongst the investors in the Mudaraba pool as per the agreed profit sharing ratio 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.

**The SSB Opinion:**

Having reviewed the Auqaf Account Deposit product's paper the Shari'a Supervisory Board of the Bank confirms that Auqaf Account is according to the dictates of Shari'a.

And all praise is due to Allah.

**Sharia Supervisory Board**



**Dr. Ahmed Mohiyeldin Ahmed**

**(Chairman)**



**Dr. Mohammed Taher Al-Ibrahim**

**Dr. Mustain Ali Abdul Hameed**

**Dr. Abdul Raouf Abdulllah Al-Tobi**



**(Members)**

**In the Name of Allah, the Merciful, the Compassionate**

**Fatwa of Shari'a Supervisory Board on**

**Services Ijara Product**

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 20-Jumada Al-Awwal 1441 that corresponds to January 16, 2020, the Shari'a Supervisory Board (SSB) of Ahli Islamic, Ahli Bank SAOG (the "Ahli Islamic/Bank") issued Shari'a pronouncement of Ahli Islamic Services Ijara Product, which details are as follows:

**Sharia Structure of the Product:**

Ahli Islamic Services Ijara Product is a financing facility that is based on the Shari'a principles of Ijara whereby on request of the customer Ahli Islamic purchases certain services from service provider and leases the services to the customer. Under this product, the Bank offers different kind of services such as education, memberships, travel, medical, construction, and etc.

**Modus Operandi:**

1. The customer approaches the Bank and submits Finance Application alongwith quotation issued by the Service Provider in name of the Bank.
2. The Customer signs an undertaking to lease the services after the Bank purchases them from the Services Provider.
3. After internal approval, the Bank purchases the services from the Services Provider to offer them to the customer.
4. The Bank executes with the customer Services Ijara Agreement and leases the services to the customer against agreed rentals and period.

**Legal Documents:**

1. Finance Application
2. Quotation Addressed to Ahli Islamic
3. Undertaking to Lease Services
4. Offer and Acceptance Notice to Purchase and Sell the Services
5. Services Ijara Agreement

**The SSB Opinion:**

Having reviewed the Services Ijara Product's paper, the above listed legal documents and application of the Services Ijara product, the Shari'a Supervisory Board of the Bank confirms that Services Ijara Product is according to the dictates of Shari'a.

And all praise is due to Allah.

**Sharia Supervisory Board**



**Dr. Ahmed Mohiyeldin Ahmed**

**(Chairman)**



**Dr. Mohammed Taher Al-Ibrahim**



**Dr. Mustafa Ali AbdullHameed**



**Dr. Abdul Raouf Abdullah Al-Tobi**

**(Members)**



## Independent auditor's report to the shareholders of Ahli Bank SAOG

### Report on the carve-out financial statements

We have audited the accompanying carve-out statement of financial position of Ahli Islamic (formerly known as Al Hilal Islamic Banking Services) [the 'Islamic window'] of Ahli Bank SAOG (the 'Bank') as of 31 December 2019, and the related carve-out statement of comprehensive income, carve-out statement of changes in owners' equity, carve-out statement of cash flows and statement of sources and uses of charity fund for the year then ended. These carve-out financial statements and the Islamic window's undertaking to operate in accordance with Islamic Shari'ah Rules and Principles are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these carve-out financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ('AAOIFI'). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Bank's Board of Directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

### Opinion

In our opinion, the carve-out financial statements present fairly, in all material respects, the carve-out financial position of the Islamic window as of 31 December 2019, the carve-out results of its operations, cash flows and changes in owners' equity for the year then ended in accordance with the Shari'ah rules and principles as determined by the Shari'ah Board of the Islamic window of the Bank and the Financial Accounting Standards issued by AAOIFI.

### Other legal and regulatory requirements

As required by clause number 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.

### Emphasis of matter

We draw attention to the fact that, as described in note 2.1, the Islamic window is not a separate legal entity. These carve-out financial statements, therefore, represent Ahli Islamic and not as a stand-alone legal entity. Our opinion is not qualified in respect of this matter.

**Muscat, Sultanate of Oman**  
**9 March 2020**

## STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

2018 US\$ '000	2019 US\$ '000		Note	2019 RO '000	2018 RO '000
<b>ASSETS</b>					
100,062	<b>81,818</b>	Cash and balances with Central Bank of Oman	6	<b>31,500</b>	38,524
4,345	<b>1,213</b>	Due from banks	7	<b>467</b>	1,673
122,010	<b>122,714</b>	Murabaha receivables	8	<b>47,245</b>	46,974
333,205	<b>398,629</b>	Musharaka receivables	9	<b>153,472</b>	128,284
37,249	<b>89,169</b>	Investment securities	10	<b>34,330</b>	14,341
318,530	<b>346,299</b>	Ijarah assets - Ijarah Muntahia Bittamleek	11	<b>133,325</b>	122,634
1,382	<b>1,434</b>	Credit Card Receivables	12	<b>552</b>	532
603	<b>886</b>	Service Ijarah	13	<b>341</b>	232
2,623	<b>3,910</b>	Property and equipment	15	<b>1,505</b>	1,010
3,513	<b>6,796</b>	Other assets	16	<b>2,617</b>	1,353
923,522	<b>1,052,868</b>	<b>TOTAL ASSETS</b>		<b>405,354</b>	355,557
<b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY</b>					
290,688	<b>370,486</b>	Due to banks	17	<b>142,637</b>	111,915
352,416	<b>347,333</b>	Wakala deposits	18	<b>133,723</b>	135,680
25,826	<b>42,075</b>	Customers' current accounts		<b>16,199</b>	10,328
14,089	<b>26,476</b>	Other liabilities	19	<b>10,193</b>	5,425
684,019	<b>786,370</b>	<b>TOTAL LIABILITIES</b>		<b>302,752</b>	263,348
132,223	<b>148,808</b>	Equity of investment account holders	20	<b>57,291</b>	50,906
815,242	<b>935,178</b>	<b>TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS</b>		<b>360,043</b>	314,254
64,935	<b>64,935</b>	Share capital	21	<b>25,000</b>	25,000
(1,200)	<b>(55)</b>	Investment fair value reserve		<b>(21)</b>	(462)
5,075	<b>3,831</b>	Impairment reserve		<b>1,475</b>	1,954
839	<b>839</b>	Special Reserve		<b>323</b>	323
37,631	<b>48,140</b>	Retained earnings		<b>18,534</b>	14,488
107,280	<b>117,690</b>	<b>TOTAL OWNERS' EQUITY</b>		<b>45,311</b>	41,303
923,522	<b>1,052,868</b>	<b>TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY</b>		<b>405,354</b>	355,557
30,909	<b>47,732</b>	Contingent liabilities and commitments	22	<b>18,377</b>	11,900

The financial statements and notes 1 to 34 were approved by the Board of Directors on 23 January 2020 and signed on their behalf by:



**Hamdan Ali Nasser Al Hinai**  
Chairman



**Said Abdullah Al Hatmi**  
Chief Executive Officer

The notes and other explanatory information form an integral part of these financial statements.  
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## STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

2018	2019		Note	2019	2018
US\$ '000	US\$ '000			RO '000	RO '000
41,623	<b>47,888</b>	Income from financing activities	23	<b>18,437</b>	16,025
1,462	<b>1,636</b>	Income from investing activities	24	<b>630</b>	563
231	<b>208</b>	Other operating income	25	<b>80</b>	89
2,896	<b>(2,003)</b>	Net impairment on financial assets		<b>(771)</b>	1,115
46,981	<b>47,729</b>			<b>18,376</b>	17,792
(5,649)	<b>(5,153)</b>	Return to investment account holders		<b>(1,984)</b>	(2,175)
2,242	<b>2,086</b>	Islamic Windows' share as Mudarib		<b>803</b>	863
(3,407)	<b>(3,067)</b>	<b>Return to investment account holders before zakah</b>		<b>(1,181)</b>	(1,312)
		<b>Islamic Window's share in income from financing and investing activities (as Mudarib and Fund owner)</b>		<b>17,195</b>	16,480
1,377	<b>2,257</b>	Other operating income from banking services	26	<b>869</b>	530
(7,130)	<b>(17,997)</b>	Profit paid on due to banks		<b>(6,929)</b>	(2,745)
(13,579)	<b>(10,483)</b>	Profit paid on wakala deposits		<b>(4,036)</b>	(5,228)
23,473	<b>18,439</b>	<b>Net operating income</b>		<b>7,099</b>	9,037
(3,784)	<b>(4,431)</b>	Staff expenses	27	<b>(1,706)</b>	(1,457)
(551)	<b>(844)</b>	Depreciation	15	<b>(325)</b>	(212)
(1,972)	<b>(2,263)</b>	Other operating expenses	28	<b>(871)</b>	(759)
(6,307)	<b>(7,538)</b>	<b>Total expenses</b>		<b>(2,902)</b>	(2,428)
17,166	<b>10,901</b>	<b>Profit before taxation</b>		<b>4,197</b>	6,609
(2,457)	<b>(1,536)</b>	<b>Taxation</b>		<b>(630)</b>	(946)
14,709	<b>9,265</b>	<b>Profit for the year</b>		<b>3,567</b>	5,663
		<b>Other Comprehensive Income / (Expense)</b>			
		<b>Items that will not be reclassified to profit or loss</b>			
(67)	<b>36</b>	Equity investment at FVOCI - net changes in fair value		<b>14</b>	(26)
		<b>Items that will be reclassified to profit or loss</b>			
-	-	Net amount transferred to profit or loss		-	-
(1,044)	<b>1,109</b>	Debt investment at FVOCI - net changes in fair value		<b>427</b>	(402)
(1,111)	<b>1,145</b>	<b>Other Comprehensive income / (expense) for the year</b>		<b>441</b>	(428)
13,598	<b>10,410</b>	<b>Total Comprehensive Income for the year</b>		<b>4,008</b>	5,235

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 2019

	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 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
<b>At 31 December 2019</b>		<b>25,000</b>	<b>(21)</b>	<b>1,475</b>	<b>323</b>	<b>18,534</b>	<b>45,311</b>
<b>At 31 December 2019 (US\$ '000)</b>		<b>64,935</b>	<b>(55)</b>	<b>3,831</b>	<b>839</b>	<b>48,140</b>	<b>117,690</b>

	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
At 1 January 2018	25,000	9	-	-	10,847	35,856
Changes on initial application of IFRS 9	-	(43)	212	-	43	212
At 1 January 2018	25,000	(34)	212	-	10,890	36,068
Profit for the year	-	-	-	-	5,663	5,663
Transfer to impairment reserve	-	-	1,742	-	(1,742)	-
Transfer to special reserve	-	-	-	323	(323)	-
Other comprehensive expense	-	(428)	-	-	-	(428)
<b>At 31 December 2018</b>	<b>25,000</b>	<b>(462)</b>	<b>1,954</b>	<b>323</b>	<b>14,488</b>	<b>41,303</b>
<b>At 31 December 2018 (US\$ '000)</b>	<b>64,935</b>	<b>(1,200)</b>	<b>5,075</b>	<b>839</b>	<b>37,631</b>	<b>107,280</b>

The notes 1 to 34 & 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 2019

2018 US\$ '000	2019 US\$ '000		Note	2019 RO '000	2018 RO '000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
17,166	<b>10,901</b>	Profit for the year		<b>4,197</b>	6,609
-		Adjustments for:			
551	<b>844</b>	Depreciation - property and equipment	15	<b>325</b>	212
17,914	<b>19,044</b>	Depreciation - Ijarah Muntahia Bittamleek	11	<b>7,332</b>	6,897
(2,896)	<b>2,003</b>	Financing impairment, net of recoveries		<b>771</b>	(1,115)
32,735	<b>32,792</b>	<b>Operating profit before change in operating assets and liabilities</b>		<b>12,625</b>	12,603
(125)	<b>540</b>	Increase in Murabaha receivables		<b>208</b>	(48)
(171,945)	<b>(65,886)</b>	Increase in Musharaka receivables		<b>(25,366)</b>	(66,199)
(221)	<b>(283)</b>	Increase in Service ijarah receivables		<b>(109)</b>	(85)
(270)	<b>(52)</b>	Increase in Credit card receivables		<b>(20)</b>	(104)
(782)	<b>(3,283)</b>	Increase in other assets		<b>(1,264)</b>	(301)
-	<b>219,110</b>	Increase in due to banks		<b>84,357</b>	-
(80,343)	<b>(5,083)</b>	Decrease in Wakala deposits		<b>(1,957)</b>	(30,932)
(3,745)	<b>15,249</b>	Increase in customers' current accounts		<b>5,871</b>	(1,442)
2,561	<b>14,842</b>	Increase in other liabilities		<b>5,714</b>	986
16,582	<b>16,584</b>	Increase in equity of investment account holders		<b>6,385</b>	6,384
(205,553)	<b>223,450</b>	<b>Cash from operations</b>		<b>86,028</b>	(79,138)
(2,236)	<b>(2,457)</b>	Tax paid		<b>(946)</b>	(861)
(207,789)	<b>220,993</b>	<b>Net cash used from / (used in) operating activities</b>		<b>85,082</b>	(79,999)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
21,566	<b>(50,148)</b>	Investment in Ijarah assets - Ijarah Muntahia Bittamleek		<b>(19,307)</b>	8,303
(275)	<b>(50,774)</b>	Purchase of investments		<b>(19,548)</b>	(106)
(501)	<b>(2,134)</b>	Purchase of property and equipment		<b>(822)</b>	(193)
20,790	<b>(103,056)</b>	<b>Net cash (used in) / from investing activities</b>		<b>(39,677)</b>	8,004
(187,000)	<b>117,937</b>	<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>45,405</b>	(71,995)
100,719	<b>(86,281)</b>	Cash and cash equivalents at 1 January		<b>(33,218)</b>	38,777
(86,281)	<b>31,656</b>	<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER (Refer below)</b>		<b>12,187</b>	(33,218)
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER (Refer below)</b>					
2018 US\$ '000	2019 US\$ '000			2019 RO '000	2018 RO '000
100,062	<b>81,818</b>	Cash and current balances with Central Bank of Oman		<b>31,500</b>	38,524
4,345	<b>1,213</b>	Due from banks	7	<b>467</b>	1,673
(190,688)	<b>(51,375)</b>	Due to banks		<b>(19,780)</b>	(73,415)
(86,281)	<b>31,656</b>	<b>Cash and cash equivalents</b>		<b>12,187</b>	(33,218)

The notes 1 to 34 & other explanatory information form an integral part of these financial statements.  
Report of the independent Auditors - page 160.

## STATEMENT OF SOURCES AND USES OF CHARITY FUND

FOR THE YEAR ENDED 31 DECEMBER 2019

2018 US\$ '000	2019 US\$ '000		Note	2019 RO '000	2018 RO '000
<b>Sources of charity fund</b>					
3	3	Fund at the beginning of the year		1	1
13	10	Penalties to customer for late payment		4	5
-	3	Contribution from credit card income		1	-
16	16			6	6
<b>Uses of charity fund</b>					
Distributed to charity organizations					
-	3	Dar Al Atta Association		1	-
-	3	Al Noor Association for the Blind		1	-
-	3	Oman Diabetics Association		1	-
-	3	Oman Charitable Organization		1	-
13	-	Social Development Department (Al Seeb)		-	5
13	12	Total uses of charity fund during the year		4	5
3	4	<b>Undistributed charity fund at the end of the year</b>	19	2	1

The notes 1 to 34 & other explanatory information form an integral part of these financial statements.  
Report of the independent Auditors - page 160.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 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 Ahli Bank 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 9 branches as at year end (31 December 2018: eight branches).

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

The Islamic Window employed 77 employees as at 31 December 2019 (31 December 2018: 67 employees)

### 2 BASIS OF PREPARATION

#### 2.1 Statement of compliance

The Islamic window is not a separate legal entity, the separate financial statements of the Islamic Window has 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), 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 accountholders, 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 equity type instruments at Fair value through other comprehensive income 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. 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.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 2 BASIS OF PREPARATION (Continued)

#### 2.5 Standards, amendments and interpretations effective in 2019 and relevant for the Islamic Window operations

For the year ended 31 December 2019, 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 2019.

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. Refer Note 3 for further details in regard to changes to the Islamic Window's accounting policy.

#### 2.6 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 2019:

**2.6.1** Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Islamic Window. These standards are not expected to have material impact on the Islamic Window in current or future reporting periods and on foreseeable future transactions.

#### 2.7 The following new standards have been issued by the AAOIFI but are not yet mandatory for the year ended 31 December 2019:

##### **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 2020 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 and as permitted by IFRS 9, the Islamic Window elected not to restate comparative figures. Adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and non-controlling interests of the current period. Since the Islamic Window already has applied IFRS 9 for impairment and credit losses, management believes that adoption of FAS 30 in 2020 will not have any material financial impacts.

##### **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 2020 with earlier adoption being permitted. Since Islamic Window does not offer Wakala Bi Al-Istithmar to its customers therefore adoption of this standard will not have any impact on 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.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 2 BASIS OF PREPARATION (Continued)

#### 2.7 The following new standards have been issued by the AAOIFI but are not yet mandatory for the year ended 31 December 2019: (Continued)

##### 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 2020 with early adoption permitted. The Islamic Window is currently evaluating the impact of this standard.

##### 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 2020 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.

### 3 CHANGE IN ACCOUNTING POLICIES

#### 3.1 IFRS 16 : Lease

IFRS 16 "Leases" replaced the existing guidance and interpretations including IAS 17 "Leases", IFRIC 4 "Determining whether an arrangement contains a lease", SIC 15 "Operating leases - Incentives" and SIC 27 "Evaluating the substance of transactions involving the legal form of a lease". Under IAS 17, leases were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now required lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. It included an optional exemption for certain short term leases and leases of low value assets. however, this exemption can only be applied by lessees. Lessor accounting remains similar to the current standard IAS 17, i.e. lessors continue to classify leases as finance or operating leases therefore there is no impact of this standard on Ijarah and other Islamic mode of financings.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 3 CHANGE IN ACCOUNTING POLICIES (Continued)

#### 3.1 IFRS 16 : Leases (Continued)

##### 3.1.1 A. Definition of lease

The Islamic Window has applied IFRS 16 with a date of initial application from 1 January 2019 which has resulted in a change in accounting policy, as set out below:

At inception of contract, the Islamic Window assesses whether a contract is, or contains, a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Islamic Window assesses whether:

- The contract involves the right to direct the use of an identified asset;
- The contract has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use.

This policy is applied to contracts entered into or renewed on or after 1 January 2019. At inception or on renewal of a contract that contains a lease component, the Islamic Window allocates the consideration in the contract to each lease component on the basis of their relative stand alone prices.

The Islamic Window recognises a Right of Use (ROU) asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred for obtaining the lease contract.

The ROU asset is subsequently depreciated using the straight line method from the commencement date until the useful life of the asset or end of lease term, whichever occurs earlier. The estimated useful lives of ROU assets are determined on the same basis of property and equipment. In addition, ROU assets are periodically tested for impairment and adjusted for losses, if any.

##### 3.1.1 B. As a lessee

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Islamic Window's incremental borrowing rate. Generally, the Islamic Window uses its incremental borrowing rate of 4.50% as the discount rate for measurement of lease liability. Lease payments included in the measurement of lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depends on an index or a rate, initially measured using the index or rate as at the commencement date.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments or lease assessment whether it will exercise a purchase, extension or termination option.

Interest on lease liability during the lease term is the amount that produces a constant periodic rate of interest on the remaining balance of lease liability. Interest on lease liability is shown separately from the depreciation charge on ROU asset in the statement of comprehensive income.

The Islamic Window has disclosed ROU assets under 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

##### Short term leases and leases of low value assets

The Islamic Window has elected not to recognise ROU assets and lease liabilities for short term leases that have a lease term of 12 months or less and leases of low value assets. The Islamic Window recognises the lease payments associated with these leases as an expense on a straight line basis over the lease term.

##### C. Transition

The Islamic Window applied IFRS 16 using the modified retrospective approach, under which ROU assets are measured at an amount equal to the lease liability. Accordingly, comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

On transition to IFRS 16, the Islamic Window elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Islamic Window applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

Under IFRS 16, the Islamic Window recognises ROU assets and lease liabilities for most leases - i.e., these leases are on balance sheet. The Islamic Window decided to apply recognition exemptions for short term leases/ leases of low value assets.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 3 CHANGE IN ACCOUNTING POLICIES (Continued)

#### 3.1 IFRS 16 : Leases (Continued)

The Islamic Window used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied a single discount rate to all leases.
- Applied the exemption not to recognise ROU assets and liabilities for leases with less than 12 months of lease term.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

#### Impact on financial statements

At transition, lease liabilities were measured at the present value of the remaining lease payments discounted at the Islamic window incremental borrowing rate as at 1 January 2019. ROU assets are measured at an amount equal to lease liability, adjusted by the amount of any prepaid or accrued lease payments using the modified retrospective approach. Accordingly on transition to IFRS 16, the Islamic Window recognised RO 0.343 million of ROU assets (equivalent US\$ 0.891 million) and RO 0.315 million of lease liabilities (equivalent US\$ 0.818 million) as at 1 January 2019 and no adjustment was carried out in the opening retained earnings on that date.

When measuring lease liabilities, the Islamic Window discounted lease payments using its incremental borrowing rate and the measurement of lease liability as at 1 January 2019 is as below:

Particulars	Amount (RO'000)
Operating lease commitment at 31 December 2018 as disclosed in the financial statements	62
Discounted using the incremental borrowing rate at 1 January 2019	57
Extension and termination options reasonably certain to be exercised	258
<b>Lease liabilities recognised at 1 January 2019</b>	<b>315</b>
<b>ROU assets and lease liabilities as at 31 December 2019:</b>	
<b>ROU Assets</b>	
Balance as at 1 January 2019	343
Additions during the year	343
Depreciation charge for the period	318
Balance as at 31 December 2019	(129)
<b>Lease liabilities</b>	<b>532</b>
The table below summarises the maturity profile of the Bank's lease liabilities based on expected undiscounted payment obligations.	
Less than one year	202
One to three years	309
More than three years	3
<b>Total</b>	<b>514</b>
<b>Amounts recognised in the statement of comprehensive income</b>	
Interest on lease liabilities	41
Expenses relating to short term leases	161
Depreciation	335
<b>Total</b>	<b>537</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 3 CHANGE IN ACCOUNTING POLICIES (Continued)

#### 3.2 FAS 28 : Murabaha and Other Deferred Payment Sales

The Islamic Window has adopted FAS 28 which is effective on the financial statements on or after 1 January 2019. This standard prescribes the accounting and reporting principles and requirements for Murabaha and deferred payment sales transactions and different elements of such transaction. This standard supersedes the earlier FAS 2 "Murabaha and Murabaha to the Purchase Orderer" and FAS 20 "Deferred Payment Sale". This standard has been applied on a prospective basis for transaction executed on or after the effective date. The standard did not have any significant impact on the financial statements.

### 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.

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 other comprehensive income, 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.

#### 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 profit or loss
- At Fair value through other comprehensive income

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 4.6 Investments (Continued)

##### 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 profit or loss

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 other comprehensive income

This includes debt type instruments that are not fair valued through profit or loss or not held at amortised cost. Subsequent to acquisition, investments designated at Fair value through other comprehensive income 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 comprehensive income.

On initial recognition, the Islamic Window makes an irrevocable election to designate certain equity instruments to be classified as investments at Fair value through other comprehensive income. 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 comprehensive income.

#### 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

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.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 4.8 Property and equipment (Continued)

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.

##### 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.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 4.13 Revenue recognition (Continued)

##### 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 other comprehensive income 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.

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.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 4.16 Impairment (Continued)

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).

Profit income for financial assets in Stage 3 is calculated by applying the EIR to the amortized cost (i.e., the gross carrying amount less the credit loss allowance).

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.

#### 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.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 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.

#### 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 investments 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.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 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 JUDGEMENT

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 other comprehensive income 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:

- Determining criteria for significant increase in credit risk;
- choosing appropriate models and assumptions for measurement of ECL;
- establishing the number and relative weightings of forward looking scenarios for each type of product/market and the associated ECL; and
- 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.

### 6 CASH AND BALANCES WITH CENTRAL BANK OF OMAN

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
4,655	11,668	Cash	4,492	1,792
95,407	70,150	Clearing account & placement with Central Bank of Oman	27,008	36,732
100,062	81,818		31,500	38,524

### 7 DUE FROM BANKS

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
4,345	1,213	Nostro account balances	467	1,673

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 8 MURABAHA RECEIVABLES

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
38,995	<b>39,558</b>	Vehicles	<b>15,230</b>	15,013
86,945	<b>85,109</b>	Personal financing	<b>32,767</b>	33,474
15,530	<b>16,870</b>	Corporate	<b>6,495</b>	5,979
141,470	<b>141,537</b>	Gross receivables	<b>54,492</b>	54,466
(18,683)	<b>18,210</b>	Deferred profits	<b>7,011</b>	(7,193)
122,787	<b>123,327</b>		<b>47,481</b>	47,273
		Less: Impairment loss allowance		
(304)	<b>(288)</b>	Stage 1 & 2	<b>(111)</b>	(117)
(473)	<b>(325)</b>	Stage 3	<b>(125)</b>	(182)
122,010	<b>122,714</b>		<b>47,245</b>	46,974

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

### 8.1 DEFERRED PROFIT

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
(20,416)	<b>(18,683)</b>	Deferred profit at the beginning of the year	<b>(7,193)</b>	(7,860)
(43,479)	<b>(55,749)</b>	Murabaha sales during the year	<b>(21,463)</b>	(16,740)
38,485	<b>49,262</b>	Murabaha cost of sales	<b>18,966</b>	14,816
(4,994)	<b>(6,487)</b>	Deferred profit on sales	<b>(2,497)</b>	(1,924)
6,815	<b>6,974</b>	Murabaha income recognised during the period	<b>2,685</b>	2,624
(88)	<b>(16)</b>	Deferred profit waived / written off during the year	<b>(6)</b>	(34)
(18,683)	<b>(18,210)</b>	Deferred profit at the end of the year	<b>(7,011)</b>	(7,193)

### 9 MUSHARAKA RECEIVABLES

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
335,743	<b>401,629</b>	Musharaka receivables	<b>154,627</b>	129,261
		Less: Impairment loss allowance		
(2,538)	<b>(3,000)</b>	Stage 1 & 2	<b>(1,155)</b>	(977)
333,205	<b>398,629</b>		<b>153,472</b>	128,284

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

### 10 INVESTMENT SECURITIES

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
		Debt type instrument at fair value through other comprehensive income		
36,566	<b>88,449</b>	Sukuks	<b>34,053</b>	14,078
		Equity type instrument at fair value through other comprehensive income		
683	<b>720</b>	Open end mutual fund & equity	<b>277</b>	263
37,249	<b>89,169</b>		<b>34,330</b>	14,341

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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 11 IJARAH ASSETS - IJARAH MUNTAHIA BITTAMLEEK

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
474,143	<b>470,808</b>	Cost	<b>181,261.0</b>	182,545
(154,431)	<b>(121,536)</b>	Accumulated depreciation	<b>(46,830)</b>	(59,456)
319,712	<b>349,172</b>	Book value	<b>134,431</b>	123,089
		Less: Impairment loss allowance		
(722)	<b>(1,961)</b>	Stage 1 & 2	<b>(755)</b>	(278)
(460)	<b>(912)</b>	Stage 3	<b>(351)</b>	(177)
318,530	<b>346,299</b>	Net book value	<b>133,325</b>	122,634

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

### 12 CREDIT CARD RECEIVABLE

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
1,392	<b>1,437</b>	Islamic Credit Card	<b>553</b>	536
		Less: Impairment loss allowance		
(10)	<b>(3)</b>	Stage 1,2 & 3	<b>(1)</b>	(4)
1,382	<b>1,434</b>	Net book value	<b>552</b>	532

### 13 SERVICE IJARAH

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
603	<b>886</b>	Service Ijarah	<b>341</b>	232
603	<b>886</b>	Net book value	<b>341</b>	232

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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 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

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	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference	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
					between CBO provision required and provision held				
(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	295,384	3,697	391	3,306	291,687	294,994	-	-
	Stage 2	3,571	-	38	(38)	3,571	3,533	-	-
	Stage 3	-	-	-	-	-	-	-	-
<b>Subtotal</b>		<b>298,955</b>	<b>3,697</b>	<b>429</b>	<b>3,268</b>	<b>295,258</b>	<b>298,527</b>	-	-
Special Mention	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	37,458	-	1,593	(1,593)	37,458	35,865	-	-
	Stage 3	-	-	-	-	-	-	-	-
<b>Subtotal</b>		<b>37,458</b>	-	<b>1,593</b>	<b>(1,593)</b>	<b>37,458</b>	<b>35,865</b>	-	-
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	358	90	164	(75)	266	194	-	3
<b>Subtotal</b>		<b>358</b>	<b>90</b>	<b>164</b>	<b>(75)</b>	<b>266</b>	<b>194</b>	-	<b>3</b>
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	253	112	117	(5)	132	136	-	9
<b>Subtotal</b>		<b>253</b>	<b>112</b>	<b>117</b>	<b>(5)</b>	<b>132</b>	<b>136</b>	-	<b>9</b>
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	409	362	235	127	19	174	-	28
<b>Subtotal</b>		<b>409</b>	<b>362</b>	<b>235</b>	<b>127</b>	<b>19</b>	<b>174</b>	-	<b>28</b>
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	-	-	-	-	-	-	-	-
<b>Subtotal</b>		<b>73,808</b>	-	<b>27</b>	<b>(27)</b>	<b>73,808</b>	<b>73,781</b>	-	-
<b>Total</b>	<b>Total</b>	<b>411,241</b>	<b>4,260</b>	<b>2,565</b>	<b>1,695</b>	<b>406,941</b>	<b>408,676</b>	-	<b>40</b>

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 2019

### 14. FINANCING ACTIVITIES (Continued)

#### 14.2 Restructured Loans

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

\*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	-	(771)	771
Provisions required as per CBO norms/ held as per IFRS 9	4,260	2,565	1,695
Gross NPL ratio (percentage)	0.30%	0.30%	-
Net NPL ratio (percentage)	0.12%	0.15%	-0.03%

In accordance with CBO requirements, where the aggregate provision on portfolio & specific basis computed as per CBO norms is higher than the impairment allowance computed under IFRS 9, the difference, net of 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 2019

### 15 PROPERTY AND EQUIPMENT

	Building RO '000	Leasehold improvements RO '000	Computer and other equipment RO '000	Furniture RO '000	ROU Assets RO '000	Capital work in progress RO '000	Total RO '000
<b>Cost:</b>							
At 1 January 2019	477	467	1,424	86	-	36	2,490
Additions	-	123	23	15	661	-	822
Transferred from the Bank	-	-	34	-	-	(34)	-
Disposals / scrapped	-	(26)	(1)	(1)	-	-	(28)
<b>At 31 December 2019</b>	<b>477</b>	<b>564</b>	<b>1,480</b>	<b>100</b>	<b>661</b>	<b>2</b>	<b>3,284</b>
<b>Accumulated depreciation:</b>							
At 1 January 2019	97	421	886	76	-	-	1,480
Depreciation	19	28	136	13	129	-	325
Disposals / scrapped	-	(26)	-	-	-	-	(26)
<b>At 31 December 2019</b>	<b>116</b>	<b>423</b>	<b>1,022</b>	<b>89</b>	<b>129</b>	<b>-</b>	<b>1,779</b>
<b>Net book value as at</b>							
<b>At 31 December 2019</b>	<b>361</b>	<b>141</b>	<b>458</b>	<b>11</b>	<b>532</b>	<b>2</b>	<b>1,505</b>
<b>At 31 December 2019 (US\$ '000)</b>	<b>938</b>	<b>366</b>	<b>1,190</b>	<b>29</b>	<b>1,382</b>	<b>5</b>	<b>3,910</b>

	Building RO '000	Leasehold improvements RO '000	Computer and other equipment RO '000	Furniture RO '000	Capital work in progress RO '000	Total RO '000
<b>Cost:</b>						
At 1 January 2018	477	448	1,284	86	2	2,297
Additions	-	19	140	-	34	193
Transferred from the Bank	-	-	-	-	-	-
Disposals / scrapped	-	-	-	-	-	-
<b>At 31 December 2018</b>	<b>477</b>	<b>467</b>	<b>1,424</b>	<b>86</b>	<b>36</b>	<b>2,490</b>
<b>Accumulated depreciation:</b>						
At 1 January 2018	78	373	752	65	-	1,268
Depreciation	19	48	134	11	-	212
Disposals / scrapped	-	-	-	-	-	-
<b>At 31 December 2018</b>	<b>97</b>	<b>421</b>	<b>886</b>	<b>76</b>	<b>-</b>	<b>1,480</b>
<b>Net book value as at</b>						
<b>At 31 December 2018</b>	<b>380</b>	<b>46</b>	<b>538</b>	<b>10</b>	<b>36</b>	<b>1,010</b>
<b>At 31 December 2018 (US\$ '000)</b>	<b>987</b>	<b>119</b>	<b>1,397</b>	<b>26</b>	<b>94</b>	<b>2,623</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 16 OTHER ASSETS

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
2,805	5,881	Profit receivable on financing	2,264	1,080
283	395	Profit receivable on sukuks	152	109
327	421	Prepayments	162	126
98	99	Others	39	38
<b>3,513</b>	<b>6,796</b>		<b>2,617</b>	<b>1,353</b>

### 17 DUE TO BANKS

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
290,460	370,291	Wakala acceptances	142,562	111,827
228	195	Vostro account balances	75	88
<b>290,688</b>	<b>370,486</b>		<b>142,637</b>	<b>111,915</b>

### 18 WAKALA DEPOSITS

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
170,366	176,317	Financial institutions	67,882	65,591
182,050	171,016	Others	65,841	70,089
<b>352,416</b>	<b>347,333</b>		<b>133,723</b>	<b>135,680</b>

### 19 OTHER LIABILITIES

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
6,912	18,966	Profit payable	7,302	2,661
4,003	5,340	Accrued expenses and payable	2,056	1,541
3	3	Charity payable	1	1
-	1,266	Lease liability	487	-
3,223	839	Others	323	1,241
(49)	62	Impairment loss allowance	24	(19)
<b>14,089</b>	<b>26,476</b>		<b>10,193</b>	<b>5,425</b>

### 20 EQUITY OF INVESTMENT ACCOUNT HOLDERS

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
132,223	148,808	Saving and Call accounts	57,291	50,906
<b>132,223</b>	<b>148,808</b>		<b>57,291</b>	<b>50,906</b>

The average profit rate for the investment account holders during the year was 2.44 % (2018 : 2.60%). Profit sharing ratio of mudarib as at 31 December 2019 was 40% (2018: 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.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 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

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
1,782	<b>27,057</b>	Guarantees	<b>10,417</b>	686
29,127	<b>20,675</b>	Financing Commitment	<b>7,960</b>	11,214
<b>30,909</b>	<b>47,732</b>		<b>18,377</b>	11,900

### 23 INCOME FROM FINANCING ACTIVITIES

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
15,242	<b>21,932</b>	Musharaka	<b>8,444</b>	5,868
19,566	<b>18,982</b>	Rental income on ijarah assets	<b>7,308</b>	7,533
6,815	<b>6,974</b>	Murabaha	<b>2,685</b>	2,624
<b>41,623</b>	<b>47,888</b>		<b>18,437</b>	16,025

### 24 INCOME FROM INVESTING ACTIVITIES

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
1,418	<b>1,587</b>	Income from investments	<b>611</b>	546
44	<b>49</b>	Income from wakala placements	<b>19</b>	17
<b>1,462</b>	<b>1,636</b>		<b>630</b>	563

### 25 OTHER OPERATING INCOME

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
231	<b>208</b>	Fee and commission, net	<b>80</b>	89
<b>231</b>	<b>208</b>		<b>80</b>	89

### 26 OTHER OPERATING INCOME FROM BANKING SERVICES

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
1,164	<b>2,106</b>	Fee & commission, net	<b>811</b>	448
117	<b>29</b>	Foreign exchange gain, net	<b>11</b>	45
96	<b>121</b>	Service charge & other	<b>47</b>	37
<b>1,377</b>	<b>2,257</b>		<b>869</b>	530

### 27 STAFF EXPENSES

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
1,875	<b>2,273</b>	Salaries and wages	<b>875</b>	722
1,909	<b>2,158</b>	Allowances	<b>831</b>	735
<b>3,784</b>	<b>4,431</b>		<b>1,706</b>	1,457

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 28 OTHER OPERATING EXPENSES

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
1,192	1,558	Operating and administration costs	600	459
587	255	Occupancy costs	98	226
99	356	Advertisement costs	137	38
94	94	Shariah Supervisory Board related expenses	36	36
1,972	2,263		871	759

### 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:

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
		Directors, Shariah Supervisory Board and senior management		
36	7	Financing assets	3	14
278	619	Customers' deposits	238	107
41	-	Prepaid rent	-	16
		Major shareholders and others		
694	61	Nostro account balances	23	267
351	386	Investment securities	149	135
100,000	100,000	Due to banks - Wakala acceptances	3,850	38,500

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

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
		Directors, Shariah Supervisory Board and senior management		
3	533	Profit earned	205	1
94	94	Shariah Supervisory Board related expenses	36	36
129	82	Other operating expenses	32	50
		Major shareholders and others		
8,761	17,364	Profit paid on due to banks	6,685	3,373
8	-	Profit received on due from banks	-	3

The Islamic Window has rented a branch premises from one of the Directors. In accordance with the agreement, an amount of RO 0.032 million equivalent to US\$ 0.083 million was included in the other operating expenses (31 December 2018: RO 0.047 million equivalent to US\$ 0.123 million).

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 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 other comprehensive income as at 31 December 2019 is RO 34.330 million equivalent to US\$ 89.17 million (31 December 2018: RO 14.341 million equivalent to US\$ 37.25 million) with cost amounts to RO 34.354 million equivalent to US\$ 89.231 million (31 December 2018: RO 14.806 million equivalent to US\$ 38.457 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:

	2019	2019	2019	2018	2018	2018
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
	Level 1	Level 2	Total	Level 1	Level 2	Total
<b>Financial assets</b>						
Investment - debt type instrument at fair value through profit or loss	-	-	-	-	-	-
Investment - debt type instruments at fair value through other comprehensive income	3,314	30,739	34,053	2,954	11,121	14,075
Investment - equity type instrument at fair value through other comprehensive income	-	277	277	-	266	266
	<b>3,314</b>	<b>31,016</b>	<b>34,330</b>	<b>2,954</b>	<b>11,387</b>	<b>14,341</b>
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>Financial assets</b>						
Investment - debt type instrument at fair value through profit or loss	-	-	-	-	-	-
Investment - debt type instruments at fair value through other comprehensive income	8,608	79,841	88,449	7,673	28,886	36,558
Investment - equity type instrument at fair value through other comprehensive income	-	720	720	-	691	691
	<b>8,608</b>	<b>80,561</b>	<b>89,169</b>	<b>7,673</b>	<b>29,577</b>	<b>37,249</b>

No financial instruments are carried at level 2 and level 3 fair values as on 31 December 2019 (31 December 2018: Nil)

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 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
- Market risk
- Operational risk

#### 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 JARAH - 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).

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 32 RISK MANAGEMENT (continued)

#### 32.1 CREDIT RISK (continued)

##### 32.1.2 Credit risk measurement (continued)

###### (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.

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:

	2019				2018
	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	27,008	-	-	27,008	36,732
Due from banks	467	-	-	467	1,673
Financing to customers - Gross	295,384	41,029	1,020	337,433	300,391
Investment securities	34,053	-	-	34,053	14,078
Financing Commitments and financial guarantees	18,317	60	-	18,377	11,900
<b>Gross carrying amount</b>	<b>375,229</b>	<b>41,089</b>	<b>1,020</b>	<b>417,338</b>	<b>364,774</b>
<b>Impairment loss allowance</b>	<b>418</b>	<b>1,631</b>	<b>516</b>	<b>2,564</b>	<b>1,779</b>
<b>Carrying amount</b>	<b>374,812</b>	<b>39,458</b>	<b>504</b>	<b>414,774</b>	<b>362,995</b>

	2019				2018
	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	70,151	-	-	70,151	95,408
Due from banks	1,213	-	-	1,213	4,345
Financing to customers - gross	767,232	106,570	2,548	876,450	780,236
Investment securities	88,449	-	-	88,449	36,566
Financing Commitments and financial guarantees	47,577	155	-	47,732	30,909
<b>Gross carrying amount</b>	<b>974,622</b>	<b>106,725</b>	<b>2,548</b>	<b>1,083,995</b>	<b>947,464</b>
<b>Impairment loss allowance</b>	<b>1,085</b>	<b>4,237</b>	<b>1,339</b>	<b>6,661</b>	<b>4,621</b>
<b>Carrying amount</b>	<b>973,537</b>	<b>102,488</b>	<b>1,309</b>	<b>1,077,334</b>	<b>942,843</b>

#### IMPAIRED FINANCING

The collateral held against impaired financing is RO 0.188 million equivalent to US\$ 0.488 million (31 December 2018 RO 0.241 million equivalent to US\$ 0.626 million).

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 32 RISK MANAGEMENT (continued)

#### 32.1 CREDIT RISK (continued)

##### 32.1.4 Expected credit loss measurement

###### 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 2019

### 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
<b>Opening balance as at 1 January 2019</b>				
Financings	372	1,004	381	1,757
Investment Securities	3	-	-	3
Financing commitments and financial guarantees	18	-	-	18
<b>Net transfer between stages</b>				
Financings	109	(54)	(55)	-
Investment Securities	-	-	-	-
Financing commitments and financial guarantees	-	-	-	-
<b>Charge for the Year (net)</b>				
Financings	(90)	681	190	781
Investment Securities	-	-	-	-
Financing commitments and financial guarantees	6	-	-	6
<b>Closing balance as at 31 December 2019</b>				
Financings	391	1,631	516	2,538
Investment Securities	3	-	-	3
Financing commitments and financial guarantees	24	-	-	24

Note: Charge for the year includes suspended profit of RO 15 K

##### 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.

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:  $\geq$  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.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 32 RISK MANAGEMENT (continued)

#### 32.1 CREDIT RISK (continued)

##### 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.

#### 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.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 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
<b>31 December 2019</b>	<b>RO '000</b>	<b>RO '000</b>	<b>RO '000</b>	<b>RO '000</b>	<b>RO '000</b>
<b>Assets</b>					
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
<b>Total assets</b>	<b>58,979</b>	<b>29,869</b>	<b>64,749</b>	<b>251,757</b>	<b>405,354</b>
<b>Liabilities, equity of investment account holders and owners' equity</b>					
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
<b>Total liabilities, equity of investment account holders and owners' equity</b>	<b>105,584</b>	<b>78,213</b>	<b>140,472</b>	<b>81,085</b>	<b>405,354</b>
<b>Net liquidity gap</b>	<b>(46,605)</b>	<b>(48,344)</b>	<b>(75,723)</b>	<b>170,672</b>	<b>-</b>
	Upto three months	Above three months to twelve months	Above one year to five years	More than five years	Total
<b>31 December 2019</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>
<b>Assets</b>					
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
<b>Total assets</b>	<b>153,192</b>	<b>77,580</b>	<b>168,179</b>	<b>653,917</b>	<b>1,052,868</b>
<b>Liabilities, equity of investment account holders and owners' equity</b>					
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
<b>Total liabilities, equity of investment account holders and owners' equity</b>	<b>274,244</b>	<b>203,151</b>	<b>364,863</b>	<b>210,610</b>	<b>1,052,868</b>
<b>Net liquidity gap</b>	<b>(121,052)</b>	<b>(125,571)</b>	<b>(196,684)</b>	<b>443,307</b>	<b>-</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 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
31 December 2018	RO '000	RO '000	RO '000	RO '000	RO '000
<i>Assets</i>					
Cash and balances with Central Bank of Oman	38,524	-	-	-	38,524
Due from banks	1,673	-	-	-	1,673
Financing assets	8,896	12,400	50,943	226,417	298,656
Investment securities	7,578	3,707	764	2,192	14,341
Property and equipment	-	-	-	1,010	1,010
Other assets	240	1,113	-	-	1,353
<b>Total assets</b>	<b>57,011</b>	<b>17,220</b>	<b>51,707</b>	<b>229,619</b>	<b>355,557</b>
<i>Liabilities, equity of investment account holders and owners' equity</i>					
Due to banks	40,658	19,250	52,007	-	111,915
Customers' deposits	49,843	55,498	50,914	40,659	196,914
Other liabilities	1,977	1,958	980	510	5,425
Shareholder's fund	-	-	-	41,303	41,303
<b>Total liabilities, equity of investment account holders and owners' equity</b>	<b>92,478</b>	<b>76,706</b>	<b>103,901</b>	<b>82,472</b>	<b>355,557</b>
<b>Net liquidity gap</b>	<b>(35,467)</b>	<b>(59,486)</b>	<b>(52,194)</b>	<b>147,147</b>	<b>-</b>
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<i>Assets</i>					
Cash and balances with Central Bank of Oman	100,062	-	-	-	100,062
Due from banks	4,345	-	-	-	4,345
Financing assets	23,106	32,208	132,319	588,097	775,730
Investment securities	19,943	9,629	1,984	5,693	37,249
Property and equipment	-	-	-	2,623	2,623
Other assets	623	2,890	-	-	3,513
<b>Total assets</b>	<b>148,079</b>	<b>44,727</b>	<b>134,303</b>	<b>596,413</b>	<b>923,522</b>
<i>Liabilities, equity of investment account holders and owners' equity</i>					
Due to banks	105,605	50,000	135,083	-	290,688
Customers' deposits	129,462	144,151	132,244	105,608	511,465
Other liabilities	5,135	5,086	2,545	1,323	14,089
Shareholder's fund	-	-	-	107,280	107,280
<b>Total liabilities, equity of investment account holders and owners' equity</b>	<b>240,202</b>	<b>199,237</b>	<b>269,872</b>	<b>214,211</b>	<b>923,522</b>
<b>Net liquidity gap</b>	<b>(92,123)</b>	<b>(154,510)</b>	<b>(135,569)</b>	<b>382,202</b>	<b>-</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 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;

	2019	2019	2018	2018
	RO '000	US\$ '000	RO '000	US\$ '000
<b>Net profit earned</b>	<b>6,921</b>	<b>17,977</b>	7,303	18,969
<b>Impact of +200 bps profit rate increase</b>	<b>485</b>	<b>1,260</b>	351	912
<b>Impact of -200 bps profit rate decrease</b>	<b>(485)</b>	<b>(1,260)</b>	(351)	(912)

##### 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:

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
1,132	<b>5,891</b>	US Dollar	<b>2,268</b>	436
283	<b>16</b>	Euro	<b>6</b>	109
127	<b>125</b>	UAE Dirham	<b>48</b>	49
221	<b>275</b>	GBP Sterling	<b>106</b>	85
719	-	Others	-	277

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.

Changes in the non-parity foreign currency prices as at 31 December 2019 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.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 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.

	Murabaha, gross	Musharaka, gross	Ijarah Muntahia Bittamleek	Other financings, gross	Due from banks	Investment securities
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
<b>Concentration by industry</b>						
<b>Sovereign</b>	RO '000	-	-	-	-	33,214
<b>Corporate</b>	-	137,435	56,810	-	-	1,116
<b>Personal</b>	6,080	17,192	77,621	894	-	-
<b>Banks</b>	41,401	-	-	-	467	-
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>Sovereign</b>	-	-	-	-	-	86,270
<b>Corporate</b>	15,792	356,974	147,558	-	-	2,899
<b>Personal</b>	107,535	44,655	201,614	2,322	-	-
<b>Banks</b>	-	-	-	-	1,213	-
<i>Concentration by industry</i>	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
	-	-	-	-	-	13,364
Corporate	5,757	124,179	44,944	-	-	977
Personal	41,516	5,082	78,145	768	-	-
Banks	-	-	-	-	1,673	-
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
	-	-	-	-	-	34,711
Corporate	14,953	322,543	116,738	-	-	2,538
Personal	107,834	13,200	202,974	1,995	-	-
Banks	-	-	-	-	4,345	-

## NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

### 32 RISK MANAGEMENT (continued)

#### 32.5 CONCENTRATION RISK (continued)

	2019					
	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	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

	2018					
	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	47,273	129,261	122,526	768	-	13,580
Other GCC countries	-	-	563	-	369	-
Unites States of America	-	-	-	-	-	-
OECD countries	-	-	-	-	-	-
Others	-	-	-	-	1,304	761
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Oman	122,787	335,743	318,250	1,995	-	35,272
Other GCC countries	-	-	1,462	-	958	-
Unites States of America	-	-	-	-	-	-
OECD countries	-	-	-	-	-	-
Others	-	-	-	-	3,387	1,977

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 2019

### 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, 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.

2018	2019		2019	2018
US\$ '000	US\$ '000		RO '000	RO '000
100,319	<b>110,408</b>	Common Equity Tier 1 (CET1)	<b>42,892</b>	38,623
-	-	Additional Tier 1	-	-
100,319	<b>110,408</b>	Tier 1	<b>42,892</b>	38,623
3,106	<b>3,940</b>	Tier 2	<b>1,517</b>	1,196
103,425	<b>115,348</b>	Total regulatory capital	<b>44,409</b>	39,819
		Risk weighted assets		
684,875	<b>788,044</b>	Credit risk	<b>303,397</b>	263,677
5,951	<b>12,291</b>	Market risk	<b>4,732</b>	2,291
38,104	<b>38,486</b>	Operational risk	<b>14,817</b>	14,670
728,930	<b>838,821</b>	Total risk weighted assets	<b>322,946</b>	280,638
		Capital adequacy ratio		
13.76%	<b>13.28%</b>	CET1 capital expressed as a percentage of total risk weighted assets	<b>13.28%</b>	13.76%
13.76%	<b>13.28%</b>	Total tier I capital expressed as a percentage of total risk weighted assets	<b>13.28%</b>	13.76%
0.43%	<b>0.47%</b>	Tier II capital expressed as a percentage of total risk weighted assets	<b>0.47%</b>	0.43%
14.19%	<b>13.75%</b>	Total regulatory capital expressed as a percentage of total risk weighted assets	<b>13.75%</b>	14.19%

### 34 SOCIAL RESPONSIBILITY

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





# Ahli Islamic

## **BASEL II PILLAR III AND BASEL III Report**

For the year ended 31 December 2019





## Report of factual findings to the Board of Directors of Ahli Bank SAOG (the “Bank”) in respect of Basel II - Pillar III Disclosures and Basel III disclosures of Ahli Islamic

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 (formerly known as Al Hilal Islamic Banking Services) [the Islamic window] of the Bank set out on pages 201 to 241 as at and for the year ended 31 December 2019. The disclosures were prepared by the directors in accordance with the related requirements of IBRF issued by CBO and Circular No. BM 1114 dated 17 November 2013. 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 IBRF, were performed solely to assist you in evaluating the Islamic window of the Bank’s compliance with the disclosure requirements set out in IBRF issued by CBO and Circular No. BM 1114 dated 17 November 2013.

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 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 second 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 CBO. This report relates only to the accompanying Islamic window’s disclosures and does not extend to any financial statements of the Islamic window or the Bank taken as a whole or to any other reports of the Islamic 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 Islamic 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 Islamic window or the Bank.

**Muscat, Sultanate of Oman**  
**9 March 2020**

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## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

### 1. INTRODUCTION

Al Hilal Islamic Banking Services (the Islamic window) was licensed by Central Bank of Oman (CBO) to operate as an Islamic Banking Window of Ahli Bank 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 was operating through a network of nine branches as at year end (31 December 2018: eight 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 2019.

### 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).

#### Quantitative Disclosure

The Islamic window's capital structure as at 31 December 2019, based on the CBO guidelines is as follows:

Elements of Capital - RO '000	2019	2018
<b>Tier I Capital</b>		
Share capital	25,000	25,000
Retained earnings	18,534	14,488
<b>Common Equity Tier I before deductions</b>	<b>43,534</b>	<b>39,488</b>
<b>Deductions:</b>		
Cumulative unrealized losses and intangibles recognized directly in equity	(642)	(865)
<b>Common Equity Tier 1</b>	<b>42,892</b>	<b>38,623</b>
<b>Additional Tier I Capital</b>	-	-
<b>Tier I capital after all deductions</b>	<b>42,892</b>	<b>38,623</b>
<b>Tier II Capital</b>		
Revaluation reserves / cumulative fair value gains on FVOCI Instruments	122	-
Stage 1 & Stage 2 expected credit losses	1,395	1,196
<b>Total Tier II Capital</b>	<b>1,517</b>	<b>1,196</b>
<b>Total Regulatory Capital</b>	<b>44,409</b>	<b>39,819</b>

## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

### 3. CAPITAL STRUCTURE (continued)

#### 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 ratios is 13.75% and Tier 1 capital adequacy ratios is 13.39% as against the CBO requirement of 11% and 9%, respectively, as at 31st December 2019.

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 2019-2022 and has determined that it is adequate capitalized to undertake its planned business activities.

##### Capital adequacy disclosures - RO '000

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
	<b>Total</b>	<b>416,748</b>	<b>415,654</b>	<b>322,946</b>
6	Tier 1 capital			42,892
7	Tier 2 capital			1,517
8	<b>Total Regulatory Capital</b>			<b>44,409</b>
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	<b>Total required capital</b>			<b>35,524</b>
10	CET 1 ratio			<b>13.28%</b>
11	Tier 1 ratio			<b>13.28%</b>
12	Total capital ratio			<b>13.75%</b>

## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

### 3. CAPITAL STRUCTURE (continued)

#### Capital adequacy disclosures - RO '000 (continued)

S.No	Details - As on 31 December 2019	Gross balances (book value)	Net balances (book value)	Risk weighted assets
1	On-balances sheet items	359,610	358,326	262,370
2	Off-balance sheet items	344	344	344
3	Derivatives	1,925	1,925	963
4	Market risk	-	-	2,291
5	Operational Risk	-	-	14,670
	<b>Total</b>	-	-	<b>280,638</b>
6	Tier 1 capital			38,623
7	Tier 2 capital			1,196
8	<b>Total Regulatory Capital</b>			<b>39,819</b>
8.1	Capital requirement for credit risk			29,005
8.2	Capital requirement for market risk			252
8.3	Capital requirement for operational risk			1,614
9	<b>Total required capital</b>			<b>30,871</b>
10	CET 1 ratio			<b>13.76%</b>
11	Tier 1 ratio			<b>13.76%</b>
12	Total capital ratio			<b>14.19%</b>

#### I) Computation of Capital adequacy ratio - RO '000

S.No	Simple Approach	2019	2018
1	Tier I capital (after supervisory deductions)	42,298	38,623
2	Tier II capital (after supervisory deductions and up to eligible limits)	1,517	1,196
3	Risk weighted assets - banking book	303,397	263,377
4	Risk weighted assets - operational risk	14,817	14,670
5	Total Risk Weighted Assets - Banking Book + Operational Risk	<b>318,214</b>	<b>278,347</b>
6	Minimum required capital to support RWAs of banking book and operational risk	<b>35,004</b>	<b>30,618</b>
6.1	i) Minimum required Tier I capital for banking book and operational risk	28,639	25,051
6.2	ii) Tier II capital required for banking book and operational risk	6,364	5,567
7	Tier I capital available for supporting trading book	9,406	11,072
8	Tier II capital available for supporting trading book	-	-
9	Risk Weighted Assets - trading book	4,732	2,291
10	Total capital required to support trading book	520	252
11	Minimum Tier I capital required for supporting trading book	148	72
12	Total Regulatory Capital	<b>44,409</b>	<b>39,819</b>
13	Total Risk Weighted Assets - Whole bank	<b>322,946</b>	<b>280,638</b>
14	BIS Capital Adequacy Ratio	<b>13.75%</b>	<b>14.19%</b>

## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

### 3. CAPITAL STRUCTURE (continued)

#### II) Capital adequacy ratio (RO '000)

	2019	2018
Total risk weighted assets	322,946	280,638
Total eligible capital	44,409	39,819
<b>Capital adequacy ratio</b>	<b>13.75%</b>	<b>14.19%</b>

#### III) Ratio of total capital to total assets (RO '000)

	2019	2018
Total capital	44,409	39,819
Total assets	405,354	355,557
<b>Total capital to total assets</b>	<b>10.96%</b>	<b>11.19%</b>

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

	2019	2018
Balances with Central bank of Oman	-	-
Sovereign	90	84
Due from Banks	173	143
Murabaha receivables	15,897	13,575
Musharaka receivables	10,555	9,180
Ijarah assets - Ijarah Muntahia Bittamleek	5,169	5,176
Service Ijarah	61	59
Credit card receivables	38	26
Other Assets & off balance sheet items	1,391	762
<b>Total</b>	<b>33,374</b>	<b>29,005</b>

## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

### 4. RISK MANAGEMENT OF THE BANK

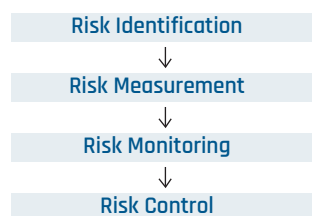
#### Risk Management Principles

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 and Compliance Committee
- ▶ Executive & Credit Committee
- ▶ Executive Risk Committee
- ▶ Nomination and Remuneration Committee

#### Management Committees:

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

## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

### 4. RISK MANAGEMENT OF THE BANK (continued)

The Bank's risk management is based on a 'Three Lines of Defense' model and is also supported by the fourth line of defense, to shield the Bank against risks that might threaten the achievement of its goals. This structure allows for a coordination of control responsibilities in an effective and efficient manner. To reach this objective, roles and responsibilities are clearly communicated to all the functions so that everyone understand his/ her role and how it relates to the activities of other functions. Roles and responsibilities are communicated to the employees through policies and procedures and also through job descriptions. The following line of defenses are explained below:

#### First line of Defense

The business operations side which is the first line of defense is fully responsible for all the risks in its area of activity and has to ensure that effective controls are in place. In so doing, it ensures that the right controls are performed in the right way, that self-assessment of the business side is of a sufficiently high standard, that there is adequate awareness of risk and that sufficient priority/capacity is allocated to risk themes. The departments included in this line of defense are:

- Corporate Banking
- SME & Retail Banking
- Islamic Banking
- Treasury
- Information Technology
- Operations

#### Second Line of Defense

The Risk, Compliance, Finance and Legal Departments falls under the second line of defense. Independent of the business side, the second-line risk and control functions formulate their own opinion regarding the risks confronting the Bank. In this way, they provide an adequate degree of certainty that the first-line control function is keeping these risks under control, without taking over primary responsibility from the first line. In this regard, the second-line functions are tasked to identify, measure and report risks. The risk function has a veto right to ensure that it is respected.

The second-line risk and control functions also support the consistent implementation of the risk policy, the risk framework, etc., throughout the Bank, and supervise how they are applied. Compliance is an independent function that aims to prevent the Bank from being exposed to compliance risk or suffering harm through non-compliance with the prevailing laws, regulations or internal rules. It pays particular attention in this regard to compliance with the Integrity Policy.

#### Third Line of Defense

As the independent third-line of control, Internal Audit Department is responsible for the quality control of the existing business processes. It performs risk-based and general audits to ensure that the internal control and risk management system, including Risk Policy, are effective and efficient, and to ensure that policy measures and processes are in place and consistently applied within the Bank to guarantee the continuity of operations.

#### Fourth Line of Defense

Finally, there are additional external levels of controls that compliment three existing internal layers of control such as assurances from external independent bodies. External auditors are the common bodies under this line of defense. External auditors may not have the existing familiarity of the Bank that an internal audit department has, they can bring a new and valuable perspective. Accordingly they are important in the Bank's overall governance and control structure even though they are outsiders of the Bank.

## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

### 4. RISK MANAGEMENT OF THE BANK (continued)

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

### 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.

## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

### 5. CREDIT RISK (continued)

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.

#### 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.

## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

### 5. CREDIT RISK (continued)

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-19	31-Dec-18	% of total financing	31-Dec-19	31-Dec-18	% of total financing
Balances with Central bank of Oman	31,870	36,198	8%	27,008	36,732	6%
Sovereign	21,747	7,622	6%	31,557	11,936	8%
Due from Banks	3,120	1,965	1%	2,641	3,598	1%
Murabaha receivables	47,377	47,665	12%	47,481	47,273	11%
Musharaka receivables	141,944	97,577	36%	154,627	129,261	37%
Ijarah assets - Ijarah Muntahia Bittamleek	128,760	133,984	33%	134,431	123,089	32%
Service Ijarah	287	228	0%	341	232	0%
Credit card receivables	545	517	0%	553	536	0%
Other Assets & off balance sheet items	13,665	4,039	4%	18,109	9,222	4%
<b>Total</b>	<b>389,315</b>	<b>329,895</b>	<b>100%</b>	<b>416,748</b>	<b>361,879</b>	<b>100%</b>

## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

### 5. CREDIT RISK (continued)

#### Quantitative Disclosure (continued)

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

Type of credit exposure	Gross Balance	Net Balance	As of 31 December 2019;
			Risk Weighted Assets
Balances with Central bank of Oman	27,008	27,008	-
Sovereign	31,557	31,557	818
Due from Banks	2,641	2,641	1,703
Murabaha receivables	47,481	47,481	46,992
Musharaka receivables	154,627	154,627	144,517
Ijarah assets - Ijarah Muntahia Bittamleek	134,431	134,431	95,953
Service Ijarah	341	341	341
Credit card receivables	553	553	553
Other Assets & off balance sheet items	18,109	17,015	12,520
<b>Total</b>	<b>416,748</b>	<b>415,654</b>	<b>303,397</b>

Type of credit exposure	Gross Balance	Net Balance	As of 31 December 2018;
			Risk Weighted Assets
Balances with Central bank of Oman	36,732	36,732	0
Sovereign	11,936	11,936	764
Due from Banks	3,598	3,598	1,297
Murabaha receivables	47,273	46,974	47,052
Musharaka receivables	129,261	128,735	123,408
Ijarah assets - Ijarah Muntahia Bittamleek	123,089	122,634	83,455
Service Ijarah	232	232	232
Credit card receivables	536	532	536
Other Assets & off balance sheet items	9,222	9,222	6,933
<b>Total</b>	<b>361,879</b>	<b>360,595</b>	<b>263,677</b>

## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

### 5. CREDIT RISK (continued)

#### III) Credit exposure by business unit: (RO '000)

Credit exposure	Business Unit	As of 31 December 2019;		
		Gross Balance	Net Balance	Risk Weighted Assets
Balances with Central bank of Oman		27,008	27,008	-
Sovereign		31,557	31,557	818
Due from Banks		2,641	2,641	1,703
Murabaha receivables	SME	2,001	2,001	1,511
	Corporate	4,078	4,078	4,079
	Retail	41,402	41,402	41,402
Musharaka receivables	SME	2,150	2,150	1,613
	Corporate	135,285	135,285	135,285
	Retail	17,192	17,192	7,620
Ijarah assets - Ijarah Muntahia Bittamleek	SME	2,319	2,319	1,776
	Corporate	54,491	54,491	54,491
Service Ijarah	Corporate	77,621	77,621	39,685
	Retail	341	341	341
Credit Card Receivable	Retail	553	553	553
Other Assets & off balance sheet items		18,109	17,015	12,520
<b>Total</b>		<b>416,748</b>	<b>415,654</b>	<b>303,397</b>

Credit exposure	Business Unit	As of 31 December 2018;		
		Gross Balance	Net Balance	Risk Weighted Assets
Balances with Central bank of Oman		36,732	36,732	-
Sovereign		11,936	11,936	764
Due from Banks		3,598	3,598	1,297
Murabaha receivables	SME	882	855	662
	Corporate	4,875	4,844	4,875
	Retail	41,516	41,275	41,515
Musharaka receivables	SME	5,069	4,826	3,802
	Corporate	119,110	118,833	117,828
	Retail	5,082	5,076	1,778
Ijarah assets - Ijarah Muntahia Bittamleek	SME	3,547	3,510	2,665
	Corporate	41,397	41,269	41,397
Service Ijarah	Corporate	78,145	77,855	39,393
	Retail	232	232	232
Credit Card Receivable	Retail	536	532	536
Other Assets & off balance sheet items		9,222	9,222	6,933
<b>Total</b>		<b>361,879</b>	<b>360,595</b>	<b>263,677</b>

## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

### 5. CREDIT RISK (continued)

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

As of 31 December 2019;

Type of Credit Exposure	Oman	Other GCC Countries	OECD countries	India	Pakistan	Others	Total
Balances with Central bank of Oman	27,008	-	-	-	-	-	27,008
Sovereign	30,739	-	-	-	-	818	31,557
Due from Banks	2,256	-	-	-	-	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	-	-	-	-	-	341
Credit card receivables	553	-	-	-	-	-	553
Other Assets & off balance sheet items	18,109	-	-	-	-	-	18,109
<b>Total</b>	<b>415,545</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,203</b>	<b>416,748</b>

As of 31 December 2018;

Type of Credit Exposure	Oman	Other GCC Countries	OECD countries	India	Pakistan	Others	Total
Balances with Central bank of Oman	36,732	-	-	-	-	-	36,732
Sovereign	11,172	-	-	-	-	764	11,936
Due from Banks	1,925	369	-	-	-	1,304	3,598
Murabaha receivables	47,273	-	-	-	-	-	47,273
Musharaka receivables	129,261	-	-	-	-	-	129,261
Ijarah assets - Ijarah Muntahia Bittamleek	122,526	563	-	-	-	-	123,089
Service ijarah	232	-	-	-	-	-	232
Credit card receivables	536	-	-	-	-	-	536
Other Assets & off balance sheet items	9,222	-	-	-	-	-	9,222
<b>Total</b>	<b>358,879</b>	<b>932</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,068</b>	<b>361,879</b>

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

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
Wholesale & Retail Trade	994	13,071	6,995	-	-	21,059	3,651
Mining & Quarrying	334	23	7	-	-	364	-
Construction	184	63,635	43,694	-	-	107,514	3,642
Manufacturing	71	10,773	1,493	-	-	12,337	1,007
Transport & Communication	109	67	93	-	-	269	3
Electricity, Gas & Water	-	-	-	-	-	-	-
Financial Institutions	-	-	-	-	-	-	-
Services	502	46,037	4,423	-	-	50,962	10,074
Personal Financings	41,402	17,193	77,621	341	553	137,110	-
Non- Resident Lending	-	-	-	-	-	-	-
Agriculture & Allied Activities	-	19	-	-	-	19	-
All Others	3,885	3,809	105	-	-	7,799	-
<b>Total</b>	<b>47,481</b>	<b>154,627</b>	<b>134,431</b>	<b>341</b>	<b>553</b>	<b>337,433</b>	<b>18,377</b>

## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

### 5. CREDIT RISK (continued)

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

As of 31 December 2018;

Economic Sector	Murabaha receivables	Musharaka receivables	Ijarah assets - Ijarah Muntahia Bittamleek	Service Ijarah	Credit card receivables	Total	Off Balance Sheet Exposure
Wholesale & Retail Trade	759	9,439	6,241	-	-	16,439	4,053
Mining & Quarrying	-	-	-	-	-	-	-
Construction	398	105,076	19,550	-	-	125,024	7,450
Manufacturing	18	15	2,155	-	-	2,188	-
Transport & Communication	51	3,942	242	-	-	4,235	-
Electricity , Gas & Water	-	-	-	-	-	-	-
Financial Institutions	-	-	-	-	-	-	-
Services	111	608	16,055	-	-	16,774	-
Personal Financings	41,516	5,082	78,145	232	536	125,511	397
Non- Resident Lending	-	-	563	-	-	563	-
All Others	4,420	5,099	138	-	-	9,657	-
<b>Total</b>	<b>47,273</b>	<b>129,261</b>	<b>123,089</b>	<b>232</b>	<b>536</b>	<b>300,391</b>	<b>11,900</b>

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

As of 31 December 2019;

Time Band	Murabaha receivables	Musharaka receivables	Ijarah assets - Ijarah Muntahia Bittamleek	Service Ijarah	Credit card receivables	Total	Off Balance Sheet Exposure
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	-
<b>Total</b>	<b>47,481</b>	<b>154,627</b>	<b>134,431</b>	<b>341</b>	<b>553</b>	<b>337,433</b>	<b>18,377</b>

\* represents notional exposure as per financial statements

As of 31 December 2018;

Time Band	Murabaha receivables	Musharaka receivables	Ijarah assets - Ijarah Muntahia Bittamleek	Service Ijarah	Credit card receivables	Total	Off Balance Sheet Exposure
Up to 1 month	458	2,329	807	-	268	3,862	2,055
1-3 Months	1,406	4,414	1,709	8	268	7,805	3,773
3-6 Months	1,098	1,706	1,745	5	-	4,554	1,810
6-9 Months	4,417	1,916	2,391	8	-	8,732	2,164
9-12 Months	1,394	2,705	2,918	11	-	7,028	2,012
1-3 Years	15,625	14,100	17,035	58	-	46,818	81
3-5 Years	11,866	10,429	16,862	49	-	39,206	-
Over 5 Years	92,997	9,674	79,622	93	-	182,386	5
<b>Total</b>	<b>129,261</b>	<b>47,273</b>	<b>123,089</b>	<b>232</b>	<b>536</b>	<b>300,391</b>	<b>11,900</b>

\* represents notional exposure as per financial statements

## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

### 5. CREDIT RISK (continued)

#### VII) Total Financing broken down by major industry or counterparty type: (RO '000)

As of 31 December 2019;

Economic Sector	Gross financings	Of Which NPLs	ECL stage 1 & 2	ECL stage 3*	Impairment charge/ (reversed) during the Year	Financings written off during the year
Import Trade	7,800	105	330	54	14	-
Wholesale & Retail Trade	21,059	13	157	6	62	-
Mining & Quarrying	364	24	5	11	16	-
Construction	107,514	-	1,014	-	327	-
Manufacturing	12,337	-	263	-	258	-
Transport & Communication	269	-	18	-	11	-
Services	50,961	45	108	21	106	-
Personal Financing	137,110	833	126	424	(13)	-
Agriculture & Allied Activities	19	-	1	-	1	-
All Others	-	-	-	-	(1)	-
<b>Total</b>	<b>337,433</b>	<b>1,020</b>	<b>2,022</b>	<b>516</b>	<b>781</b>	<b>-</b>

\* Stage 3 ECL include suspended profit of RO 0.040 mn

As of 31 December 2018;

Economic Sector	Gross financings	Of Which NPLs	ECL stage 1 & 2	ECL stage 3*	Impairment charge/ (reversed) during the Year	Financings written off during the year
Import Trade	9,632	-	369	-	318	-
Wholesale & Retail Trade	16,439	-	102	-	(309)	-
Construction	125,024	18	676	11	(1,050)	-
Manufacturing	2,188	-	5	-	(157)	-
Transport & Communication	4,236	-	7	-	2	-
Services	16,774	-	23	-	4	-
Personal Financing	125,511	613	193	370	100	-
Non Resident Lending	563	-	-	-	(1)	-
All Others	24	-	1	-	1	-
<b>Total</b>	<b>300,391</b>	<b>631</b>	<b>1,376</b>	<b>381</b>	<b>(1,092)</b>	<b>-</b>

\* Stage 3 ECL include suspended profit of RO 0.022 mn

#### 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)

As of 31 December 2019;

Countries	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	-	-	-	-	-	-
<b>Total</b>	<b>337,433</b>	<b>1,020</b>	<b>2,022</b>	<b>516</b>	<b>781</b>	<b>-</b>

\* Stage 3 ECL include suspended profit of RO 0.040 mn

## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

### 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) (continued)

Countries	As of 31 December 2018;					
	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	299,828	631	1,376	381	(1,091)	-
Other GCC Countries	563	-	-	-	(1)	-
OECD Countries	-	-	-	-	-	-
India	-	-	-	-	-	-
Pakistan	-	-	-	-	-	-
Others	-	-	-	-	-	-
<b>Total</b>	<b>300,391</b>	<b>631</b>	<b>1,376</b>	<b>381</b>	<b>(1,092)</b>	<b>-</b>

\* Stage 3 ECL include suspended profit of RO 0.022 mn

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

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	-	-	-	-
<b>Closing Balance</b>	<b>295,384</b>	<b>41,029</b>	<b>1,020</b>	<b>337,433</b>

Details	As of 31 December 2018;			
	Stage 1	Stage 2	Stage 3	Total
Opening Balance	219,979	28,868	333	249,180
Migration / changes (+ / -)	9,777	(10,082)	305	-
New financings	76,041	11,531	-	87,572
Recovery of financings	(32,244)	(4,110)	(7)	(36,361)
Financing Written Off	-	-	-	-
<b>Closing Balance</b>	<b>273,553</b>	<b>26,207</b>	<b>631</b>	<b>300,391</b>

## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

### 5. CREDIT RISK (continued)

#### X) Past due and impaired financing: (RO '000)

	As of 31 December 2019;						
	Murabaha receivables	Musharaka receivables	Ijarah assets - Ijarah Muntahia Bittamleek	Service Ijarah	Credit Card Receivable	Total	Off Balance Sheet Exposure *
Neither past due not impaired	66,087	40,175	103,230	336	524	210,352	18,374
Past due but not impaired	88,540	7,034	30,454	5	28	126,061	3
Past due and impaired	-	272	747	-	1	1,020	-
<b>Total</b>	<b>154,627</b>	<b>47,481</b>	<b>134,431</b>	<b>341</b>	<b>553</b>	<b>337,433</b>	<b>18,377</b>

	As of 31 December 2018;						
	Murabaha receivables	Musharaka receivables	Ijarah assets - Ijarah Muntahia Bittamleek	Service Ijarah	Credit Card Receivable	Total	Off Balance Sheet Exposure *
Neither past due not impaired	96,221	40,114	101,288	232	519	238,373	11,900
Past due but not impaired	33,040	6,970	21,364	-	12	61,387	-
Past due and impaired	-	189	437	-	5	631	-
<b>Total</b>	<b>129,261</b>	<b>47,273</b>	<b>123,089</b>	<b>232</b>	<b>536</b>	<b>300,391</b>	<b>11,900</b>

#### 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;
- Ijara assets - Ijarah Muntahia Bittamleek;
- Equity & debt - type instruments; and
- Credit Card receivable

Financing receivables are principally divided into following Islamic products:

<b>- Murabaha:</b>	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.
<b>- Financing Ijarah:</b>	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.
<b>- Musharaka:</b>	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 2019

### 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:

- Cash margins and wakala deposits
- 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 2019.

Particulars	RO 'Mn
Gross Exposure - banking book	416,748
Credit risk mitigation	(1,094)
Risk weight impact - for banking book	303,397
Risk weighted assets - banking book	303,397
<b>Capital charge for credit risk</b>	<b>33,374</b>

#### Qualitative Disclosures:

Rating	Impairment allowance as at year end	Financings written off during the year	CBO Classification	As of 31 December 2019;	
				IFRS 9 Classification	
1 - 6	430	-	Standard	Stage 1 & 2	
7	1,592	-	Special mention	Stage 3	
8 - 10	516	-	Non-performing	-	
<b>Total</b>	<b>2,538</b>	-	-	-	
Rating	Impairment allowance as at year end	Financings written off during the year	CBO Classification	As of 31 December 2018;	
				IFRS 9 Classification	
1 - 6	397	-	Standard	Stage 1 & 2	
7	979	-	Special mention	Stage 3	
8 - 10	381	-	Non-performing	-	
<b>Total</b>	<b>1,757</b>	-	-	-	

## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

### 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:

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
<b>ASSETS</b>							
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
<b>Total profit bearing assets</b>		<b>8,778</b>	<b>36,955</b>	<b>101,473</b>	<b>221,696</b>	<b>36,452</b>	<b>405,354</b>
<b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>							
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
<b>Total</b>	-	<b>140,246</b>	<b>61,203</b>	<b>121,957</b>	<b>-</b>	<b>81,948</b>	<b>405,354</b>
<b>Net gap</b>		<b>(131,468)</b>	<b>(24,248)</b>	<b>(20,484)</b>	<b>221,696</b>	<b>(45,496)</b>	<b>-</b>
<b>Cumulative net gap</b>		<b>(131,468)</b>	<b>(155,716)</b>	<b>(176,200)</b>	<b>45,496</b>	<b>-</b>	<b>-</b>

## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

### 6. MARKET RISK (continued)

Particular	Effective profit rate	As of 31 December 2018;					Non-sensitive to profit rate	Total
		within 3 months	4 to 12 months	1 to 5 years	More than 5 years			
<b>RO'000</b>								
<b>ASSETS</b>		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	
Cash and balances with Central Bank of Oman	-	-	-	-	-	38,524	38,524	
Due from banks	-	1,673	-	-	-	-	1,673	
Financing Assets	5.75%	11,190	21,352	86,027	179,555	532	298,656	
Investments	3.11%	-	-	11,885	2,192	264	14,341	
Property and equipment	-	-	-	-	-	1,010	1,010	
Other assets	-	-	-	-	-	1,353	1,353	
<b>Total profit bearing assets</b>		<b>12,863</b>	<b>21,352</b>	<b>97,912</b>	<b>181,747</b>	<b>41,683</b>	<b>355,557</b>	
<b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS</b>								
Due to banks	4.09%	40,658	19,250	52,007	-	-	111,915	
Equity of investment accountholders and other liabilities	3.01%	40,694	42,759	71,986	-	46,900	202,339	
Shareholders fund	-	-	-	-	-	41,303	41,303	
<b>Total</b>	-	<b>81,352</b>	<b>62,009</b>	<b>123,993</b>	-	<b>88,203</b>	<b>355,557</b>	
<b>Net gap</b>		<b>(68,489)</b>	<b>(40,657)</b>	<b>(26,081)</b>	<b>181,747</b>	<b>(46,520)</b>	-	
<b>Cumulative net gap</b>		<b>(68,489)</b>	<b>(109,146)</b>	<b>(135,227)</b>	<b>46,520</b>	-		

#### 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 2.428 mn (OMR 2.268 mn position is in effectively pegged currencies) as on 31 December 2019.

#### 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 2019.

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 2019 is RO 0.277 mn with cost amounts to RO 0.335 mn. The Islamic window also has invested in sukuks carried at fair value through other comprehensive income. The fair value of investments as of 31 December 2019 is RO 34.330 mn with a cost amounts to RO 34.354 mn.

## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

### 6. MARKET 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 2019 is given below:

Type of risk (RO '000)	2019	2018
Profit rate risk	-	-
Equity position risk	-	-
Foreign exchange risk	379	183
Percentage of NOP to regulatory capital	5.47%	2.56%
Regulatory ceiling (% to total net worth)	40%	40%

Total risk weighted assets for trading book is RO 4,731.74 million.

#### Price Risk

Impact of 10% change in price

Investment type	Change in price	Effect on equity (millions)	
		2019	2018
Regional listed Sukuk	10%	+/- 3,157	+/- 1,331
Foreign listed Sukuk	10%	+/- 247	+/- 76
Listed equities	10%	+/- 27	+/- 26

## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

### 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 2019 was 87.5%.

## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

### 7. LIQUIDITY RISK (continued)

#### Liquidity and Funding Policy (continued)

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

Ratios	2019	2018
<b>Financing ratio</b>	<b>%</b>	<b>%</b>
Year end	84.92	85.75
Maximum for the year	86.94	87.50
Minimum for the year	82.61	75.17
Average for the year	86.02	85.52
<b>Other Ratios</b>		
Financing to customers to total assets	82.63	84.48
Equity to total assets	11.18	11.62
Liquid assets to total assets	12.39	14.78
Liquid assets to short term liabilities	26.15	29.19
Prime assets to volatile liabilities	12.18	18.27
Liquidity Coverage Ratio	128.21	128.60
Net Stable Funding Ratio	108.73	100.76

#### 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.

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.

## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

### 7. LIQUIDITY RISK (continued)

#### 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.

## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

### 8. OPERATIONAL RISK (continued)

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.

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
- IT Risk
- Physical Security Risk
- Shariah Compliance 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.

## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

### 8. OPERATIONAL RISK (continued)

#### 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.

#### 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 2019, 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).

## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

### 8. OPERATIONAL RISK (continued)

#### 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.

#### Other Risks

The Islamic window is also exposed to other risks such as reputational risk, strategic risk, business cycle risk, legal risk, residual risk, settlement risk, Shariah non-compliance 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)	2019	2018	2017
Net Income from financing and investing activities	19,067	16,588	13,106
Other income - net	949	619	1,791
<b>Gross Income</b>	<b>20,016</b>	<b>17,207</b>	<b>14,897</b>
Net return on equity of unrestricted investment accountholders	(1,181)	(1,312)	(800)
Profit on wakala deposits and due to banks	(10,965)	(7,973)	(5,718)
<b>Net Operating Income</b>	<b>7,870</b>	<b>7,922</b>	<b>8,379</b>
Average Income	8,057		
Gross Income times of Alpha (15%)	1,209		
<b>Operational risk based on Basic Indicator Approach</b>	<b>15,107</b>		

Capital Charge for Operational Risk under Basic Indicator Approach as per Basel II is RO 1,185 million as of 31 December 2019. The Risk weighted assets for operational risk as per Basel II is RO 14,817 million.

## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

### 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:

	2019	2018	2017	2016	2015
Total Profits available for distribution	6,538	5,948	5,196	4,577	3,914
<b>Profit Sharing:</b>					
- Profit to Shareholders	4,554	3,773	3,616	3,938	3,692
- Share of IAH	1,181	1,312	1,580	639	222
- Mudarib Share	803	863	783	447	140

During the year ended December 2019 there were no appropriations made towards Profit equalization and Investment risk reserve.

### 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 bil Istithmar arrangement, 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:

	2019	2018
Unrestricted Investment Accounts Share	60%	60%
Mudarib Share	40%	40%

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

## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

### 10. INVESTMENT ACCOUNT HOLDERS (continued)

#### 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 2019.

#### 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 2019.

#### 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 2019.

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

Type	Equity of IAH	
	2019	2018
Saving & Call accounts	57,337	50,906

## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

### 10. INVESTMENT ACCOUNT HOLDERS (continued)

#### II. Equity of Investment Accountholders - Ratios

RO in '000	2019	2018	2017	2016	2015
<b>Ratios and Returns</b>					
Amount of total net income	4,747	6,975	5,758	4,617	4091
Average amount of assets	380,456	328,640	284,225	260,898	215,932
ROA (Net income before IA's distribution / total assets)	1.25%	2.12%	2.03%	1.77%	1.89%
Amount of total net income	3,556	5,663	4,958	4,433	4024
Average amount of shareholder's equity	43,307	38,580	35,856	33,397	31,430
<b>ROE</b> (Net income after IA's distribution / Shareholders equity)	8.23%	14.68%	13.83%	13.30%	12.80%
<b>PSR - Average Profit Paid</b>					
Profit sharing ratio (Mudarib : Investment Accountholders)	40:60	40:60	40:60	70:30	70:30
Average Profit paid to investment accountholders	2.27%	2.60%	2.37%	1.27%	0.86%
<b>Average Profit distributed per type of IAH</b>					
Savings (RO 100 - RO 999,999)	0.25%	0.26%	0.26%	0.22%	0.22%
Savings (RO 1,000 - RO 9,999,999)	0.41%	0.42%	0.42%	0.33%	0.33%
Savings (above RO 10,000)	0.57%	0.59%	0.58%	0.55%	0.55%
Call Account (RO 100 - RO 999,999)	0.25%	0.26%	0.30%	0.33%	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)	0.57%	0.59%	0.58%	0.22%	0.22%
Al Nama Smart Saving (RO 2,500 - RO 49,999.99)	2.04%	2.10%	2.08%	1.32%	1.32%
Al Nama Smart Saving (RO 50,000 - RO 499,999.99)	2.59%	2.67%	2.64%	1.54%	1.54%
Al Nama Smart Saving (500,000 - 999,999.999)	3.13%	3.22%	3.19%	1.76%	1.71%
Al Nama (Above 1,000,000)	3.51%	3.60%	3.55%	-	-
URIA Saving Awqaf	0.43%	-	-	-	-
Qitaf Saving Account	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.

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

	2019	2018	2017	2016	2015
<b>Average Assets Allocated</b>	<b>117,524</b>	<b>105,209</b>	<b>86,127</b>	<b>62,114</b>	<b>53,420</b>
<b>Total profits</b>	<b>6,538</b>	<b>5,948</b>	<b>5,196</b>	<b>4,577</b>	<b>3,914</b>
Profits to Shareholders	4,554	3,773	3,613	3,985	3,713
Profits to IAH	1,181	1,312	800	184	67
<b>Mudarib Share</b>	<b>803</b>	<b>863</b>	<b>783</b>	<b>408</b>	<b>134</b>

## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

### 10. INVESTMENT ACCOUNT HOLDERS (continued)

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 2019 (RO '000)

	2019	2018
<b>Pool income</b>		
Income from financing	18,437	16,025
Income from placements	630	563
<b>Distribution of Income</b>	<b>2019</b>	<b>2018</b>
Revenue generated on Mudaraba funds	6,538	5,948
Profit equalization reserve	-	-
Mudarib share	803	863
Investment risk reserve	-	-
Distributable Profit	5,735	5,085
<b>Share of Profit for IAH and shareholders</b>	<b>5,735</b>	<b>5,085</b>

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

	2019	2018
Average Wakala deposits	15,767	7,375
<b>Average Profit paid to investment accountholders %</b>	<b>3.97</b>	<b>3.74</b>

### 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 2019

Type of Credit Exposure	RWAs	
	2019	2018
Balances with Central bank of Oman	-	-
Sovereign	818	764
Due from banks	1,703	1,297
Musharaka	144,517	123,408
Murabaha	46,992	83,455
Ijarah assets - Ijarah Muntahia Bittamleek	95,953	47,052
Credit Card Receivable	553	536
Service Ijarah	341	232
Other assets & off balance sheet items	12,520	6,933
<b>Total</b>	<b>303,397</b>	<b>263,677</b>

### 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 2019, 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 2019, Islamic window has taken approval from SSB for deferment of disbursement to next year.

## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

### 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: 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.

#### Trainings

The Sharia Audit and Compliance Department (SACD) prepared a comprehensive training plan for year 2019 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 Ahli Bank.

The trainings were conducted by Head SAC, Manager Sharia Audit and Manager Sharia Compliance as per SSB approved Training Plan for 2019 for staff of the Bank. Additionally, selected staff of Sharia Audit and Compliance, Corporate, Retail and Finance were facilitated to attend outsourced trainings and conferences for knowledge and awareness of Islamic banking developments and practices. The SSB members were also facilitated by the Bank to attend Al Baraka conference on Islamic Economics in Jeddah to go through the industry developments on Sharia governance and compliance.

For 2020, the Head SACD logged a training plan with Training and Development Team. 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.

## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

### 15. GENERAL DISCLOSURES (continued)

#### Complaints

Ahli Bank 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 2018 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 2019 are disclosed in note 29 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 2019.

## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

### 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)		2019	2018
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	18,534	14,488
6	<b>Common Equity Tier 1 capital before regulatory adjustments</b>	<b>43,534</b>	<b>39,488</b>
<b>Common Equity Tier 1 capital: regulatory adjustments</b>			
7	Prudential valuation adjustments	(642)	(865)
28	<b>Total regulatory adjustments to Common equity Tier 1</b>	<b>(642)</b>	<b>(865)</b>
29	<b>Common Equity Tier 1 capital (CET1)</b>	<b>42,892</b>	<b>38,623</b>
<b>Additional Tier 1 capital: instruments</b>			
36	<b>Additional Tier 1 capital before regulatory adjustments</b>	-	-
<b>Additional Tier 1 capital before regulatory adjustments</b>			
43	<b>Total regulatory adjustments to Additional Tier 1 capital</b>	-	-
44	<b>Additional Tier 1 capital (AT1)</b>	-	-
45	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>42,892</b>	<b>38,623</b>
<b>Tier 2 capital: instruments and provisions</b>			
50	Provisions ( <i>provision and fair value reserve</i> )	1,517	1,196
51	Tier 2 capital before regulatory adjustments	1,517	1,196
<b>Tier 2 capital: regulatory adjustments</b>			
57	<b>Total regulatory adjustments to Tier 2 capital</b>	-	-
58	<b>Tier 2 capital (T2)</b>	<b>1,517</b>	<b>1,196</b>
59	<b>Total capital (TC = T1 + T2)</b>	<b>44,409</b>	<b>39,819</b>
60	Total risk weighted assets	322,946	280,638
60a	Of which: Credit risk weighted assets	303,397	263,677
60b	Of which: Market risk weighted assets	4,732	2,291
60c	Of which: Operational risk weighted assets	14,817	14,670
<b>Capital Ratios</b>			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	13.28%	13.76%
62	Tier 1 (as a percentage of risk weighted assets)	13.28%	13.76%
63	Total capital (as a percentage of risk weighted assets)	13.75%	14.19%
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)	2.86%	3.19%
<b>National minima (if different from Basel 3)</b>			
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%
<b>Amounts below the thresholds for deduction (before risk weighting)</b>			
72	Non-significant investments in the capital of other financials	149	135
<b>Applicable caps on the inclusion of provisions in Tier 2</b>			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	1,395	1,196
77	Cap on inclusion of provisions in Tier 2 under standardized approach	3,791	2,587

## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

### 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
<b>Assets</b>		
Cash and balances with Central Bank of Oman	31,500	31,500
Certificates of deposit	-	-
Due from banks	467	467
Financings, net	334,935	334,935
Investments in securities	34,330	34,330
Placements with banks	-	-
Property and equipment	1,505	1,505
Deferred tax assets	-	-
Other assets	2,617	2,617
<b>Total assets</b>	<b>405,354</b>	<b>405,354</b>
<b>Liabilities</b>		
Due to banks	142,637	142,637
Customer deposits	207,213	207,213
Current and deferred tax liabilities	-	-
Other liabilities	10,193	10,193
Subordinated bonds	-	-
<b>Total liabilities</b>	<b>360,043</b>	<b>360,043</b>
<b>Shareholders' Equity</b>		
Paid-up share capital	25,000	25,000
Share premium	-	-
Legal reserve	-	-
General reserve	-	-
Retained earnings	18,534	18,534
Cumulative changes in fair value of investments	(21)	(21)
Subordinated debt reserve	-	-
Other Reserves	1,798	1,798
<b>Total shareholders' equity</b>	<b>45,311</b>	<b>45,311</b>
<b>Total liability and shareholders' funds</b>	<b>405,354</b>	<b>405,354</b>

## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

### 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 2019	31-Dec-19	Under Regulatory scope of consolidation	Reference
<b>Assets</b>			
Cash and balances with CBO	31,500	31,500	
Due from banks	467	467	
Financings - Net, of which:	334,935	334,935	
- Financings to domestic customers		337,433	
- Provision against financings, of which:		2,498	
- Stage 3 Impairment allowance		476	
- Stage 1 / 2 impairment allowance, of which		2,022	
- Amount eligible for T2		1,395	A
- Amount ineligible for T2		627	
Investments, of which:	34,330	34,330	
- fair value through other comprehensive income		34,330	
- Stage 1 / 2 impairment allowance, of which		-	
- amount eligible for T2		-	
- amount ineligible for T2		-	
Fixed assets	1,505	1,505	
- Intangibles (CET1 adjustment)		346	
- Other fixed Asset		1,159	
Other assets	2,617	2,617	
<b>Total Assets</b>	<b>405,354</b>	<b>405,354</b>	
<b>Capital &amp; Liabilities</b>			
Paid-up Capital, of which:	25,000	25,000	
- Amount eligible for CET1		25,000	B
Reserves & Surplus; of which	20,311	20,311	
- Amount eligible for CET1		18,534	C
- Amount eligible for T2 (Investments Fair value gains)		122	D
- AFS investments fair value loss (CET1 adjustment)		(296)	E
- AFS investments fair value gain unutilized		153	
- Amount eligible for CET1- Reserves (special reserve)		323	
- Reserves (impairment reserve - not eligible for CET1)		1,475	
<b>Total Capital</b>	<b>45,311</b>	<b>45,311</b>	
Deposits	207,212	207,212	
Due to banks	142,637	142,637	
Other liabilities and provisions	10,193	10,193	
Other liabilities & provisions , of which		10,217	
- Stage 1 / 2 impairment allowance, of which		(24)	
- amount eligible for T2		-	
- amount ineligible for T2		(24)	
<b>TOTAL</b>	<b>405,354</b>	<b>405,354</b>	

## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

### 17. BASEL III REGULATORY CAPITAL DISCLOSURES (continued)

#### Step 3: Step Reconciliation of Regulatory Capital:

Common Equity Tier 1 capital: instruments and reserves (R0' 000)			
Year ended 31 December 2019		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	18,534	C
3	<b>Common Equity Tier 1 capital before regulatory adjustments</b>	<b>43,534</b>	
4	Prudential valuation adjustments	(642)	E
5	<b>Total regulatory adjustments to Common equity Tier 1</b>	<b>(642)</b>	
6	<b>Common Equity Tier 1 capital (CET1)</b>	<b>42,892</b>	
<b>Additional Tier 1 capital: instruments</b>			
7	Additional Tier 1 capital (AT1)	-	
	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>42,892</b>	
<b>Tier 2 capital: instruments and provisions</b>			
8	Provisions	1,395	A
9	Fair value reserve of AFS investments	122	D
	<b>Tier 2 capital before regulatory adjustments</b>	<b>1,517</b>	
	<b>Tier 2 capital: regulatory adjustments</b>	<b>-</b>	
	<b>Tier 2 capital (T2)</b>	<b>1,517</b>	
	<b>Total capital (TC = T1 + T2)</b>	<b>44,409</b>	

## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

### 17. BASEL III REGULATORY CAPITAL DISCLOSURES (continued)

#### 17.1 MAIN FEATURES OF REGULATORY CAPITAL

		Year ended 31 December 2019
1	<b>Ahli Islamic</b>	<b>Common Equity Share Capital</b>
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
	<b>Coupons / dividends</b>	
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)

31 December 2019

### 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 2019		(R0 '000)	
		Total Unweighted Value (average)	Total Weighted Value (average)
<b>High Quality Liquid Assets</b>			
1	Total High Quality Liquid Assets (HQLA)		57,179
<b>Cash Outflows</b>			
2	Retail deposits and deposits from small business customers, of which:	77,436	14,312
3	Stable deposits	34,525	1,654
4	Less stable deposits	42,911	2,731
5	Unsecured wholesale funding, of which:	74,931	49,806
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	40,129	15,004
8	Unsecured debt	34,802	34,802
9	Secured wholesale funding		-
10	Additional requirements, of which	-	-
11	Outflows related to derivative exposures and other collateral requirements	46,790	46,790
12	Outflows related to loss of funding on debt products		
13	Credit and liquidity facilities	1,033	103
14	Other contractual funding obligations		
15	Other contingent funding obligations		
16	<b>TOTAL CASH OUTFLOWS</b>		<b>101,085</b>
<b>Cash Inflows</b>			
17	Secured lending (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	7,631	4,982
19	Other cash inflows	118,781	46,790
20	<b>TOTAL CASH INFLOWS</b>	<b>126,412</b>	<b>51,772</b>
			<b>Total Adjusted Value</b>
21	<b>TOTAL HQLA</b>		<b>57,179</b>
22	<b>TOTAL NET CASH OUTFLOWS</b>		<b>49,313</b>
23	<b>LIQUIDITY COVERAGE RATIO (%)</b>		<b>115.95%</b>

## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

### 18. Basel III LIQUIDITY DISCLOSURE

#### LIQUIDITY COVERAGE RATIO (LCR) Common Disclosure Template

Year ended 31 December 2018

		(RO '000)	
		Total Unweighted Value (average)	Total Weighted Value (average)
<b>High Quality Liquid Assets</b>			
1	Total High Quality Liquid Assets (HQLA)		49,574
<b>Cash Outflows</b>			
2	Retail deposits and deposits from small business customers, of which:	56,882	4,423
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	<b>TOTAL CASH OUTFLOWS</b>		<b>54,377</b>
<b>Cash Inflows</b>			
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	<b>TOTAL CASH INFLOWS</b>	<b>17,843</b>	<b>15,828</b>
			<b>Total Adjusted Value</b>
21	<b>TOTAL HQLA</b>		<b>49,574</b>
22	<b>TOTAL NET CASH OUTFLOWS</b>		<b>38,550</b>
23	<b>LIQUIDITY COVERAGE RATIO (%)</b>		<b>128.60%</b>

## BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2019

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

The below Net Stable Funding Ratio (NSFR) disclosure is presented for year ended 31 December 2019 and prepared in accordance with the requirements of the CBO letter vide circular reference 1147 issued on October 26, 2016.

						31 December 2019
Sr No.	Particulars	No Maturity	<6 Months	6 Months to < 1 Year	>= 1 Year	Weighted Value
<b>ASF ITEM</b>						
1	Capital	45,051	-	-	-	45,051
2	Regulatory Capital	45,051	-	-	-	45,051
3	Retail Deposits and Deposits from small Business Customers	65,217	3,148	7,341	6,945	76,059
4	Stable Deposit	19,193	149	222	241	18,827
5	Less Stable Deposit	46,025	2,998	7,119	6,704	57,232
6	Wholesale Funding	33,791	54,437	43,297	105,038	170,800
7	Other Wholesale Funding	33,791	54,437	43,297	105,038	170,800
8	All other liabilities and equities not included in above categories	41,486	-	-	-	-
<b>9</b>	<b>Total ASF</b>					<b>291,910</b>
<b>RSF ITEMS</b>						
10	Total NSFR high-quality liquid assets (HQLA)					1,620
11	Deposits held at other financial institutions for operational purposes	467	-	-	-	234
12	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which	-	-	-	232,692	197,788
13	With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk	-	14,520	17,080	-	15,800
14	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	-	-	70,618	45,902
15	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	1,785	1,518
16	All other assets not included in the above categories	-	-	-	4,692	4,692
17	Off-balance sheet items	-	15,377	3,000	-	919
<b>18</b>	<b>Total RSF</b>					<b>268,473</b>
<b>19</b>	<b>NET STABLE FUNDING RATIO</b>					<b>108.73%</b>

## **BASEL II PILLAR III AND BASEL III Report** (continued)

31 December 2019

### **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.om/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 circulates 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: 23 January 2020