

ANNUAL REPORT

2021
EXCELLENCE
THROUGH
INNOVATION



ahli islamic **Financial Statements**

For the year ended 31 December 2021

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 those who followed them with until the Day of Judgment.

To the Board of Directors of Ahli Bank SAOG

Assalam Alikum wa Ramat Allah wa Barakatuh

Shari'a Supervisory Board has reviewed the products and the contracts relating to the transactions which were made by Ahli Islamic, Ahli Bank SAOG (the "Bank") during the period (01.01.2021 to 31.12-2021) ended 2021 to ensure that they comply with the *Fatawa* issued by the Board as per Sharia rules and principles.

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

The Shari'a Supervisory Board responsibility is to issuing Fatawa and monitoring their implementation based on the Shari'a audit reports for the Bank.

In opinion of the Board:

1. The contracts, transactions and dealings entered into by the Bank during the year ended 2021 are in compliance with Shari'a rules and principles.
2. 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.
3. 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,
4. The calculation of *Zakah* is in compliance with Shari'a rules and principles.

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

Sharia Supervisory Board

Sheikh Dr. Mohammed Taher Al-Ibrahim (Chairman)



Sheikh Dr. Mustain Ali Abdul Hameed (Deputy Chairman)



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



Resolutions issued by SSB during the year 2021

FOR THE YEAR ENDED 31 DECEMBER 2021

SSB Meeting	Resolution No.	Subject of the Resolution	Brief of the SSB Resolution
Meeting on January 14, 2021 SSB-33-2021	1 (SSB –33 – 2021)	Minutes of SSB 33rd Meeting	The SSB signed the Minutes of the 33rd Meeting.
	2 (SSB –33 – 2021)	Report on Control Procedures Relating to Shari'a Compliance and Governance of ahli islamic, ahlibank SAOG for Year 2020	<p>The SSB reviewed the Report on Control Procedures Relating to Shari'a Compliance and Governance of ahli islamic, ahlibank SAOG for Year 2020 and noted the Sharia governance and compliance controls of ahli islamic. Generally the report comprises of the following details:</p> <ol style="list-style-type: none"> 1. Shari'a Governance of ahli islamic and its related arrangements 2. Control environment of ahli islamic 3. Product and Transaction Specific Controls of ahli islamic 4. Investment Controls of ahli islamic 5. Employees' Training during 2020 6. Other Controls such as inquiry redressed, disclosures and code of ethics <p>SSB Opinion:</p> <p>The SSB acknowledges that the Shari'a governance and compliance arrangement and controls of ahli islamic are satisfactory and effective.</p>
	3 (SSB –33 – 2021)	Sharia Audit Plan for 2021	The SSB reviewed Sharia Audit Plan for 2021 and approved it. The SSB confirmed that the Shari'a Audit Plan for 2021 is comprehensive and includes all the requisite areas which are subject to Shari'a Audit.
	4 (SSB –33 – 2021)	Sharia Training Plan for 2021	The SSB reviewed ahli islamic Sharia Training Plan for 2021 and approved it. The Shari'a Training Plan for 2021 is comprehensive and includes all the required trainings of staff of ahli islamic and support functions.
	5 (SSB –33 – 2021)	Sharia Audit Reports of 3rd Q. 2020 Retail Banking Corporate Banking Treasury Trade Finance	The SSB reviewed the subject Shari'a Audit Reports. The SSB gave its opinion in Shari'a Audit reports for each of the observations.
	6 (SSB –33 – 2021)	Status of SSB Opinion in the Shari'a Audit Reports of 2nd Q. 2020 Retail Banking Shari'a Audit Report Corporate Banking Shari'a Audit Report	The SSB reviewed implementation status of the SSB opinion given in the subject Shari'a Audit Reports on the observations and acknowledged it.
	7 (SSB –33 – 2021)	Shari'a Compliance Report of 2020	The SSB issued the Shari'a Compliance Report of ahli islamic for year 2020.
Meeting on April 11, 2021 (SSB-34-2021)	1 (SSB –34 – 2021)	Ratification of Minutes of SSB 33rd Meeting	The SSB signed Minutes of the 33rd Meeting.

Resolutions issued by SSB during the year 2021 *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

SSB Meeting	Resolution No.	Subject of the Resolution	Brief of the SSB Resolution
	2 (SSB –34 – 2021)	<p>Apprise of Legal Documents for Financing and Deposit Products of ahli islamic:</p> <p>1 Diminishing Musharaka for Ready Asset I. Diminishing Musharaka Agreement II. Ijara Agreement IV. Service Agency Agreement V. Sale Undertaking</p> <p>2. Diminishing Musharaka for Under Construction Asset I. Diminishing Musharaka Agreement II. Forward Lease Agreement IV. Management Agreement V. Sale Undertaking</p> <p>3. Diminishing Musharaka for Vehicle Financing I. Diminishing Musharaka Agreement II. Ijara Agreement IV. Service Agency Agreement V. Sale Undertaking</p> <p>4. Ijara MBT I. Purchase Undertaking II. Undertaking to Lease IV. Asset Sale and Purchase Agreement V. Ijarah Ending with Ownership VI. Undertaking to Transfer Ownership of Asset VII. Service Agency Agreement</p> <p>5. Murabaha for Goods I. Murabaha Agreement (Goods Financing) II. Promise to Purchase IV. Letter of Purchase of Goods V. Goods Inspection Report VI. Delivery Order Goods VII. Confirmation of Receipt of Goods VIII. Offer to Sell and Acceptance of Offer</p> <p>6. Murabaha for Vehicles I. Murabaha Agreement (Vehicle Financing) II. Promise to Purchase IV. Letter of Purchase of Vehicle VI. Vehicle Inspection Report VII. Delivery Order VIII. Offer to Sell and Acceptance of Offer</p> <p>7. Services Ijara I. Memorandum of Understanding II. Offer to Purchase Services and IV. Acceptance of Offer V. Services Delivery Order VI. Service Ijara Agreement</p> <p>8. Investment Wakala Agreement-Fixed Account</p> <p>9. Wakala Agreement-Call Account</p> <p>10. Investment Wakala Agreement-Al Qimmah Account</p>	<p>The SSB reviewed the subject documents of deposit and financing products of ahli islamic which were apprised in terms of updating the contents and improving the format. After making necessary changes in the documents, the SSB has opined as follows:</p> <p>SSB Opinion:</p> <p>After reviewing contents of the subject legal documents, the SSB has approved them and the SSB confirms that contents of these documents are in line with dictates of Sharia. The SSB advises that these documents are applicable for future transactions and the business contracts with the existing customers will remain under the old executed legal documents.</p>
	3 (SSB –34 – 2021)	<p>Shari'a Sharia Audit Reports of 4th Q. 2020</p> <p>i. Retail Banking ii. Corporate Banking iii. SME iv. Treasury v. Trade Finance</p>	<p>The SSB reviewed the subject Shari'a Audit Reports and gave its opinion in Shari'a Audit reports to each observations.</p>

Resolutions issued by SSB during the year 2021 (continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

SSB Meeting	Resolution No.	Subject of the Resolution	Brief of the SSB Resolution								
	4 (SSB –34 – 2021)	Implementation Status of SSB's Opinion in the Retail Banking Sharia Audit Report for 2nd Quarter 2020	The SSB members noted the status of implementation of SSB opinion on the subject Shari'a Audit observations and advised to make correction of the seven pending cases in the report.								
	6 (SSB –34– 2021)	New Retail Segment- Upper Mass	The SSB reviewed the subject proposal and approved it.								
Meeting No 15 July 2021 (SSB-35-2021)	1 (SSB –35 – 2021)	Ratification of Minutes of SSB 34th Meeting	The SSB signed Minutes of the 34th Meeting.								
	2 (SSB –35 – 2021)	Shari'a Approval of Retail Prepaid Card Proposal	<p>The SSB reviewed ahli islamic (Bank) proposal on Retail Prepaid Card and gave its opinion as follows:</p> <p>SSB Opinion:</p> <p>The SSB has approved the Retail Prepaid Card Proposal. The Retail Prepaid Cards product of the Bank entails the services which are based on the Sharia principles of Ujra. As per Ujra principle, for various services underlying to the Prepaid cards such as purchases (POS and online) by using the Prepaid card services and administration of the cards, the Bank may charge a fee to the customer. The Bank will communicate to the customer on services' fees applicable to the cards through schedule of charge and agree with the customer by signing a formal contract.</p>								
	3 (SSB –35 – 2021)	Shari'a Approval of Clean Credit Cards Proposal	<p>The SSB reviewed ahli islamic (Bank) proposal on Clean Credit Cards, a brief of which is as follows:</p> <p>Brief Proposal:</p> <p>Existing and new high net worth Omani individuals who have high balances with the bank will be offered credit card, taking into consideration their account balances. Following criteria is proposed in this regard:</p> <p>1. Minimum balance of OMR 35,000 in any account with ahli islamic.</p> <p>Customer is Premium or Private Banking customer managed by an RM.</p> <p>Limits to be assigned upon issuing the card as per the following grid:</p> <table border="1" data-bbox="1027 1410 1511 1636"> <thead> <tr> <th>Deposit Balance</th> <th>Credit Card Limit</th> </tr> </thead> <tbody> <tr> <td>OMR 35,000 and above, or equivalent value of USD</td> <td>OMR 3,500</td> </tr> <tr> <td>OMR 50,000 - 150,000, or equivalent value of USD</td> <td>OMR 5,000</td> </tr> <tr> <td>Above OMR 150,000 , or equivalent value of USD</td> <td>OMR 10,000</td> </tr> </tbody> </table> <p>After reviewing the proposal and its related details the SSB has given its opinion as follows:</p> <p>Shari'a Opinion: Having reviewed the Clean Credit Cards proposal, the SSB has approved it. The credit cards product of the Bank is based on the Shari'a principles of Qard according to which the Bank cannot charge any over or excess on the Qard amount. The Customers are required to pay back Qard amount without any delay. The Bank can charge the Customers with a fee for the administrative services and not for any Qard amount.</p>	Deposit Balance	Credit Card Limit	OMR 35,000 and above, or equivalent value of USD	OMR 3,500	OMR 50,000 - 150,000, or equivalent value of USD	OMR 5,000	Above OMR 150,000 , or equivalent value of USD	OMR 10,000
Deposit Balance	Credit Card Limit										
OMR 35,000 and above, or equivalent value of USD	OMR 3,500										
OMR 50,000 - 150,000, or equivalent value of USD	OMR 5,000										
Above OMR 150,000 , or equivalent value of USD	OMR 10,000										
	4 (SSB –35 – 2021)	Change in Weightages of Mudaraba Based Accounts	The SSB reviewed ahli islamic proposal on Change in Weightages of Mudaraba Based Accounts and approved it as attached to this resolution.								

Resolutions issued by SSB during the year 2021 *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

SSB Meeting	Resolution No.	Subject of the Resolution	Brief of the SSB Resolution
	5 (SSB –35– 2021)	Addendum to Wakala Bil Istithmar Product	The SSB reviewed the subject addendum consisting amendments and changes in the Wakala Bil Istithmar Product proposal, which was approved by the SSB through the resolution # 2(SSB-20-2017) dated December 11, 2017. After reviewing the proposed changes and amendments in the product paper the SSB has approved the addendum as attached to this resolution.
	6 (SSB –35 – 2021)	Wakala Bil Istithmar Financing Agreement	The SSB approved ahli islamic Wakala Bil Istithmar Financing Agreement.
	7 (SSB –35 – 2021)	Business Proposal on Rescheduling and Restructuring	<p>The SSB opined on ahli islamic following proposal on Rescheduling and Restructuring.</p> <p>This refers to SSB Resolution # 6 and CBO Circular BSD/ CB/2020/005 dated June 03, 2020 (Point # 5) wherein CBO has allowed Commercial Banks to reschedule/ restructuring of credit facilities of affected customers who have good past history of repayment and are willing to pay but find themselves unable to do so in the current evolving situation. By this way, the repayment of such affected customers could be re-aligned with their adjusted cash flows. This rescheduling/restructuring without adversely affecting the risk classification may be the simplest, leanest and most accurate way to proceed, maintain an updated historical payment without damaging the specific risk level of such obligors.</p> <p>The Bank has planned to facilitate some of the qualifying customers by rescheduling/restructuring their existing credit facilities in line with CBO guidelines.</p> <p>This rescheduling/restructuring will be made by modifying their existing approved structuring (including rental rates, period of Ijarah MBT/Diminishing Musharka Cum Ijarah/ Forward Ijarah financing</p> <p>In cases where the installments are overdue, the overdue amount will be collected from the customer separately with zero profit and it will not be made part of the outstanding amount. Any charity amount collected on overdue amount will be credited to charity account.</p> <p>Also to note, on the change in payment schedule and extension in the period of financing the Bank shall be obtaining an acceptance from the customer on the letter on Amendment of Sanctioned Financing Facility(ies) (Addendum to Financing Documents) which will comprise the revised restructuring terms and revised repayment schedule.</p> <p>The agreed time Murabaha based financing installments can be deferred for an period subject to no change in selling price (no increase in profit rate on existing murabaha)."</p> <p>SSB Opinion: After reviewing the above proposal, the SSB has approved it. The SSB authorizes Head Shari'a Audit and Compliance to review Business proposals on case to case bases in view of the above proposal and give approval provided the restructuring cases match with the details given in this proposal.</p>

Resolutions issued by SSB during the year 2021 (continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

SSB Meeting	Resolution No.	Subject of the Resolution	Brief of the SSB Resolution
	8 (SSB –35 – 2021)	Sharia Audit Reports of 1st Q. 2021 i. Retail Banking ii. Corporate Banking iii. Treasury iv. Trade Finance v. SME	The SSB reviewed the subject Shari'a Audit Reports and gave its opinion in Shari'a Audit reports to each observations.
	9 (SSB –35 – 2021)	Mortgage-Free Auto Finance Proposal	The SSB has issued this resolution approving the Mortgage Free Auto Finance Proposal as attached to this resolution. The SSB confirms that the proposed mortgage free auto finance product, which is based on the principle of Murabaha, is in line with the dictates of Shari'a
	10 (SSB –35 – 2021)	Sharia Compliance Unit Report of ahli islamic for the period 01.01.2021 to 31.06.2021	<p>The SSB reviewed the Sharia Compliance Report of ahli islamic for the period 01.01.2021 to 31.06.2021 which briefly comprises of the following details:</p> <p>Pre and post-execution reviews of financing transactions under Retail, SME and Corporate Business Units.</p> <p>Review of MISs and the status of key transactions from Corporate, SME, and Retail</p> <p>Collaboration with Sharia Risk Control to identify, measure, monitor, and manage Shari'a non-compliance risks across ahli islamic</p> <p>Review of new Products and updates in the existing policies, procedures, products, process flows, contracts, agreements, reports, IT system etc.</p> <p>Conducting training to the employees of the bank as per approved Training Plan for Year 2021.</p> <p>Review of Islamic marketing material and giving feedback to Head SAC.</p> <p>Review of various products legal documents from Corporate and SME.</p> <p>Sharia assistance to business units, operations and support functions.</p> <p>Review of monthly profit distribution sheets, financials statements, Charity Account from Shari'a perspective.</p> <p>The SSB has opined that the Sharia Compliance Report for the period is satisfactory and encompassing reviews of the required areas.</p>
	11 (SSB –35 – 2021)	Amendment in Wakala Bil Istithmar Agreement for Al Qimmah Account	The SSB approved the proposal on amendment in Al Qimmah Wakala Agreement which was approved by the SSB previously.
Meeting No 14 October 2021 (SSB-36-2021)	1 (SSB –36 – 2021)	Ratification of Minutes of SSB 35th Meeting	The SSB signed Minutes of the 35th Meeting.
	2 (SSB –36 – 2021)	Sharia Audit Reports of 2nd Q. 2021 Retail Banking Corporate Banking Treasury Trade Finance SME	The SSB reviewed the subject Shari'a Audit Reports and gave its opinion in Shari'a Audit reports to each observations.
	3 (SSB –36 – 2021)	Status of Retail Banking Sharia Audit Report for Q.1.2021	The SSB noted the status given to update the SSB.

Resolutions issued by SSB during the year 2021 *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

SSB Meeting	Resolution No.	Subject of the Resolution	Brief of the SSB Resolution
	4 (SSB –36 – 2021)	Concept Paper of Salam Product	<p>The SSB reviewed Concept Paper of Salam Product and gave its recommendations as follows:</p> <ol style="list-style-type: none"> 1. Delete the part "Hence the Bank (seller) in the first Salam contract becomes the buyer in the second Salam contract" in Shari'a Structure, page 3. 2. Delete "The Customer (in its independent capacity) may be asked to provide Corporate Guarantee to guarantee payment obligations of ultimate buyers." in Risk Mitigation in Salam on page 5. 3. Delete "to cultivate any or combination of above-mentioned goods from time to time on agreed terms & conditions." on page 8, step 1. 4. Delete "ABC in an independent capacity will also provide a Corporate Guarantee at the time of execution of master documentation to BANK for guaranteeing the credit worthiness of the Buyer and will undertake to compensate the Bank in case of failure from the Buyer to pay the sale price to the Bank. In this regard ABC will provide a "List of Credible Buyers" attached with the Guarantee. It is important to note that as per Shari'a Supervisory Board's ruling, this independent Guarantee will be given after identification of the Creditworthy Buyer and not before that (i.e. The Guarantee cannot be given for an unknown buyer.)" on page 8 under Step 1. 5. Delete "for cultivation of goods" under Step 2, point 1, page 8. 6. Delete "to the Buyer" under Step 2, point 9, page 8. <p>The SSB advised to incorporate the above recommended changes in the product paper, make translation of the paper into Arabic and represented in the next meeting.</p>

In the Name of Allah, the Merciful, the Compassionate

Fatwa of Sharia Supervisory Board

BancaTakaful with Al-Madinah Takaful

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

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

SSB Pronouncement

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

And all praise is due to Allah.

Sharia Supervisory Board



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



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



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

In the Name of Allah, the Merciful, the Compassionate

Fatwa of Shari'a Supervisory Board on

Children Account of Ahli Islamic

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

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

Shari'a Structure of the Product:

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

The SSB Opinion:

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

And all praise is due to Allah.

Shari'a Supervisory Board



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



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



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

In the Name of Allah, the Merciful, the Compassionate

Fatwa of Shari'a Supervisory Board on

Ladies Account of Ahli Islamic

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

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

Shari'a Structure of the Product:

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

The SSB Opinion:

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

And all praise is due to Allah.

Shari'a Supervisory Board



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



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



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

In the Name of Allah, the Merciful, the Compassionate

Fatwa of Shari'a Supervisory Board on

Youth Account of Ahli Islamic

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

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

Shari'a Structure of the Product:

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

The SSB Opinion:

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

And all praise is due to Allah.



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



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



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

In the Name of Allah, the Merciful, the Compassionate

Fatwa of Shari'a Supervisory Board on

Investment Wakala Account

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

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

SSB Opinion:

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

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

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

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

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

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

And Allah knows what is right.

Sharia Supervisory Board



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



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



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

Fatwa of Shari'a Supervisory Board on**Non-Salary Assigned Credit Cards 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 Dhu'l-Hijjah 5, 1442 AH that corresponds to July 15, 2021, the Shari'a Supervisory Board (SSB) of Ahli Islamic, Ahli Bank SAOG (the "Ahli Islamic/Bank") issued Shari'a pronouncement for Ahli Islamic Non-Salary Assigned Credit Card Product, which details are as follows:

SSB Opinion:

Having reviewed the Non-Salary Assigned Credit Cards proposal, the SSB confirms that the Product is in line with Sharia principles. The Non Salary Assigned product of the Bank is based on the Shari'a principles of Qard according to which the Bank cannot charge any over or excess on the Qard amount. The Customers are required to pay back Qard amount without any delay. The Bank can charge the Customers with a fee for the administrative services and not for any Qard amount.

And all praise is due to Allah.

Sharia Supervisory Board

Dr. Mohammed Taher Al-Ibrahim (Chairman)



Dr. Mustain Ali Abdul Hameed (Deputy Chairman)



Dr. Abdul Raouf Abdullah Al-Tobi (Member)



SSB Fatwa on Non-Salary Assigned Credit Cards Product

**Fatwa of Shari'a Supervisory Board on
Retail Prepaid Card Product**

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

On Thursday Dhu'l-Hijjah 5, 1442 AH that corresponds to July 15, 2021, the Shari'a Supervisory Board (SSB) of Ahli Islamic, Ahli Bank SAOG (the "Ahli Islamic/Bank") issued Shari'a pronouncement on Ahli Islamic Retail Prepaid Card Product, which details are as follows:

SSB Opinion:

After reviewing the Ahli Islamic Retail Prepaid Card Product the SSB confirms that the Product is in line with Shari'a principles. The Retail Prepaid Card Product is based on the Shari'a principles of Ujra. As per Ujra principle, for various services underlying to the Prepaid Cards such as purchases (POS and online purchases) by using the Prepaid card services, the Bank may charge a fee to the customer. The Bank will communicate to the customer on services' fees applicable to the cards through schedule of charges and agree with the customer by signing a formal contract.

And all praise is due to Allah.

Sharia Supervisory Board

Dr. Mohammed Taher Al-Ibrahim (Chairman)

Dr. Mustain Ali Abdul Hameed (Deputy Chairman)

Dr. Abdul Raouf Abdullah Al-Tobi (Member)

In the Name of Allah, the Merciful, the Compassionate

Fatwa of Shari'a Supervisory Board on

Wakala Bil Istithmar Financing 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 Sunday the Muharram 7, 1443 AH that corresponds to August 15, 2021, the Shari'a Supervisory Board (SSB) of Ahli Islamic, Ahli Bank SAOG (the "Ahli Islamic/Bank") issued Shari'a pronouncement for Ahli Islamic Wakala Bil Istithmar Financing Product, which details are as follows:

SSB Opinion:

The SSB opines that Wakala Bil Istithmar is to delegate another person to invest his funds into Sharia compliant business against a remuneration or without remuneration, as it is permissible in Sharia. From Sharia point of view, it is permissible that the investment Wakala is limited to specific kind of investment or specific place or without any limit allowing the Wakil to invest into Sharia compliant profitable business avenues. Wakala Bil Istithmar financing can be customarily restricted or unrestricted whichever is beneficial for Muwakkil and Wakil.

Under the Wakala Bil Istithmar product, Ahli Islamic finances capital to Customer, who acts as Wakil and undertakes to invest the funds of the Muwakkil (i.e. Investor) on its behalf in businesses that comply with the Sharia rules and principles.

The profit on investments is the right of the Muwakkil unless it is stipulated that the agent shall be entitled to all or part of any excess above the expected profit. The agent acts in a fiduciary capacity in relation to the investment and therefore is not liable for any loss in cases other than willful misconduct, negligence, or breach of Wakala contract.

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

The SSB reviewed Ahli Islamic Wakala Bil Istithmar product's proposal containing the financing structure and process and Wakala Bil Istithmar Agreement and the SSB confirms that the product and its terms and conditions comply with rules and principles of Sharia.

The Wakala Bil Istithmar financing product may be applied in SME, Corporate and any other business segment for short, medium and long time investments.

And Allah knows what is right.

Sharia Supervisory Board

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

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

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

In the Name of Allah, the Merciful, the Compassionate

Fatwa of Shari'a Supervisory Board on

Investment Wakala Account

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

On Monday the 09-Jamada al-Awwal-1443AH that corresponds to December 13, 2021, the Shari'a Supervisory Board (SSB) of Ahli Islamic, Ahli Bank SAOG (the "Ahli Islamic/Bank") issued Shari'a pronouncement of Ahli Islamic Investment Wakala Deposit Accounts, which details are as follows:

SSB Opinion:

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

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

The Wakil is entitled to fees that may be a specific amount collected separately or taken from the return that is finally settled with the Muwakkil. And it is permissible that Wakil fee is the amount over to expected profit or a share of that. A certain share of the expected profit may be added to the specific fee of the agent as a motivation. Also the agency may be without a remuneration and the parties agree that over to expected profit on the investment will be taken by Wakil as incentive. The agent acts in a fiduciary capacity in relation to the investment and there is not liable for any loss in cases other than willful misconduct, negligence, or breach of Wakala contract.

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

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

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

And Allah knows what is right.

Sharia Supervisory Board

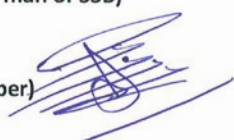
Dr. Mohammed Taher Al-Ibrahim (Chairman of SSB)



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



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





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

Report on the audit of the financial statements

Our opinion

In our opinion, the accompanying financial statements present fairly, in all materials respects, the financial position of the Ahli Islamic - Window ('the Window') of Ahli Bank SAOG ('the Bank') as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") as modified by the Central Bank of Oman ("CBO").

What we have audited

The financial statements comprise:

- the statement of financial position as at 31 December 2021;
- the statement of comprehensive income for the year then ended;
- the statement of changes in owners' equity for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of sources and uses of charity fund for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

We are independent of the Window in accordance with AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions and the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman. We have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics for Accountants and Auditors of Islamic Financial Institutions.

PricewaterhouseCoopers LLC, Salam Square - South, 4th Floor, Suites 402-404, Madinat Al Sultan Qaboos P.O. Box 3075, Ruwi, Postal Code 112, Muscat, Sultanate of Oman, T: +968 2 455 9110, F: +968 2 456 4408, www.pwc.com/me

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



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

Emphasis of matter

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

Other information

The Bank's Board of Directors are responsible for the other information. The other information comprises the annual report of the Shari'a Supervisory Board, Fatwa of Shari'a Supervisory Board, Shari'a resolutions issues by Shari'a Supervisory Board Management Discussion and Analysis Report and 2021 Disclosure Requirements under Pillar III of Basel II (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

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

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

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

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

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

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

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

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



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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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



Ahli Bank SAOG on the financial statements of Ahli Islamic – Window (continued)

Report on other legal and regulatory and Shari'a requirements

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

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

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

Muscat, Sultanate of Oman
6 March 2022



STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

2020	2021		Note	2021	2020
US\$ '000	US\$ '000			RO '000	RO '000
Restated					Restated
ASSETS					
24,112	105,262	Cash and balances with Central Bank of Oman	6	40,526	9,283
9,060	1,764	Due from banks	7	679	3,488
111,151	93,541	Murabaha receivables	8	36,013	42,793
-	75,265	Wakala bil Istithmar	9	28,977	-
449,993	534,740	Musharaka receivables	10	205,875	173,247
75,056	90,632	Investment securities	11	34,893	28,896
332,966	301,777	Ijarah assets - Ijarah Muntahia Bittamleek	12	116,184	128,192
1,455	1,540	Credit Card receivables	13	593	560
1,291	1,732	Service ijarah	14	667	497
4,324	6,628	Property and equipment	16	2,552	1,665
16,424	21,837	Other assets	17	8,407	6,324
<u>1,025,832</u>	<u>1,234,718</u>	TOTAL ASSETS		<u>475,366</u>	<u>394,945</u>
LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY					
527	197	Due to banks	18	76	203
58,551	47,255	Customers' current accounts		18,193	22,542
14,757	14,761	Other liabilities	19	5,683	5,681
<u>73,835</u>	<u>62,213</u>	TOTAL LIABILITIES		<u>23,952</u>	<u>28,426</u>
830,966	1,014,712	Equity of investment account holders	20	390,664	319,922
<u>904,801</u>	<u>1,076,925</u>	TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS		<u>414,616</u>	<u>348,348</u>
64,935	90,909	Share capital	21	35,000	25,000
(514)	(171)	Investment fair value reserve		(66)	(198)
11,826	11,826	Impairment reserve		4,553	4,553
44,784	55,229	Retained earnings		21,263	17,242
<u>121,031</u>	<u>157,793</u>	TOTAL OWNERS' EQUITY		<u>60,750</u>	<u>46,597</u>
<u>1,025,832</u>	<u>1,234,718</u>	TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY		<u>475,366</u>	<u>394,945</u>
44,133	58,995	Contingent liabilities and commitments	22	22,713	16,991

The financial statements and notes 1 to 34 were approved by the Board of Directors on 26 January 2022 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.
Report of the independent Auditors - page 188 - 191

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

2020	2021		Note	2021	2020
US\$ '000	US\$ '000			RO '000	RO '000
Restated					Restated
43,984	51,779	Income from financing activities	23	19,935	16,934
4,467	4,060	Income from investing activities	24	1,563	1,720
299	810	Other operating income	25	312	115
(5,597)	(5,148)	Net impairment on financial assets		(1,982)	(2,155)
43,153	51,501			19,828	16,614
(32,730)	(29,371)	Return to investment account holders		(11,308)	(12,601)
1,865	1,431	Islamic Windows' share as Mudarib		551	718
(30,865)	(27,940)	Return to investment account holders before zakah		(10,757)	(11,883)
12,288	23,561	Islamic Window's share in income from financing and investing activities (as Mudarib and Rab ul Maal)		9,071	4,731
1,642	3,468	Other operating income from banking services	26	1,335	632
13,930	27,029	Net operating income		10,406	5,363
(6,301)	(8,127)	Staff expenses	27	(3,129)	(2,426)
(1,073)	(1,468)	Depreciation	16	(565)	(413)
(2,979)	(5,145)	Other operating expenses	28	(1,981)	(1,147)
(10,353)	(14,740)	Total expenses		(5,675)	(3,986)
3,577	12,289	Profit before taxation		4,731	1,377
223	(1,844)	Taxation		(710)	86
3,800	10,445	Profit for the year		4,021	1,463
		Other comprehensive income/(expense)			
		Items that will not be reclassified to profit or loss			
(11)	3	Changes in fair value of securities measured through Equity		1	(4)
		Items that will be reclassified to profit or loss			
(448)	340	Changes in fair value of debts measured through Equity		131	(173)
(459)	343	Other comprehensive income/(expense) for the year		132	(177)
3,341	10,788	Total comprehensive income for the year		4,153	1,286

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 2021

	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 2021		25,000	(198)	4,553	-	17,242	46,597
Profit for the year		-	-	-	-	4,021	4,021
Other comprehensive income		-	132	-	-	-	132
Allocation of capital		10,000	-	-	-	-	10,000
At 31 December 2021		35,000	(66)	4,553	-	21,263	60,750
At 31 December 2021 (US\$ '000)		90,909	(171)	11,826	-	55,229	157,793

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

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

FOR THE YEAR ENDED 31 DECEMBER 2021

2020 US\$ '000 Restated	2021 US\$ '000		Note	2021 RO '000	2020 RO '000 Restated
CASH FLOWS FROM OPERATING ACTIVITIES					
3,577	12,289	Profit for the year		4,731	1,377
		Adjustments for:			
1,073	1,468	Depreciation - property and equipment	16	565	413
5,597	5,148	Net impairment on financial assets		1,982	2,155
10,247	18,905	Operating (loss) / profit before change in operating assets and liabilities		7,278	3,945
10,694	15,171	Decrease in Murabaha receivables		5,841	4,117
(56,335)	(86,862)	Increase in Musharaka receivables		(33,442)	(21,689)
(405)	(442)	Increase in Service ijarah receivables		(170)	(156)
(26)	(83)	Increase in Credit card receivables		(32)	(10)
-	(75,268)	Increase in Wakala bil Istithmar		(28,978)	-
(9,653)	(5,519)	Increase in other assets		(2,125)	(3,716)
527	(330)	(Decrease)/increase in due to banks		(127)	203
16,475	(11,296)	(Decrease) / Increase in customers' current accounts		(4,349)	6,343
(10,088)	(1,788)	Decrease in other liabilities		(688)	(3,883)
15,717	183,745	Increase in equity of investment account holders		70,742	6,051
(22,847)	36,233	Cash generated / (used in) generated from operations		13,950	(8,795)
(1,471)	-	Tax paid		-	(566)
(24,318)	36,233	Net cash generated / (used in) from operating activities		13,950	(9,361)
CASH FLOWS FROM INVESTING ACTIVITIES					
13,657	30,626	Decrease Investment in Ijarah assets - Ijarah Muntahia Bittamleek		11,791	5,258
(29,200)	(15,208)	Purchase of investments		(5,855)	(11,242)
42,857	-	Proceeds from sale / maturity of investment		-	16,500
(1,487)	(3,771)	Purchase of property and equipment	16	(1,452)	(573)
25,827	11,647	Net cash generated from investing activities		4,484	9,943
CASH FLOWS FROM FINANCING ACTIVITY					
-	25,974	Proceeds from allocation of capital		10,000	-
-	25,974	Net cash generated from financing activity		10,000	-
1,509	73,854	NET CHANGE IN CASH AND CASH EQUIVALENTS		28,434	582
31,660	33,169	Cash and cash equivalents at 1 January		12,771	12,189
33,169	107,023	CASH AND CASH EQUIVALENTS AT 31 DECEMBER (Refer below)		41,205	12,771
2020 US\$ 000	2021 US\$ 000			2021 RO '000	2020 RO '000
24,109	105,259	Cash and current balances with Central Bank of Oman	6	40,526	9,283
9,060	1,764	Due from banks	7	679	3,488
33,169	107,023	Cash and cash equivalents		41,205	12,771

The notes 1 to 34 and other explanatory information form an integral part of these financial statements.
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STATEMENT OF SOURCES AND USES OF CHARITY FUND

FOR THE YEAR ENDED 31 DECEMBER 2021

2020 US\$ '000	2021 US\$ '000	Note	2021 RO '000	2020 RO '000
Sources of charity fund				
3	3		1	1
12	13		5	4
15	16		6	5
Uses of charity fund				
Distributed to charity organizations				
3	3		1	1
-	3		1	-
-	3		1	-
-	4		2	-
3	-		-	1
3	-		-	1
3	-		-	1
11	13		5	4
3	3	19	1	1
Undistributed charity fund at the end of the year				

The notes 1 to 34 and other explanatory information form an integral part of these financial statements.
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NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

ahli islamic (The Islamic Window) was licensed by Central Bank of Oman (CBO) to operate as an Islamic Banking Window of ahlibank SAOG (The Bank). The Islamic Window 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, Wakala, 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 fifteen branches as at year end (31 December 2020: twelve branches).

The Islamic Window employed 136 employees as at 31 December 2021 (31 December 2020: 116 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 instruments at Fair value through equity which have been measured at fair value.

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgements

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

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

3 STANDARDS, AMENDMENTS AND INTERPRETATIONS

3.1 FAS 30 Impairment, credit losses and onerous commitments

The Islamic Window has adopted FAS 30, "Impairment, Credit Losses and Onerous Commitments" which is effective for periods beginning on or after 1 January 2021. The requirements of FAS 30 represent a significant change from earlier FAS 11, "Provisions and Reserves". FAS 30 replaces the 'incurred loss' model in FAS 11 with Expected Credit Loss ("ECL") model. The new impairment model "ECL" also applies to certain financing commitments and financial guarantee contracts but not to equity investments.

Prior to adoption of FAS 30, the Islamic Window has applied IFRS 9, "Financial Instruments" for calculation of expected credit losses which is similar to FAS 30 which is in compliance with Shari'a principles and rules as specified by Shari'a Supervisory Board. Central Bank of Oman (CBO) mandated the adoption of IFRS 9 for all banks including Islamic banks and Islamic windows as per Circular "BM 1149" dated 13 April 2017. 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 regulations.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

3 STANDARDS, AMENDMENTS AND INTERPRETATIONS *(continued)*

3.1 FAS 30 Impairment, credit losses and onerous commitments *(continued)*

FAS 30 applies to all Islamic financing, investment and certain other assets held by the Islamic Window that have similar characteristics. It also applies to certain off-balance-sheet exposures of the Islamic Window. FAS 30 suggests various approaches for impairment assessment depending on the risk characteristics of the assets and exposures as follows:

- a. Assets and exposures subject to credit risk (subject to credit losses approach):
 - i. receivables; and
 - ii. off-balance-sheet exposures
- b. Other financing and investment assets and exposures subject to risks other than credit risk (subject to impairment approach), excluding inventories; and
- c. Inventories (subject to net realizable value approach)

CBO norms, including those on Changes in accounting policies resulting from the adoption of FAS 30 have been applied retrospectively, except comparative periods which has not been restated. No differences in the carrying amounts of Islamic assets and liabilities has resulted from the adoption of FAS 30 which require adjustment in retained earnings and reserves as at 1 January 2021 due to adoption of IFRS 9 earlier. Please refer note 4.15 for measurement if impairment of financial assets.

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

FAS 31 defines the accounting principles and reporting requirements for investment agency (Al-Wakala Bi Al-Istithmar) transactions and instruments, in the hands of both the principal and the agent. This standard is effective for the period beginning on or after 1 January 2021.

The Islamic Window invests money with banks and other customers on Wakala bil Istithmar basis in return for a Wakala fee. The Islamic Window also accepts money from customers on Wakala bil Istithmar basis on unrestricted Wakala arrangement. The arrangement may include an agreement that any profit over and above the expected profit rate will be retained by Wakil as performance fee. The principal would be responsible to bear any loss of Wakala Capital unless it is due to the negligence of Wakala contractual terms on the part of Wakil.

Wakala Investment Accounting:

The standard requires the principal to evaluate the nature of the investment as either a) a pass-through investment or b) Wakala venture.

In case of a pass-through investment approach, the principal shall initially recognize the assets underlying the Wakala arrangement in its books of account applying the initial recognition principles as applicable in line with respective FAS.

In case of Wakala venture approach, an investment shall be accounted for in the books of the investor applying the "equity method of accounting"; where the investment shall be recognized initially at cost and subsequently shall be measured at the end of the financial period at carrying amount and shall be adjusted to include the investor's share in profit or loss of the Wakala venture, net of any agent's remuneration including variable remuneration payable as of that date.

From the principal's perspective, the Islamic Window opted to use Wakala venture approach using equity method of accounting instead of pass-through approach given the practical difficulties for the principal to identify the assets in which funds are invested in and the principal is unable to obtain relevant information with regards to the assets and their performance without undue cost and efforts.

The Islamic Window provides funds to other banks and non-banking customers under this Wakala venture arrangement where the Islamic Window is acting as principal. Those Wakala funds are mainly invested in money market placements and other Shari'a-compliant businesses.

Wakala - Agency Accounting:

From the agent's perspective, the standard requires that at inception of the transaction the agent shall recognize an agency arrangement under off-balance sheet approach since the agent does not control the related assets / business. However, there are exceptions to off-balance sheet approach where, by virtue of additional considerations attached to the instrument based on investment agency arrangement, may allow the same to be accounted for as on-balance sheet. An agent may also maintain multi-level investment arrangement.

The adoption of the above accounting standard did not have a material impact on the Islamic Window's financial statements. However, the standard affects the classification of the Islamic Window's Wakala based contracts previously accounted for as part of liabilities. Balances previously classified under liabilities are currently classified under equity of investment account holders as the Islamic Window has invested funds received under Wakala in its capacity as a Wakil into unrestricted investment accounts.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

3 STANDARDS, AMENDMENTS AND INTERPRETATIONS *(continued)*

3.2 FAS 31 Investment Agency (Al-Wakala Bi Al-Istithmar)*(continued)*

Accordingly, following Wakala balances outstanding as at 31 December 2020 have also been reclassified to unrestricted investment accounts along with the related profits paid on the Wakala balances during the year ended 31 December 2020.

Statement of financial position as at 31st December 2020 restated:	2020	2020
	RO '000	RO '000
	Restated due to	Previously
	adoption of FAS 31	Reported
Liabilities, Equity of Investment Account Holders		
Due to banks	-	57,203
Wakala deposits	-	164,627
Equity of investment account holders	319,922	98,295

Statement of comprehensive income for the year ended 31st December 2020 restated:	2020	2020
	RO '000	RO '000
	Restated due to	Previously
	adoption of FAS 31	Reported
Return to investment account holders	(12,601)	(2,095)
Profit paid on due to banks	-	(4,704)
Profit paid on wakala deposits	-	(5,802)

Statement of cash flows as at 31st December 2020 restated:	2020	2020
	RO '000	RO '000
	Restated due to	Previously
	adoption of FAS 31	Reported
(Decrease) in due to banks	-	(65,857)
Increase in Wakala deposits	-	30,904
Increase in equity of investment account holders	6,051	41,004

3.3 FAS 32 Ijarah and Ijarah muntahia bittamleek

FAS 32 supersedes FAS 8 "Ijarah and Ijarah Muntahia Bittamleek". The standard aims at setting out principles for the classification, recognition, measurement, presentation and disclosure of Ijarah type transactions, including their different forms entered into by an institution, in both the capacities of lessor and lessee. This standard brings significant changes from its predecessor standard (FAS 8), inter alia, in the following aspects:

a) Changes in the classification. Ijarah transactions under in this standard are classified into the following:

- i. Operating Ijarah;
 - ii. Ijarah muntahia bittamleek with expected transfer of ownership after the end of the Ijarah term – either through a sale or gift; and
 - iii. Ijarah muntahia bittamleek with gradual transfer – with gradual transfer ownership during the Ijarah term including Diminishing Musharaka Ijarah;
- b) New recognition and measurement principles for initial recognition for right-of-use asset, Ijarah liability and advance payments for lessee and lessor accounting. There is a new concept of recognizing right-of-use asset and Ijarah liability for lessee accounting which was previously accounted for under FAS 8 and recognized and classified as rent expense in income statement
- c) Requirement to identify and separate Ijarah and non-Ijarah components, if needed
- d) New recognition and measurement principles for an Ijarah muntahia bittamleek through gradual transfer / Diminishing Musharaka Ijarah, whereby the lessee shall recognize the 'combined asset' (including the right-of-use asset and the proportionate asset already owned by the lessee) whereas the lessor shall recognize the proportionate asset owned. FAS 8 requirements of recording monthly depreciation and gain and loss for such transactions are done away with

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

3 STANDARDS, AMENDMENTS AND INTERPRETATIONS *(continued)*

3.3 FAS 32 Ijarah and Ijarah muntahia bittamleek *(continued)*

- e) Allowing effective rate of return/ profit rate method for accounting for rental income, in the hand of the lessor
- f) Testing for impairment of right-of-use asset shall be subject to requirements of FAS 30 "Impairment, Credit Losses and Onerous Commitments" and
- g) Detailed guidelines are provided for presentation and disclosures with enhanced disclosure by lessor and lessee of information as compared to previous requirements in FAS 8

The adoption of this standard did not result in changes to the previously reported net profit or equity of the Islamic Window. Accordingly, the Islamic Window has decided to apply FAS 32 using the modified retrospective approach (i.e. the impact of all the eligible Ijarah contracts outstanding as of 31st December 2020) reflected in the balances as of 1st January 2021. Since the Islamic Window has adopted IFRS-16 "Lease", accordingly Ijarah Assets have already been recognized as right to use assets (shown under property and equipment) and net Ijarah liability (shown under other liabilities). The lease contracts are related to the branches.

3.4 FAS 33 Investments in Sukuk, Shares and Similar Instruments

FAS 33 was issued on 31st December 2018. FAS 33 (which supersedes earlier FAS 25) sets out the improved principles for classification, recognition, measurement, presentation and disclosure of investment in Sukuk, shares and other similar instruments of investments made by Islamic financial institutions (IFIs/the institutions), in line with Sharia principles. It defines the key types of instruments of Sharia-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. Please refer note 4.6 for more detail on classification and measurement of investments

Categorization and classification

FAS 33 contains a classification and measurement approach for investments in Sukuk, shares and similar instruments that reflects the business model in which such investments are managed and the underlying cash flow characteristics. Under the standard, each investment is to be categorized as investment in:

- (a) equity-type instruments;
- (b) debt-type instruments, including:
 - (i) monetary debt-type instruments;
 - (ii) non-monetary debt-type instruments; and
 - (iii) other investment instruments

Unless irrevocable initial recognition choices provided in para 10 of the standard are exercised, an institution shall classify investments as subsequently measured at either of (i) amortised cost (except for equity-type instruments), (ii) fair value through equity or (iii) fair value through income statement, on the basis of both:

- (a) the Bank's business model for managing the investments; and
- (b) the expected cash flow characteristics of the investment in line with the nature of the underlying Islamic finance contracts.

Changes to significant estimates and judgements

Investment Classification

Assessment of the business model within which the investments are managed and assessment of whether the contractual terms of the investment represents either a debt-type instrument or other investment instrument having reasonably determinable effective yield.

Impairment on equity-type investments classified as fair value through equity

In the case of equity-type investments classified as fair value through equity and measured at fair value, a significant or prolonged decline in the fair value of an investment below its cost is considered in determining whether the investments are impaired. If such evidence exists for equity-type investments classified as fair value through equity, the cumulative loss previously recognized in the statement of changes in owners' equity is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity-type investments are subsequently reversed through equity.

Classification and measurement of investment securities

The Islamic Window has performed a detailed analysis of its business models for the investment securities in accordance with IFRS 9 which was adopted earlier & as well performed an analysis of their cash flow characteristics. Hence, there is no change in the classification of investment securities on adoption of FAS 33.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

3 STANDARDS, AMENDMENTS AND INTERPRETATIONS *(continued)*

3.5 FAS 34 Financial Reporting for Sukuk-holders

FAS 34 was issued on 31st December 2018. FAS 34 aims to establish accounting and financial reporting principles for assets and businesses underlying the Sukuk to ensure transparent and fair reporting to all relevant stakeholders, mainly Sukuk-holders. As the Islamic Window has not issued any Sukuk so far, therefore, adoption of this standard did not result in changes to the previously reported net profit or equity of the Islamic Window.

3.6 FAS 35 Risk Reserves

FAS 35 provides principle-based guidance on maintaining reserves, including the approach for utilising reserves. It also requires IFIs to disclose in financial statements the basis for determining the transfers in and out of reserves, the threshold for specific reserves and the use of the specific reserve. It also provides guidance for assessment and accounting for various risks involved and recognise the need for varying levels of reserves in line with the dynamism of risks across the financial calendar. Finally, it also links the allowances for impairment, credit losses, and onerous commitments against the reserves to be maintained for the participating stakeholders. Since the Islamic Window has not maintained any risk reserves the adoption of this standard did not result in changes to these financial statements.

3.7 New and amended standards and interpretations that are not effective during the year

3.7.1 FAS 38 Wa'ad, Khiyar and Tahawwut

FAS 38 was issued in 2020. The objective of this standard is to prescribe the accounting and reporting principles for the recognition, measurement and disclosure concerning Shari'ah-compliant Wa'ad (promise), Khiyar (option) and Tahawwut (hedging) arrangements for Islamic financial institutions. This standard shall be effective for the financial periods beginning on or after 1st January 2022, with early adoption permitted. The Islamic Window is assessing the impact of these standards on the financial statements upon the initial application.

3.7.2 FAS 1 (Revised) General Presentation and Disclosure in the Financial Statements

FAS 1 (Revised) was issued in 2021. This standard supersedes the earlier FAS 1 "General Presentation and Disclosures in the Financial Statements of Islamic Banks and Financial Institutions". The standard introduces the concepts of quasi-equity, off balance -sheet assets under management and other comprehensive income to enhance the information provided to the users of the financial statements. This standard shall be effective for the financial periods beginning on or after 1st January 2022, with early adoption permitted. The Islamic Window is assessing the impact of these standards on the financial statements upon the initial application.

3.7.3 FAS 39 Financial Reporting for Zakah

FAS 39 was issued in 2021. The objective of this standard is to establish the principles of financial reporting related to Zakah attributable to different stakeholders of an Islamic financial institution and provides guidance on two main categories of institutions namely "institutions obliged to pay Zakah" and "institutions not obliged to pay Zakah". This standard shall be effective for the financial periods beginning on or after 1st January 2023, with early adoption permitted. The Islamic Window is assessing the impact of these standards on the financial statements upon the initial application.

3.7.4 FAS 40 Financial Reporting for Islamic Finance Windows

FAS 40 was issued in 2021. The objective of this standard is to establish financial reporting requirement for Islamic finance window and applicable to all conventional financial institutions providing Islamic financial services through and Islamic finance window. This standard improves upon and supersedes FAS 18 "Islamic Financial Services offered by Conventional Financial Institutions". This standard shall be effective for the financial periods beginning on or after 1st January 2024, with early adoption permitted. The Islamic Window is assessing the impact of these standards on the financial statements upon the initial application.

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 income statement.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.1 Foreign currency translation *(continued)*

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 income statement, except for non-monetary financial assets, such as investments classified as at Fair value through equity, which are included in 'investments fair value reserve' in statement of changes in owners' equity. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

4.2 Cash and cash equivalents

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

4.3 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.

4.4 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.

4.5 Wakala bil Istithmar

An agreement whereby the principal provides a certain sum of money (Wakala Capital) to an agent, who invests it according to specific conditions in return for a certain fee. The arrangement may also include agreement on an expected profit rate for principal and incentive fee for Wakeel for performance beyond the agreed expected profit.

The principal would be responsible to bear any loss of Wakala Capital unless it is due to the negligence of Wakala contractual terms on the part of Wakil. It is stated at cost less impairment, if any. The Islamic Window accepts money from the customer on Wakala bil Istithmar basis and also invests with other counterparties in accordance with the same arrangements.

4.6 Investments

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

Investments in these instruments are classified and measured into following categories based on the business model for managing the financial asset and contractual cash flow characteristics associated with it.

- at amortised cost
- at fair value through income statement
- at Fair value through other equity

4.6.1 Debt type instruments carried at amortised cost

These are investments which have fixed or determinable payments of profit and capital. Subsequent to initial recognition, these are measured at amortised cost using the effective profit rate method less impairment, if any. Any gain or loss on such instruments is recognised in the income statement when the instruments are de-recognised or impaired. Investments carried at amortised cost are tested for impairment at each reporting period in accordance with impairment as stated in note 4.15

4.6.2 Debt type instruments carried at fair value through equity

These are investments which have fixed or determinable payments of profit and capital and are held within a business model whose objective is achieved by both collecting expected cashflows and selling the investments. These are initially recognised at fair value, being the value of the consideration given including transaction costs directly attributable to the acquisition. Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value with unrealised gains or losses recognised proportionately in owner's equity and equity of investment account holders until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in the owner's equity or equity of investment account holders is recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.6.3 Equity type instruments carried at fair value through equity

Equity-type instruments are investments that do not exhibit features of debt-type instruments and include instruments that evidence residual interest in the assets of an entity after reducing all its liabilities. On initial recognition, equity-type instruments that are not designated to fair value through income statement are classified as investments at fair value through equity. Subsequent to acquisition, these are remeasured at fair value, with unrealised gains and losses recognised in a separate component of equity until the investment is derecognised or the investment is considered as impaired. Upon derecognition or impairment, the cumulative gain or loss previously recorded in equity is recognised in income for the year.

4.6.4 Investments carried at fair value through income statement

Investments are measured at investment at fair value through income statement if it is not measured at fair value through equity or at amortised cost. Subsequent to acquisition, investments designated at fair value through income statement are re-measured at fair value with the resultant re-measurement gains or losses recognised in the income statement taking into consideration the split between the portion related to owners' equity and the portion related to the equity of profit and loss taking stakeholders, including investment account holders. All other income and expenses arising from these investments are also recognised in the income statement

4.7 Ijarah assets – Ijarah Muntahia Bittamleek

Ijarah assets (Ijarah Muntahia Bittamleek) are initially recorded at cost. Subsequent to initial recognition, these 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 income statement

4.8 Credit Cards

Credit card receivable is based on the Islamic financial principle of profit-free Qard Hasan whereby the customer is required to repay the utilised amount without any profit. In addition, the customer may be charged a monthly fees which could be waived off at the discretion of the Islamic Window.

4.9 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

Intangible assets, including computer software and core banking system, are amortised over their estimated useful life of 10 years and carried net of accumulated amortisation and impairment losses.

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 income statement

Repairs and renewals are charged to the income statement 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.10 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.

4.11 Equity of investment account holders

Equity of investment accountholders (IAH) are funds held by the Islamic Window in pool of unrestricted investment account, which is invested by the Islamic Window ('Mudarib') in its own discretion. These include funds raised under Mudaraba contracts and Wakala contracts. The funds received under the Wakala arrangement is invested in the investment pool and is considered as investment made by an investment account holder. Under both the Mudaraba and a comingled Wakala arrangement, the investment accountholder authorizes the Islamic Window to invest the accountholder's funds in a manner which the Islamic Window deems appropriate without laying down any restrictions as to the purpose the funds should be invested. The Islamic Window charges management fee (Mudarib fees) to investment accountholders. The allocation of income is determined by the management of the Islamic Window at a pre-agreed ratio with IAH. Administrative expenses incurred in connection with the management of the fund are borne directly by the Islamic Window and are not charged to investment accounts.

Only profits earned on pool of assets funded from IAH are allocated between the owners' equity and IAH. All equity of investment accountholders are carried at cost plus profit and related reserves less amounts settled. The basis applied by the Islamic Window in arriving at the equity of investment accountholder's share of income is total investment income less shareholders' income. In case of Wakala contracts, the Islamic Window does not act as both an investment agent and Mudarib of the same fund at one time. Therefore, in case of comingling of Wakala investment funds with the Mudaraba pool, the investment agent will only charge Wakala Fee and will not share profits from the Mudaraba investment pool in the capacity of Mudarib. Under FAS 30, ECL is allocated to the assets invested using funds from unrestricted investment accounts.

4.12 Revenue recognition

4.12.1 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.

4.12.2 Musharaka

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

4.12.3 Ijarah

Rentals accrued from ijarah financings is recognised on a time-apportioned basis over the lease term net of depreciation charged are taken to the income statement, net of suspended profit.

4.12.4 Wakala bil Istithmar

Income from Wakala bil Istithmar placements is recognised on a time apportioned basis so as to yield a expected rate of return based on the wakala capital.

4.12.5 Income from investments

Income from investments is recognised when earned.

4.12.6 Dividend

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

4.12.7 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.12.8 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.

4.12.9 Profit suspension

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

4.13 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.

4.14 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. The notional tax expense on the Islamic Window result for the year at the statutory effective tax rate would amount to RO 0.710 Mn (2020: (0.086 Mn)).

4.15 Impairment of Financial Contracts

Financing and investment contracts consist of balances with banks and the Central Bank of Oman, due from banks, investment securities, Wakala bil Istithmar, Murabaha receivables (net of deferred profits), Diminishing Musharaka, Ijarah Muntahia Bittamleek, Sukuk, financing commitments and guarantees and other financial assets.

Impairment assessment- ECL

The Islamic Window applies three-stage approach to measure ECL. Assets subject to ECL approach shall include all financing & investment contracts and off-balance sheet exposures including guarantees, letters of credit, forward foreign exchange and other similar positions. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Measurement of ECL

The measurement of ECL reflects:

- an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;
- 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. FAS 30 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 and provisions 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.

Credit loss allowances and provisions 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 and provision is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.15 Impairment of Financial Contracts *(continued)*

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.

Presentation of allowance for ECL in the statement of financial position

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

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the financial assets;
- Debt instruments measured at fair value through equity: no provision is recognized in the Statement of Financial Position because the carrying value of these assets is their fair value. However, the provision determined is disclosed and recognised in the fair value reserve; and
- Off-balance sheet credit risks include undrawn financing commitments, letters of credit and letters of guarantee: as a provision in other liabilities.

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 income statement.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.16 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.

4.17 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.

4.18 Employee terminal benefits

4.18.1 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 income statement when incurred.

4.18.2 Short term benefits

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

4.19 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.

4.20 Zakah

Zakah is calculated in accordance with FAS 9 Zakah using the net assets method. The Islamic Window will calculates 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.

4.21 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.22 Sharia Supervisory Board

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

4.23 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".

4.24 Commingling of funds

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

4.25 Trade date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. that date the Islamic Window commits to purchase or sell the assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or convention in the market place.

4.26 Fiduciary Assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Islamic Window in the statement of financial position.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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 and provisions

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

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

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

Detailed information about the judgements and estimates is provided in note 4.15

5.3 Useful life of property and equipment and Ijarah Muntahia Bittamleek

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

6 CASH AND BALANCES WITH CENTRAL BANK OF OMAN

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
11,437	10,354	Cash	3,986	4,403
12,675	94,908	Clearing account with Central Bank of Oman	36,540	4,880
<u>24,112</u>	<u>105,262</u>		<u>40,526</u>	<u>9,283</u>

7 DUE FROM BANKS

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
7,792	-	Wakala placements	-	3,000
1,268	1,764	Nostro account balances	679	488
<u>9,060</u>	<u>1,764</u>		<u>679</u>	<u>3,488</u>

8 MURABAHA RECEIVABLES

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
32,719	26,416	Vehicles	10,170	12,597
77,951	68,094	Personal financing	26,216	30,011
17,577	15,940	Corporate	6,137	6,767
<u>128,247</u>	<u>110,450</u>	Gross receivables	<u>42,523</u>	<u>49,375</u>
(15,613)	(12,987)	Deferred profits	(5,000)	(6,011)
<u>112,634</u>	<u>97,463</u>		<u>37,523</u>	<u>43,364</u>
		Less: Impairment loss allowance		
(1,104)	(992)	Stage 1 and 2 (Note 32)	(382)	(425)
(379)	(2,930)	Stage 3 (Note 32)	(1,128)	(146)
<u>111,151</u>	<u>93,541</u>		<u>36,013</u>	<u>42,793</u>

Murabaha receivables are jointly financed by the Islamic window and investment account holders.

8.1 Deferred Profit

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
(18,210)	(15,613)	Deferred profit at the beginning of the year	(6,011)	(7,011)
(20,517)	(9,177)	Murabaha sales during the year	(3,533)	(7,899)
18,366	6,137	Murabaha cost of sales	2,363	7,071
(2,151)	(3,040)	Deferred profit on sales	(1,170)	(828)
4,748	5,665	Murabaha income recognised during the period	2,181	1,828
<u>(15,613)</u>	<u>(12,988)</u>	Deferred profit at the end of the year	<u>(5,000)</u>	<u>(6,011)</u>

9 WAKALA BIL ISTITHMAR

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
-	75,268	Gross receivables	28,978	-
-	(3)	Less: Stage 1 Impairment loss allowance (Note 32)	(1)	-
<u>-</u>	<u>75,265</u>		<u>28,977</u>	<u>-</u>

Wakala bil Istithmar is jointly financed by the Islamic window and investment account holders.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

10 MUSHARAKA RECEIVABLES

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
457,964	544,826	Musharaka receivables	209,758	176,316
(1,906)	(2,803)	Less: Impairment loss allowance	(1,079)	(734)
(6,065)	(7,283)	Stage 1 and 2 (Note 32)	(2,804)	(2,335)
<u>449,993</u>	<u>534,740</u>	Stage 3 (Note 32)	<u>205,875</u>	<u>173,247</u>

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

11 INVESTMENT SECURITIES

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
74,211	89,932	Debt type instrument at fair value through equity	34,624	28,571
		Sukuks		
845	700	Equity type instrument at fair value through equity	269	325
<u>75,056</u>	<u>90,632</u>	Open end mutual fund and equity	<u>34,893</u>	<u>28,896</u>

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

12 IJARAH ASSETS - IJARAH MUNTAHIA BITTAMLEEK

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
467,496	405,644	Cost	156,173	179,986
(131,982)	(100,756)	Accumulated depreciation	(38,791)	(50,813)
<u>335,514</u>	<u>304,888</u>	Book value	<u>117,382</u>	<u>129,173</u>
(1,701)	(2,255)	Less: Impairment loss allowance	(868)	(655)
(847)	(856)	Stage 1 and 2 (Note 32)	(330)	(326)
<u>332,966</u>	<u>301,777</u>	Stage 3 (Note 32)	<u>116,184</u>	<u>128,192</u>
		Net book value		

Ijarah assets are jointly financed by the Islamic window and investment account holders.

13 CREDIT CARD

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
1,463	1,545	Islamic Credit Card	595	563
(8)	(5)	Less: Impairment loss allowance	(2)	(3)
<u>1,455</u>	<u>1,540</u>	Stage 1,2 & 3 (Note 32)	<u>593</u>	<u>560</u>
		Net book value		

14 SERVICE IJARAH

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
<u>1,291</u>	<u>1,732</u>	Service Ijarah	<u>667</u>	<u>497</u>

Service ijarah assets are jointly financed by the Islamic window and investment account holders.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

15. 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.

15.1 Comparison of provision held as per IFRS 9 and required as per CBO norms as at 31 December 2021:

Disclosure requirements for the year ended 31 December 2021, containing the risk classification-wise gross and net amount outstanding, provision required as per CBO norms, allowance made as per IFRS 9, profit recognised as per IFRS 9 and suspended profit required as per CBO are given below based on CBO circular BM 1149.

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Profit recognised in P&L as per IFRS 9	Suspended profit as per CBO norms
(1)	(2)	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)		
Standard	Stage 1	314,054	3,951	975	2,976	310,103	313,079	-	-
	Stage 2	46,207	-	680	(680)	46,207	45,527	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		360,261	3,951	1,655	2,296	356,310	358,606	-	-
Special Mention	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	17,705	-	676	(676)	17,705	17,029	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		17,705	-	676	(676)	17,705	17,029	-	-
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	105	27	49	(22)	78	56	-	1
Subtotal		105	27	49	(22)	78	56	-	1
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	287	91	105	(14)	196	182	-	3
Subtotal		287	91	105	(14)	196	182	-	3
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	16,545	13,611	5,785	7,826	2,934	10,760	-	1,672
Subtotal		16,545	13,611	5,785	7,826	2,934	10,760	-	1,672
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	58,223	-	17	(17)	58,223	58,206	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	51	-	51	(51)	51	-	-	-
Subtotal		58,274	-	68	(68)	58,274	58,206	-	-
Total	Stage 1	372,277	3,951	992	2,959	368,326	371,285	-	-
	Stage 2	63,912	-	1,356	(1,356)	63,912	62,556	-	-
	Stage 3	16,988	13,729	5,990	7,739	3,259	10,998	-	1,676
	Total	453,177	17,680	8,338	9,342	435,497	444,839	-	1,676

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 2021

15. FINANCING ACTIVITIES *(continued)*

15.2 Restructured Loans

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Carrying Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Carrying Amount as per CBO norms*	Net Carrying Amount as per IFRS 9	Profit recognised in P&L as per IFRS 9	Suspended profit as per CBO norms
(1)	(2)	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
		(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Classified as performing	Stage 1	27,214	-	408	(408)	27,214	26,806	-	-
	Stage 2	15,056	-	485	(485)	15,056	14,571	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		42,270	-	893	(893)	42,270	41,377	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	9,546	4,938	2,138	2,800	4,607	7,407	-	1,176
Sub total		9,546	4,938	2,138	2,800	4,607	7,407	-	1,176
Total	Stage 1	27,214	-	408	(408)	27,214	26,806	-	-
	Stage 2	15,056	-	485	(485)	15,056	14,571	-	-
	Stage 3	9,546	4,938	2,138	2,800	4,607	7,407	-	1,176
	Total	51,816	4,938	3,032	1,907	46,877	48,784	-	1,176

*Net of provisions and suspended profit as per CBO norms

15.3 Impairment charge and provisions held

	As per CBO Norms	As per IFRS 9	Difference
Impairment loss charged to profit and loss account	1,982	1,982	-
Provisions required as per CBO norms/ held as per IFRS 9	17,680	8,338	9,342
Gross NPL ratio (percentage)	4.29%	4.29%	-
Net NPL ratio (percentage)	0.39%	2.77%	-2.38%

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

As per CBO circular BSD/CB & FLCs/2021/002 dated March 18, 2021, CBO has temporarily discontinued the application of two track approach as per BM 1149 and hence there will be no change in Impairment Reserve during the year 2021

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

15. FINANCING ACTIVITIES *(continued)*

15.4 Comparison of provision held as per IFRS 9 and required as per CBO norms as at 31 December 2020:

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

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount RO '000	Provision required as per CBO Norms RO '000	Provision held as per IFRS 9 RO '000	Difference between CBO provision required and provision held RO '000	Net Amount as per CBO norms* RO '000	Net 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
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Standard	Stage 1	267,666	3,658	400	3,258	264,008	267,266	-	-
	Stage 2	44,979	-	677	(677)	44,979	44,302	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		312,645	3,658	1,077	2,581	308,987	311,568	-	-
Special Mention	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	20,246	-	740	(740)	20,246	19,506	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		20,246	-	740	(740)	20,246	19,506	-	-
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	28	7	14	(7)	21	14	-	-
Subtotal		28	7	14	(7)	21	14	-	-
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	10,368	4,715	2,246	2,469	5,653	8,122	-	394
Subtotal		10,368	4,715	2,246	2,469	5,653	8,122	-	394
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	6,626	2,681	1,571	1,110	3,945	5,055	-	630
Subtotal		6,626	2,681	1,571	1,110	3,945	5,055	-	630
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	49,247	-	47	(47)	49,247	49,200	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	9	-	9	(9)	9	-	-	-
Subtotal		49,256	-	56	(56)	49,256	49,200	-	-
Total	Stage 1	316,913	3,658	447	3,211	313,255	316,466	-	-
	Stage 2	65,225	-	1,417	(1,417)	65,225	63,808	-	-
	Stage 3	17,031	7,403	3,840	3,563	9,628	13,191	-	1,024
	Total	399,169	11,061	5,704	5,357	388,108	393,465	-	1,024

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

15. FINANCING ACTIVITIES *(continued)*

15.5 Restructured Loans *(continued)*

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Carrying Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Carrying Amount as per CBO norms*	Net Carrying Amount as per IFRS 9	Profit recognised in P&L as per IFRS 9	Suspended profit as per CBO norms
		RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	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	15,181	-	429	(429)	15,181	14,752	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		15,181	-	429	(429)	15,181	14,752	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	8,925	2,671	1,626	1,045	6,254	7,299	-	659
Sub total		8,925	2,671	1,626	1,045	6,254	7,299	-	659
Total	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	15,181	-	429	(429)	15,181	14,752	-	-
	Stage 3	8,925	2,671	1,626	1,045	6,254	7,299	-	659
	Total	24,106	2,671	2,055	616	21,435	22,051	-	659

*Net of provisions and suspended profit as per CBO norms

15.6 Impairment charge and provisions held

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

16 PROPERTY AND EQUIPMENT

	Building	Leasehold improve- ments	Computer and other equipment	Intangi- bles	Furniture	ROU Assets	Capital work in progress	Total
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Cost:								
At 1 January 2021	477	696	463	985	119	1,079	2	3,821
Additions	-	481	221	40	72	638	-	1,452
Disposals / scrapped	-	(55)	(11)	-	(17)	-	-	(83)
At 31 December 2021	477	1,122	673	1,025	174	1,717	2	5,190
Accumulated depreciation:								
At 1 January 2021	135	467	373	714	94	373	-	2,156
Depreciation	19	111	32	53	11	339	-	565
Disposals / scrapped	-	(55)	(11)	-	(17)	-	-	(83)
At 31 December 2021	154	523	394	767	88	712	-	2,638
Net book value as at								
At 31 December 2021	323	599	279	258	86	1,005	2	2,552
At 31 December 2021 (US\$ '000)	839	1,556	725	670	223	2,610	5	6,628
	Building	Leasehold improve- ments	Computer and other equipment	Intangibles	Furniture	ROU Assets	Capital work in progress	Total
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Cost:								
At 1 January 2020	477	564	495	985	100	661	2	3,284
Additions	-	132	4	-	19	418	-	573
Disposals / scrapped	-	-	(36)	-	-	-	-	(36)
At 31 December 2020	477	696	463	985	119	1,079	2	3,821
Accumulated depreciation:								
At 1 January 2020	116	423	381	641	89	129	-	1,779
Depreciation	19	44	28	73	5	244	-	413
Disposals / scrapped	-	-	(36)	-	-	-	-	(36)
At 31 December 2020	135	467	373	714	94	373	-	2,156
Net book value as at								
At 31 December 2020	342	229	90	271	25	706	2	1,665
At 31 December 2020 (US\$ '000)	888	595	233	704	65	1,834	5	4,324

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

17 OTHER ASSETS

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
15,669	20,732	Profit receivable on financing	7,982	6,033
329	465	Profit receivable on sukus	179	127
291	470	Prepayments	181	112
158	302	Others	116	61
(23)	(132)	Impairment loss allowance	(51)	(9)
<u>16,424</u>	<u>21,837</u>		<u>8,407</u>	<u>6,324</u>

18 DUE TO BANKS

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
527	197	Vostro account balances	76	203
<u>527</u>	<u>197</u>		<u>76</u>	<u>203</u>

19 OTHER LIABILITIES

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
8,140	4,855	Profit payable	1,869	3,134
4,395	7,383	Accrued expenses and payable	2,843	1,692
3	1	Charity payable	1	1
1,824	1,952	Lease liability	752	702
327	553	Others	213	126
68	17	Impairment loss allowance	7	26
<u>14,757</u>	<u>14,761</u>		<u>5,683</u>	<u>5,681</u>

20 EQUITY OF INVESTMENT ACCOUNT HOLDERS

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
255,312	398,171	Saving and call accounts	153,296	98,295
148,052	38,961	Wakala acceptances	15,000	57,000
45,379	12,166	Wakala Deposits - Financial institutions	4,684	17,471
382,223	565,413	Wakala Deposits - Others	217,684	147,156
<u>830,966</u>	<u>1,014,712</u>	Equity of investment account holders	<u>390,664</u>	<u>319,922</u>

The average profit rate for the investment account holders during the year was 3.03% (2020: 3.64%). Profit sharing ratio of mudarib as at 31 December 2021 was 30% (2020: 30%)

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 2021

21 SHARE CAPITAL

The allocated share capital of the Islamic Window is RO 35 million equivalent to US\$ 90.909 million (2020: RO 25 million equivalent to US\$ 64.935 million). During the year, the Bank raised additional capital through rights issue of 300 million shares at 100bz. The Bank has allocated 10 million shares to the Islamic Window from the rights issue.

22 CONTINGENT LIABILITIES AND COMMITMENTS

2020 US\$ '000	2021 US\$ '000		2021 RO '000	2020 RO '000
32,842	16,172	Guarantees	6,226	12,644
11,291	42,823	Financing Commitment	16,487	4,347
44,133	58,995		22,713	16,991

23 INCOME FROM FINANCING ACTIVITIES

2020 US\$ '000	2021 US\$ '000		2021 RO '000	2020 RO '000
23,888	27,940	Musharaka	10,757	9,197
15,348	17,906	Rental income on ijarah assets	6,894	5,909
4,748	5,665	Murabaha	2,181	1,828
-	268	Wakala bil Istithmar	103	-
43,984	51,779		19,935	16,934

24 INCOME FROM INVESTING ACTIVITIES

2020 US\$ '000	2021 US\$ '000		2021 RO '000	2020 RO '000
4,127	4,030	Income from investments	1,552	1,589
340	30	Income from wakala placements	11	131
4,467	4,060		1,563	1,720

25 OTHER OPERATING INCOME

2020 US\$ '000	2021 US\$ '000		2021 RO '000	2020 RO '000
299	984	Fee and commission income	379	206
(236)	(174)	Fee and commission expense	(67)	(91)
63	810		312	115

26 OTHER OPERATING INCOME FROM BANKING SERVICES

2020 US\$ '000	2021 US\$ '000		2021 RO '000	2020 RO '000
1,446	3,092	Fee and commission, net	1,190	556
91	132	Foreign exchange gain, net	51	35
105	244	Service charges and other	94	41
1,642	3,468		1,335	632

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

27 STAFF EXPENSES

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
3,309	4,258	Salaries and wages	1,639	1,274
2,992	3,869	Allowances and other staff cost	1,490	1,152
<u>6,301</u>	<u>8,127</u>		<u>3,129</u>	<u>2,426</u>

28 OTHER OPERATING EXPENSES

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
2,070	4,132	Operating and administration costs	1,591	797
322	299	Occupancy costs	115	124
501	639	Advertisement costs	246	193
86	75	Shariah Supervisory Board related expenses	29	33
<u>2,979</u>	<u>5,145</u>		<u>1,981</u>	<u>1,147</u>

29 ZAKAH

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

30 RELATED PARTY TRANSACTIONS

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

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

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
		Directors, Shariah Supervisory Board and senior management		
59	99	Financing assets	38	23
1,359	1,469	Customers' deposits	566	523
		Major shareholders and others		
398	28	Nostro account balances	11	153
499	350	Investment securities	135	192
148,447	38,961	Due to banks - Wakala acceptances	15,000	57,152

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

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
		Directors, Shariah Supervisory Board and senior management		
8	8	Profit earned	3	3
70	60	Shariah Supervisory Board remuneration	23	27
16	15	Shariah Supervisory Board sitting fee	5	6
		Major shareholders and others		
11,701	-	Profit paid on due to banks	-	4,505

The Islamic Window has not rented any branch premises from a Director during the year 2021 and 2020

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

31 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The fair value of investments classified as fair value through equity as at 31 December 2021 is RO 34.893 million equivalent to US\$ 90.63 million (31 December 2020 is RO 28.896 million equivalent to US\$ 75.06 million) with cost amounts to RO 34.969 million equivalent to US\$ 90.83 million (31 December 2020: RO 28.941 million equivalent to US\$ 75.17 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:

	2021	2021	2021	2020	2020	2020
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
	Level 1	Level 2	Total	Level 1	Level 2	Total
Financial assets						
Investment - debt type instruments at fair value through equity	9,283	25,341	34,624	3,367	25,204	28,571
Investment - equity type instrument at fair value through equity	-	269	269	-	325	325
	<u>9,283</u>	<u>25,610</u>	<u>34,893</u>	<u>3,367</u>	<u>25,529</u>	<u>28,896</u>
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Financial assets						
Investment - debt type instruments at fair value through equity	24,112	65,820	89,932	8,748	65,463	74,211
Investment - equity type instrument at fair value through equity	-	700	700	-	845	845
	<u>24,112</u>	<u>66,520</u>	<u>90,632</u>	<u>8,748</u>	<u>66,308</u>	<u>75,056</u>

No financial instruments are carried at level 3 fair values as on 31 December 2021 (31 December 2020: NIL)

32 RISK MANAGEMENT

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

32 RISK MANAGEMENT *(continued)*

32.1 CREDIT RISK

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

32.1.1 TYPE OF CREDIT RISK

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

32.1.1.1 MURABAHA RECEIVABLE

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

32.1.1.2 MUSHARAKA

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

32.1.1.3 IJARAH - IJARAH MUNTAHIA BITTAMLEEK

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

32.1.1.4 SERVICE IJARAH

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

32.1.1.5 WAKALA BIL ISTITHMAR

An agreement between two parties whereby one party is a fund owner (the "Muwakkil") who provides a certain amount of money (the "Wakala capital") to an agent (the "Wakeel"), who invests the Wakala capital in a Shari'a compliant manner.

32.1.2 Credit risk measurement

(a) Financings (including Loan commitments and guarantees)

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

(b) Credit risk grading

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

32 RISK MANAGEMENT *(continued)*

32.1 CREDIT RISK *(continued)*

b) Credit risk grading *(continued)*

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

32.1.3 Exposure to credit risk

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

	2021				2020
	Stage 1	Stage 2	Stage 3	Total	Total
	RO '000	RO '000	RO '000	RO '000	RO '000
Clearing account with Central Bank of Oman	36,540	-	-	36,540	4,880
Due from banks	679	-	-	679	3,488
Financing to customers - Gross	314,054	63,912	16,937	394,903	349,913
Investment securities	34,624	-	-	34,624	28,571
Financing Commitments and financial guarantees	22,713	-	-	22,713	16,991
Gross carrying amount	408,610	63,912	16,937	489,459	403,843
Impairment loss allowance	992	1,356	5,990	8,338	5,704
Carrying amount	407,618	62,556	10,947	481,121	398,139

	2021				2020
	Stage 1	Stage 2	Stage 3	Total	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Clearing account with Central Bank of Oman	94,909	-	-	94,909	12,675
Due from banks	1,764	-	-	1,764	9,060
Financing to customers - Gross	815,725	166,005	43,992	1,025,722	908,865
Investment securities	89,932	-	-	89,932	74,210
Financing Commitments and financial guarantees	58,995	-	-	58,995	44,133
Gross carrying amount	1,061,325	166,005	43,992	1,271,322	1,048,943
Impairment loss allowance	2,577	3,522	15,559	21,658	14,816
Carrying amount	1,058,748	162,483	28,433	1,249,664	1,034,127

IMPAIRED FINANCING

The collateral held against impaired financing is RO 27.727 million equivalent to US\$ 72.018 million (31 December 2020 RO 10.588 million equivalent to US\$ 27.50 million).

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

32 RISK MANAGEMENT *(continue)*

32.1 CREDIT RISK *(continue)*

Overview of ECL principles *(continued)*

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 4.15.

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.

Movement in Impairment allowance and provision

	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000	Total RO '000
Opening balance as at 1 January 2021				
Financings	400	1,417	3,831	5,648
Investment Securities & Due from Banks	21	-	-	21
Financing commitments and financial guarantees	26	-	-	26
Other assets	-	-	9	9
Net transfer between stages				
Financings	60	(63)	3	-
Investment Securities & Due from Banks	-	-	-	-
Financing commitments and financial guarantees	-	-	-	-
Other assets	-	-	-	-
Charge for the Year (net)				
Financings	515	2	2,105	2,622
Investment Securities & Due from Banks	(10)	-	-	(10)
Financing commitments and financial guarantees	(20)	-	-	(20)
Other assets	-	-	42	42

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

32 RISK MANAGEMENT *(continued)*

32.1 CREDIT RISK *(continued)*

Movement in Impairment allowance and provision *(continued)*

Closing balance as at 31 December 2021

Financings	975	1,356	5,939	8,270
Investment Securities & Due from Banks	11	-	-	11
Financing commitments and financial guarantees	6	-	-	6
Other assets	-	-	51	51

Note: Charge for the year includes suspended profit of RO 0.652 Mn

32.1.5 Significant increase in credit risk (SICR)

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

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

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

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

32.1.6 Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Islamic Window in full, without recourse by the Islamic Window to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation of the Islamic Window.

In assessing whether the borrower is in default, the Islamic Window considers indicators that are;

- qualitative - e.g. breaches of covenant
- quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Islamic Window; and
- based on data developed internally and obtained from external sources.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

32 RISK MANAGEMENT *(continue)*

32.1 CREDIT RISK *(continue)*

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.

Impact on SICR

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

Covid 19 Impact on ECL allowance

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

As on the reporting date, collective provision held by the Islamic Window through management overlays amounts to 14.7% of total impairment based on latest available PD term structure, macro-economic forecasts and on exposure on certain large sector customer. This is in addition to the existing ECL provision considered on a conservative practices to mitigate any unforeseen impacts in the portfolio. The Islamic Window will continue to reassess and appropriately adjust such overlays on a regular basis throughout the affected period.

Sensitivity analysis- ECL

The following table shows a comparison of the Islamic window's loss allowances on non-impaired financial contracts (Stages 1 and 2) based on the probability weightings of three scenarios with loss allowances resulting from simulations of each scenario weighted at 100%.

2021			2021	
Impact on ECL	ECL		ECL	Impact on ECL
US\$'000	US\$'000		RO'000	RO'000
	6,099	ECL on non impaired financial contracts	2,348	
(2,103)	3,996	Good scenario - 100% weighted	1,539	(809)
25	6,124	Base scenario - 100% weighted	2,358	10
2,072	8,170	Bad scenario - 100% weighted	3,146	798
2020			2020	
Impact on ECL	ECL		ECL	Impact on ECL
US\$'000	US\$'000		RO'000	RO'000
	4,842	ECL on non impaired financial contracts	1,864	
(1,564)	3,278	Good scenario - 100% weighted	1,262	(602)
29	4,871	Base scenario - 100% weighted	1,875	11
1,506	6,348	Bad scenario - 100% weighted	2,444	580

For computation of ECL, the Islamic Window considers three scenarios i.e., Good, base and bad with weightage of 25%, 50% and 25% respectively for the year 2021 and 2020.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

32 RISK MANAGEMENT *(continued)*

32.1 Deferrals - Financings

In line with the CBO circulars issued during the year 2020 and 2021, the Islamic Window has accepted request for deferrals and waivers during the year which has ended by 31 December 2021 except for certain waivers under retail customers. In case of Corporate customers, the Islamic Window has accrued the profit during the deferral period to the principal outstanding and either extended the original maturity period of the financing and/or increased the installments at the end of the deferral period. In case of Retail deferral customers, the Islamic Window has extended the maturity of the financing without changing installments.

The following table contains an analysis of the deferred amount of principal outstanding and accrued profit pertinent to financings of the corporate customers, who have been provided with such benefits, and the related ECL:

		Construction	Services	Manufacturing	All Others	Total
		RO '000	RO '000	RO '000	RO '000	RO '000
Stage 1	Loans & advances and financing, net	1,890	4,875	178	90	7,032
	ECL Allowance	7	14	3	2	26
	Of Which:					
	Deferred					
	Principal	697	387	30	15	1,128
	Interest	221	503	11	6	741
	ECL allowance	4	3	1	-	7
	Carrying Amount	914	887	40	20	1,862
Stage 2	Loans & advances and financing, net	-	43,270	-	166	43,435
	ECL Allowance	-	379	-	45	424
	Of Which:					
	Deferred					
	Principal	-	4,381	-	29	4,410
	Interest	-	5,849	-	10	5,860
	ECL allowance	-	90	-	11	100
	Carrying Amount	-	10,140	-	165	10,169
Stage 3	Loans & advances and financing, net	1,890	48,145	178	256	50,468
	ECL Allowance	7	393	3	46	450
	Of Which:					
	Deferred					
	Principal	697	4,768	30	44	5,538
	Interest	221	6,352	11	16	6,601
	ECL allowance	4	92	1	11	107
	Carrying Amount	914	11,028	40	261	12,031

The following table contains an analysis of the deferred amount of principal outstanding and accrued profit pertinent to financings of the retail customers, who have been provided with such benefits, and the related ECL:

Retail Portfolio	Outstanding	ECL	Principal Deferred	Interest Deferred	ECL	Carrying Amount
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Salaried	1,691	1	27	67	1	93
Irregular Salary	47	1	1	-	1	-
Total	1,738	2	28	67	2	93

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

32 RISK MANAGEMENT *(continued)*

32.2 LIQUIDITY RISK

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

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

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

Adequate liquidity is ensured by Treasury, which receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, placements with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Islamic Window as a whole. In this process due care is taken to ensure that the Islamic Window complies with all the Central Bank of Oman regulations and the liquidity ratios were in compliance with regulatory requirements as of year ended 31 December 2021.

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

	Upto three months	Above three months to twelve months	Above one year to five years	More than five years	Total
31 December 2021	RO '000	RO '000	RO '000	RO '000	RO '000
Assets					
Cash and balances with Central Bank of Oman	40,526	-	-	-	40,526
Due from banks	679	-	-	-	679
Financing assets	38,255	12,108	63,746	274,200	388,309
Investment securities	23,352	11,541	-	-	34,893
Property and equipment	-	-	-	2,552	2,552
Other assets	8,407	-	-	-	8,407
Total assets	111,219	23,649	63,746	276,752	475,366
Liabilities, equity of investment account holders and owners' equity					
Due to banks	76	-	-	-	76
Customers' deposits	65,127	147,169	106,222	90,339	408,857
Other liabilities	4,019	1,080	155	429	5,683
Shareholder's fund	-	-	-	60,750	60,750
Total liabilities, equity of investment account holders and owners' equity	69,222	148,249	106,377	151,518	475,366
Net liquidity gap	41,997	(124,600)	(42,631)	125,234	-
Cummulative liquidity gap	41,997	(82,603)	(125,234)	-	-

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

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 2021	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Assets					
Cash and balances with Central Bank of Oman	105,262	-	-	-	105,262
Due from banks	1,764	-	-	-	1,764
Financing assets	99,364	31,449	165,574	712,208	1,008,595
Investment securities	60,655	29,977	-	-	90,632
Property and equipment	-	-	-	6,628	6,628
Other assets	21,837	-	-	-	21,837
Total assets	288,882	61,426	165,574	718,836	1,234,718
Liabilities, equity of investment account holders and owners' equity					
Due to banks	197	-	-	-	197
Customers' deposits	169,161	382,257	275,901	234,648	1,061,967
Other liabilities	10,439	2,805	403	1,114	14,761
Shareholder's fund	-	-	-	157,793	157,793
Total liabilities, equity of investment account holders and owners' equity	179,797	385,062	276,304	393,555	1,234,718
Net liquidity gap	109,085	(323,636)	(110,730)	325,281	-
Cummulative liquidity gap	109,085	(214,551)	(325,281)	-	-
31 December 2020					
	RO '000	RO '000	RO '000	RO '000	RO '000
Assets					
Cash and balances with Central Bank of Oman	9,283	-	-	-	9,283
Due from banks	3,488	-	-	-	3,488
Financing assets	8,714	13,735	60,496	262,344	345,289
Investment securities	19,372	9,524	-	-	28,896
Property and equipment	-	-	-	1,665	1,665
Other assets	4,998	1,326	-	-	6,324
Total assets	45,855	24,585	60,496	264,009	394,945
Liabilities, equity of investment account holders and owners' equity					
Due to banks	10,203	6,000	41,000	-	57,203
Customers' deposits	41,935	75,438	109,457	58,634	285,464
Other liabilities	2,751	981	1,391	558	5,681
Shareholder's fund	-	-	-	46,597	46,597
Total liabilities, equity of investment account holders and owners' equity	54,889	82,419	151,848	105,789	394,945
Net liquidity gap	(9,034)	(57,834)	(91,352)	158,220	-
Cummulative liquidity gap	(9,034)	(66,868)	(158,220)	-	-

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

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

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;

	2021 RO '000	2021 US\$ '000	2020 RO '000	2020 US\$ '000
Net profit earned	10,741	27,899	6,771	17,587
Impact of +200 bps profit rate increase	(3,768)	(9,787)	877	2,278
Impact of -200 bps profit rate decrease	3,768	9,787	(877)	(2,278)

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

32 RISK MANAGEMENT *(continued)*

32.3 MARKET RISK *(continued)*

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:

2020 US\$ '000	2021 US\$ '000		2021 RO '000	2020 RO '000
11,553	13,692	US Dollar	5,271	4,448
127	35	Euro	13	49
13	168	UAE Dirham	65	5
16	37	GBP Sterling	14	6
140	106	Others	41	54

The Islamic Window takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors set limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The Islamic window also monitors foreign currency risk as per requirements and the same was within regulatory limit as at 31 December 2021.

Changes in the non-parity foreign currency prices as at 31 December 2021 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.

2020 US\$ '000	2021 US\$ '000		Change (+/-)	2021 RO '000	2020 RO '000
7,421	1,299	Sukuks	10%	500	2,857
83	70	Open end mutual fund and equity	10%	27	32

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

32 RISK MANAGEMENT *(continued)*

32.5 CONCENTRATION RISK *(continued)*

	2021						
	Murabaha, gross	Wakala bil Istithmar gross	Musharaka, gross	Ijarah Muntahia Bittamleek	Other financings, gross	Due from banks	Investment securities
Concentration by industry	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Sovereign	-	-	-	-	-	-	33,886
Corporate	5,912	28,978	169,497	46,616	-	-	1,007
Personal	31,611	-	40,261	70,766	1,262	-	-
Banks	-	-	-	-	-	679	-
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Sovereign	-	-	-	-	-	-	88,018
Corporate	15,356	75,268	440,252	121,080	-	-	2,615
Personal	82,107	-	104,574	183,808	3,278	-	-
Banks	-	-	-	-	-	1,764	-
	2020						
<i>Concentration by industry</i>	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Sovereign	-	-	-	-	-	-	27,717
Corporate	6,429	-	145,984	53,865	-	-	1,179
Personal	36,935	-	30,332	75,308	1,060	-	-
Banks	-	-	-	-	-	3,488	-
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Sovereign	-	-	-	-	-	-	71,994
Corporate	16,699	-	379,179	139,909	-	-	3,062
Personal	95,935	-	78,785	195,605	2,754	-	-
Banks	-	-	-	-	-	9,060	-
	2021						
	Murabaha, gross	Wakala bil Istithmar 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	RO '000
Oman	37,523	28,978	209,758	117,382	1,262	-	34,893
Other GCC countries	-	-	-	-	-	134	-
Unites States of America	-	-	-	-	-	515	-
OECD countries	-	-	-	-	-	30	-
Others	-	-	-	-	-	-	-
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Oman	97,462	75,268	544,826	304,888	3,278	-	90,633
Other GCC countries	-	-	-	-	-	349	-
Unites States of America	-	-	-	-	-	1,338	-
OECD countries	-	-	-	-	-	77	-
Others	-	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

32 RISK MANAGEMENT *(continued)*

32.5 CONCENTRATION RISK *(continued)*

	2020						
	Murabaha, gross	Wakala bil Istithmar gross	Musharaka, gross	Ijarah Muntahia Bittamleek	Other financings, gross	Due from banks	Invest- ment securities
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
<i>Concentration by location</i>							
Oman	43,364	-	176,316	129,173	1,060	3,152	28,072
Other GCC countries	-	-	-	-	-	129	-
Unites States of America	-	-	-	-	-	-	-
OECD countries	-	-	-	-	-	-	-
Others	-	-	-	-	-	207	824
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Oman	112,634	-	457,964	335,514	2,754	8,187	72,916
Other GCC countries	-	-	-	-	-	335	-
Unites States of America	-	-	-	-	-	-	-
OECD countries	-	-	-	-	-	-	-
Others	-	-	-	-	-	538	2,140

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.

33 CAPITAL MANAGEMENT

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

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

The risk asset ratio is calculated in accordance with the capital adequacy guidelines of the Basel Committee on Banking Supervision and CBO Circulars BM 1009 'Guidelines on Basel II' and BM 1114 'Regulatory Capital and Composition of Capital Disclosure requirements under Basel III' effective from 31 December 2014. During the year, as part of the covid 19 relief measures CBO has lowered the Capital Conversion Buffer (CCB) requirement by 50% from 2.5% to 1.25%. In order to smoothen the higher volatility in ECL computation and its impact on regulatory capital of the banks amid covid-19 outbreak, CBO has issued a new requirement to apply a "prudential filter" approach on IFRS 9 expected credit loss (ECL) provisions on calculating the regulatory capital.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

33 CAPITAL MANAGEMENT *(continued)*

Any increase in the Stage 2 provisioning compared to December 31, 2019 will be added back to regulatory capital while these provisions will be gradually phased-in during a five-year period ending 31 December 2024. The risk asset ratio is calculated in accordance with the capital adequacy guidelines of the Basel Committee on Banking Supervision, ICBF 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.

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
107,795	144,380	Common Equity Tier 1 (CET1)	55,586	41,501
-	-	Additional Tier 1	-	-
107,795	144,380	Tier 1	55,586	41,501
2,593	3,802	Tier 2	1,464	998
<u>110,388</u>	<u>148,182</u>	Total regulatory capital	<u>57,050</u>	<u>42,499</u>
		Risk weighted assets		
932,935	989,751	Credit risk	381,054	359,180
6,831	14,434	Market risk	5,557	2,630
39,247	39,426	Operational risk	15,179	15,110
<u>979,013</u>	<u>1,043,611</u>	Total risk weighted assets	<u>401,790</u>	<u>376,920</u>
		Capital adequacy ratio		
11.01%	13.83%	CET1 capital expressed as a percentage of total risk weighted assets	13.83%	11.01%
11.01%	13.83%	Total tier I capital expressed as a percentage of total risk weighted assets	13.83%	11.01%
0.27%	0.37%	Tier II capital expressed as a percentage of total risk weighted assets	0.37%	0.27%
11.28%	14.20%	Total regulatory capital expressed as a percentage of total risk weighted assets	14.20%	11.28%

33 CAPITAL MANAGEMENT *(continued)*

Covid 19 impact on Capital adequacy:

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

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

34 SOCIAL RESPONSIBILITY

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

Report of the independent Auditors - page 187 - 190



ahli islamic
BASEL II PILLAR III AND
BASEL III Report

For the year ended 31 December 2021



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 (the Islamic window) of the Bank set out on pages 1 to 38 as at and for the year ended 31 December 2021. The disclosures were prepared by the management in accordance with the related requirements of the IBRF issued by CBO and Circular No. BM 1114 dated 17 November 2013 and letter BSD/CB/2020/005 dated 3 June 2020. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon-procedures engagements.

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

We report our findings as follows:

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

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

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties other than 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
06 March 2022



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

Basel II Pillar III and Basel III Report

31 December 2021

1. INTRODUCTION

ahli islamic (the Islamic Window) was licensed by Central Bank of Oman (CBO) to operate as an Islamic Banking Window of ahlibank SAOG (the Bank). The Islamic Window was operating through a network of fifteen branches as at year end (31 December 2020: twelve 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 2021.

Outbreak of Coronavirus (Covid-19)

The Bank has carried out various counter measures to ensure that people, systems, processes and businesses are safeguarded at all times during this pandemic along with management of credit, liquidity and operational risk. These countermeasures included the following;

- Intensified and continuous credit monitoring, especially in relation to most affected sectors;
- Estimated and accounted for ECL in relation to management overlays/ post model adjustments including for restructuring/ rescheduling;
- Generated different scenarios during 2020 and 2021 to calculate management overlays/ post model adjustments;
- Deferrals were provided to mostly all customers who requested with few rejections. The deferral scheme has ended by 31 December 2021;
- Scenario weightages were also revisited and revised during the year 2020;
- Rigorous monitoring of key liquidity metrics and forecasts;
- Activation of the Crisis Management Team (CMT) of the Bank;
- Various procedures were compiled including shutdown scenario process manual, deferrals and waiver procedures, establishing internal SICR criteria, etc;
- Discontinuance of charging interest-on-interest for affected borrowers during deferral period or subsequent restructuring in line with CBO regulations;
- Working from home and splitting teams amongst many other measure to ensure business continuity;
- Taken various preventive measures to mitigate cyber security risk;
- Keeping employees and customers aware of potential cyber threats resulting from the current pandemic situation;
- Ensured that Bank continues to be adequately covered for any unforeseen cyber related frauds; and
- Continuous monitoring of impacts of pandemic on financial position and capital of the Bank.

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 unrealized losses on FVOCI investments. AT1 capital consists of perpetual capital instruments as specified under Basel III framework, however, Islamic Window does not have any such instruments outstanding as of the report date. Tier II capital is composed of undisclosed reserves, cumulative fair value gains on FVOCI investments and general financing loss provisions as per IFRS 9. Equity of unrestricted investment account holders (URIA) is not considered as part of regulatory capital. The Islamic Window does not hold any funds from restricted investment account holders (RIA).

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

31 December 2021

3 CAPITAL STRUCTURE *(continued)*

Quantitative Disclosure

The Islamic Window's capital structure as at 31 December 2021, based on the CBO guidelines is as follows:

Elements of Capital – RO '000	2021	2020
Tier I Capital		
Share capital	35,000	25,000
Retained earnings	21,263	17,242
Common Equity Tier I before deductions	56,263	42,242
Deductions:		
Cumulative unrealized losses and intangibles recognized directly in equity	(677)	(741)
Common Equity Tier 1	55,586	41,501
Additional Tier I Capital	-	-
Tier I capital after all deductions	55,586	41,501
Tier II Capital		
Revaluation reserves / cumulative fair value gains on FVOCI Instruments	154	113
Stage 1 & Stage 2 expected credit losses	1,310	885
Total Tier II Capital	1,464	998
Total Regulatory Capital	57,050	42,499

CAPITAL ADEQUACY

Qualitative disclosures

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

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

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

The Islamic Window's total capital adequacy ratio is 14.20% and Tier 1 capital adequacy ratio is 13.83% as against the CBO requirement of 11% and 9%, respectively, as at 31st December 2021.

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 2021-2024 and has determined that it is adequate capitalized to undertake its planned business activities.

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

31 December 2021

3 CAPITAL STRUCTURE *(continued)*

Capital adequacy disclosures – RO '000

S.No	Details - As on 31 December 2021	Gross balances (book value)	Net balances (book value)	Risk weighted assets
1	On-balances sheet items	480,995	480,481	377,426
2	Off-balance sheet items	3,569	3,569	3,569
3	Derivatives	297	297	59
4	Market risk	-	-	5,557
5	Operational Risk	-	-	15,179
	Total	484,861	484,347	401,790
6	Tier 1 capital			55,586
7	Tier 2 capital			1,464
8	Total Regulatory Capital			57,050
8.1	Capital requirement for credit risk			41,916
8.2	Capital requirement for market risk			611
8.3	Capital requirement for operational risk			1,670
9	Total required capital			44,197
10	CET 1 ratio			13.83%
11	Tier 1 ratio			13.83%
12	Total capital ratio			14.20%

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

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

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

31 December 2021

3 CAPITAL STRUCTURE *(continued)*

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

Computation of Capital adequacy ratio – RO '000

S.No	Simple Approach	2021	2020
1	Tier I capital (after supervisory deductions)	55,586	41,501
2	Tier II capital (after supervisory deductions and up to eligible limits)	1,464	998
3	Risk weighted assets – banking book	381,054	359,180
4	Risk weighted assets – operational risk	15,179	15,110
5	Total Risk Weighted Assets – Banking Book + Operational Risk	396,233	374,290
6	Minimum required capital to support RWAs of banking book and operational risk	43,586	41,172
6.1	i) Minimum required Tier I capital for banking book and operational risk	35,661	33,686
6.2	ii) Tier II capital required for banking book and operational risk	7,925	7,486
7	Tier I capital available for supporting trading book	13,463	1,327
8	Tier II capital available for supporting trading book	-	-
9	Risk Weighted Assets – trading book	5,557	2,630
10	Total capital required to support trading book	611	289
11	Minimum Tier I capital required for supporting trading book	174	82
12	Total Regulatory Capital	57,050	42,499
13	Total Risk Weighted Assets – Whole bank	401,790	376,920
14	BIS Capital Adequacy Ratio	14.20%	11.28%

I. iCapital adequacy ratio (RO '000)

	2021	2020
Total risk weighted assets	401,790	376,920
Total eligible capital	57,050	42,499
Capital adequacy ratio	14.20%	11.28%

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

	2021	2020
Total capital	57,050	42,499
Total assets	475,366	394,945
Total capital to total assets	12.00 %	10.76 %

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

31 December 2021

3 CAPITAL STRUCTURE *(continued)*

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

	2021	2020
Balances with Central bank of Oman	-	-
Sovereign	90	91
Due from Banks	22	84
Murabaha receivables	4,067	4,726
Musharaka receivables	21,994	19,156
Ijarah assets – Ijarah Muntahia Bittamleek	12,707	14,043
Service Ijarah	73	55
Credit card receivables	65	62
Other Assets & off balance sheet items	2,898	1,293
Total	41,916	39,510

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:

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

31 December 2021

4 RISK MANAGEMENT OF THE BANK *(continued)*

Board Committees:

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

Management Committees:

- Credit & Investment Committee
- Assets and Liabilities Committee
- Credit Risk Management Committee
- Operational Risk Committee
- New Product Committee
- Special Assets Committee
- Technology Delivery Committee
- Technology & Digital Transformation Steering Committee

Policies and Procedures:

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

- | | |
|--|---|
| 1. Anti-Money Laundering Manual | 23. Fraud Risk Management Policy |
| 2. Personal Account Dealing Policy | 24. Fraud Risk Management Framework |
| 3. New Product Policy and Procedures | 25. Liquidity and Funding Policy |
| 4. Voice Recording Policy | 26. Market Risk Policy |
| 5. Compliance Policy | 27. Risk Management-Approach & Framework |
| 6. Corporate Communication, Marketing and CSR policy | 28. Social and Environment Management System Policy |
| 7. Corporate Governance Policy | 29. Security and Safety Policy and Plan |
| 8. Corporate Social Responsibility Policy | 30. Asset Management Policy |
| 9. Dividend Policy | 31. Brokerage Policy |
| 10. Expenses Policy | 32. FATCA Policy |
| 11. Capital Management Policy | 33. Customer Complaints Redressal Policy |
| 12. Disclosure Policy | 34. Profit Distribution Policy |
| 13. Board Remuneration Policy | 35. Charity Policy |
| 14. Financial Institutions Policy | 36. Zakah Policy |
| 15. Human Resources Policy | 37. Cost Sharing Policy |
| 16. Outsourcing Policy | 38. Segregation of Funds Policy |
| 17. Code of Business Conduct | 39. Social Media Policy |
| 18. Information Security Policy | 40. Shari'a Governance Manual |
| 19. Business Continuity Management Policy | 41. Electronic Banking Policy |
| 20. Credit and Investment Policy | 42. Classification and Measurement Financial Assets and Liabilities |
| 21. Operational Risk Management Framework | 43. Sanctions Policy |
| 22. Operational Risk Management Policy | 44. Wealth Management Policy |

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

31 December 2021

4 RISK MANAGEMENT OF THE BANK *(continued)*

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).

The Islamic Window has exposure to the following risks:

5 CREDIT RISK

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

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

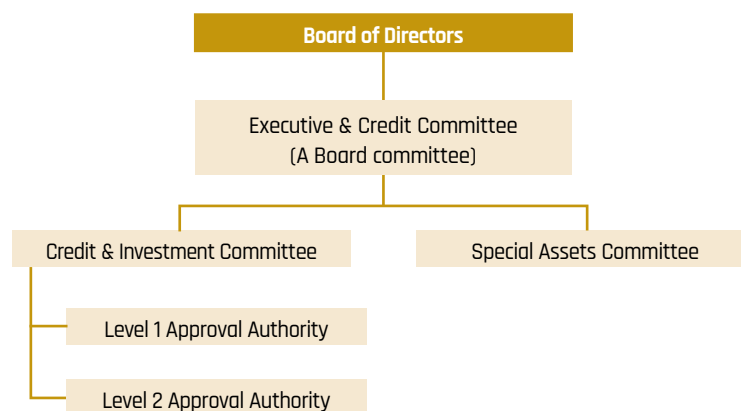
The Islamic Window has a comprehensive due diligence system for approving credit facilities, and well- defined policies on controlling credit risk at the counter-party, group, economic sector, and country levels.

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

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

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

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



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

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

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

31 December 2021

5 CREDIT RISK *(continued)*

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 FAS 30 "Impairment credit losses and onerous commitments" accounting norm, based on which impairment is assessed on a forward-looking expected credit loss (ECL) basis, as required by CBO.

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

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

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

Stage 1:

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

Stage 2:

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

Stage 3:

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

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

Basel II Pillar III and Basel III Report (continued)

31 December 2021

5 CREDIT RISK (continued)

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-21	31-Dec-20	% of total financing	31-Dec-21	31-Dec-20	% of total financing
Balances with Central bank of Oman	20,710	15,944	5%	36,540	4,880	8%
Sovereign	26,039	28,792	6%	26,051	26,027	5%
Banks	2,396	3,229	1%	976	3,817	0%
Musharaka receivables	193,037	165,472	43%	209,758	176,316	43%
Ijarah assets – Ijarah Muntahia Bittamleek	123,278	131,802	28%	117,382	129,173	24%
Murabaha receivables	40,444	45,423	9%	37,523	43,364	8%
Credit Card Receivable	579	558	0%	595	563	0%
Service Ijarah	582	419	0%	667	497	0%
Wakala Bil Istithmar	14,489	-	3%	28,978	-	6%
Other assets & off balance sheet items	23,031	18,890	5%	26,391	19,672	5%
Total	444,585	410,529	100%	484,861	404,309	100%

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

Type of credit exposure	As of 31 December 2021	
	Gross Balance	Risk Weighted Assets
Balances with Central bank of Oman	36,540	-
Sovereign	26,051	814
Banks	976	197
Musharaka receivables	209,758	199,943
Ijarah assets – Ijarah Muntahia Bittamleek	117,382	115,523
Murabaha receivables	37,523	36,973
Credit Card Receivable	595	595
Service Ijarah	667	667
Wakala Bil Istithmar	28,978	-
Other Assets & off balance sheet items	26,391	26,342
Total	484,861	381,054

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

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

31 December 2021

5 CREDIT RISK *(continued)*

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

Credit exposure	Business Unit	As of 31 December 2021;	
		Gross Balance	Risk Weighted Assets
Balances with Central bank of Oman		36,540	-
Sovereign		26,051	814
Banks		976	197
	SME	1,367	1,110
Musharaka receivables	Corporate	168,130	158,572
	Retail	40,261	40,261
	SME	2,000	1,508
Ijarah assets – Ijarah Muntahia Bittamleek	Corporate	44,926	43,559
	Retail	70,456	70,456
	SME	1,745	1,349
Murabaha receivables	Corporate	4,279	4,125
	Retail	31,499	31,499
Credit Card Receivable	Retail	595	595
Service Ijarah	Retail	667	667
Wakala Bil Istithmar	Corporate	28,978	-
Other Assets & off-balance sheet items		26,391	26,342
Total		484,861	381,054

As of 31 December 2020;

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

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

31 December 2021

5 CREDIT RISK *(continued)*

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

Type of Credit Exposure	As of 31 December 2021						Total
	Oman	Other GCC Countries	OECD countries	India	Pakistan	Others	
Balances with Central bank of Oman	36,540	-	-	-	-	-	36,540
Sovereign	25,237	-	-	-	-	814	26,051
Banks	297	134	-	-	-	545	976
Musharaka receivables	209,758	-	-	-	-	-	209,758
Ijarah assets – Ijarah Muntahia Bittamleek	117,382	-	-	-	-	-	117,382
Murabaha receivables	37,523	-	-	-	-	-	37,523
Credit card receivables	595	-	-	-	-	-	595
Service ijarah	667	-	-	-	-	-	667
Wakala Bil Istithmar	28,978	-	-	-	-	-	28,978
Other Assets & off-balance sheet items	26,391	-	-	-	-	-	26,391
Total	483,368	134	-	-	-	1,359	484,861

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

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

31 December 2021

5 CREDIT RISK *(continued)*

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

As of 31 December 2021

Economic Sector	Ijarah assets – Ijarah						Total	Off Balance Sheet Exposure
	Musharaka receivables	Muntahia Bittamleek	Murabaha receivables	Credit card	Service Ijarah	Wakala		
Import Trade	3,785	105	4,066	-	-	-	7,956	133
Wholesale & Retail Trade	18,605	3,053	589	-	-	-	22,247	-
Mining & Quarrying	-	-	178	-	-	-	178	-
Construction	50,948	19,649	334	-	-	-	70,931	6,080
Manufacturing	2,105	12	235	-	-	-	2,352	-
Transport & Communication	3,295	-	70	-	-	28,978	32,343	-
Electricity, Gas & Water	-	682	-	-	-	-	682	-
Services	90,428	23,114	421	-	-	-	113,963	13
Personal Financings	40,261	70,456	31,499	595	667	-	143,478	-
Agriculture & Allied Activities	7	-	-	-	-	-	7	-
others	324	311	131	-	-	-	766	-
Total	209,758	117,382	37,523	595	667	28,978	394,903	6,226

As of 31 December 2020

Economic Sector	Ijarah assets – Ijarah						Total	Off Balance Sheet Exposure
	Musharaka receivables	Muntahia Bittamleek	Murabaha receivables	Credit card	Service Ijarah	Wakala		
Import Trade	3,785	105	4,066	-	-	-	7,956	134
Wholesale & Retail Trade	24,410	5,563	820	-	-	-	30,793	-
Mining & Quarrying	-	-	245	-	-	-	245	-
Construction	57,704	42,900	570	-	-	-	101,174	12,582
Manufacturing	10,672	650	277	-	-	-	11,599	-
Transport & Communication	23	27	88	-	-	-	138	-
Electricity, Gas & Water	-	729	-	-	-	-	729	-
Services	49,376	3,890	362	-	-	-	53,628	5
Personal Financings	30,332	75,309	36,936	563	497	-	143,637	-
Agriculture & Allied Activities	14	-	-	-	-	-	14	-
Total	176,316	129,173	43,364	563	497	28,978	349,913	12,721

Basel II Pillar III and Basel III Report (continued)

31 December 2021

5 CREDIT RISK (continued)

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

As of 31 December 2021

Time Band	Ijarah assets – Ijarah						Total	Off Balance Sheet Exposure
	Musharaka receivables	Muntahia Bittamleek	Murabaha receivables	Credit card receivables	Service Ijarah	Wakala Bil Istithmar		
Up to 1 month	2,809	345	4,327	595	-	-	8,076	4,335
1-3 Months	1,412	1,874	1,905	-	25	28,978	34,194	906
3-6 Months	929	1,428	1,499	-	16	-	3,872	2
6-9 Months	1,686	1,889	1,838	-	24	-	5,437	5
9-12 Months	3,154	2,472	2,483	-	33	-	8,142	909
1-3 Years	19,397	16,038	12,317	-	169	-	47,921	50
3-5 Years	27,409	16,609	7,546	-	157	-	51,721	13
Over 5 Years	152,962	76,727	5,608	-	243	-	235,540	6
Total	209,758	117,382	37,523	595	667	28,978	394,903	6,226

As of 31 December 2020

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

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

As of 31 December 2021

Economic Sector	Gross financings	Of Which NPLs	ECL stage 1 & 2	ECL stage 3*	Impairment charge during the Year	Financings written off during the year
Import Trade	7,956	7,955	-	1,330	164	-
Wholesale & Retail Trade	22,247	12	322	8	100	-
Mining & Quarrying	178	17	2	11	1	-
Construction	70,931	-	657	-	(987)	-
Manufacturing	2,352	2,117	4	1,571	535	-
Transport & Communication	32,343	21	24	11	24	-
Services	113,963	6,003	925	1,586	2,454	-
Personal Financing	143,478	812	117	422	50	-
Agriculture & Allied Activities	7	-	0	-	(998)	-
Electricity, Gas & Water	682	-	40	-	39	-
All Others	766	-	240	1,000	1240	-
Total	394,903	16,937	2,331	5,939	2,622	-

* Stage 3 ECL include suspended profit of RO 1.676 mn

* above ECL includes additional overlays of 1.222MN

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

31 December 2021

5 CREDIT RISK *(continued)*

As of 31 December 2020

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

* Stage 3 ECL include suspended profit of RO 1.024 mn

* above ECL includes additional overlays of RO 0.330 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 2021

Countries	Gross financings	Of Which NPLs	ECL stage 1 & 2	ECL stage 3*	Impairment charge during the Year	Financings written off during the year
Oman	394,903	16,937	2,331	5,939	2,622	-
Other GCC Countries	-	-	-	-	-	-
OECD Countries	-	-	-	-	-	-
India	-	-	-	-	-	-
Pakistan	-	-	-	-	-	-
Others	-	-	-	-	-	-
Total	394,903	16,937	2,331	5,939	2,622	-

* Stage 3 ECL include suspended profit of RO 1.676 mn

* above ECL includes additional overlays of 1.222MN

As of 31 December 2020;

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	349,913	17,022	1,817	3,831	3,110	-
Other GCC Countries	-	-	-	-	-	-
OECD Countries	-	-	-	-	-	-
India	-	-	-	-	-	-
Pakistan	-	-	-	-	-	-
Others	-	-	-	-	-	-
Total	349,913	17,022	1,817	3,831	3,110	-

* Stage 3 ECL include suspended profit of RO 1.024 mn

* above ECL includes additional overlays of RO 0.330 mn

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

31 December 2021

5 CREDIT RISK *(continued)*

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

Details	As of 31 December 2021			
	Stage 1	Stage 2	Stage 3	Total
Opening Balance	267,666	65,225	17,022	349,913
Migration / changes (+ / -)	(202)	104	98	-
New financings	83,999	57	-	84,056
Recovery of financings	(37,409)	(1,474)	(183)	(39,066)
Financing Written Off	-	-	-	-
Closing Balance	314,054	63,912	16,937	394,903

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

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

	As of 31 December 2021							Off Balance Sheet Exposure*
	Musharaka receivables	Ijarah assets – Ijarah Muntahia Bittamleek	Murabaha receivables	Credit Card	Service Ijarah	Wakala	Total	
Neither past due not impaired	183,270	98,676	31,446	523	667	28,978	343,560	6,226
Past due but not impaired	14,591	17,946	1,801	68	-	-	34,406	-
Impaired but not past due	-	109	49	2	-	-	160	-
Past due and impaired	11,897	651	4,227	2	-	-	16,777	-
Total	209,758	117,382	37,523	595	667	28,978	394,903	6,226

	As of 31 December 2020							Off Balance Sheet Exposure*
	Musharaka receivables	Ijarah assets – Ijarah Muntahia Bittamleek	Murabaha receivables	Credit Card Receivable	Service Ijarah	Total	Total	
Neither past due not impaired	115,112	125,606	36,644	518	497	318,377	12,721	
Past due but not impaired	9,302	2,782	2,386	44	-	14,514	-	
Past due and impaired	11,902	627	4,283	-	-	16,812	-	
Past due and impaired	-	158	51	1	-	210	-	
Total	176,316	129,173	43,364	563	497	349,913	12,721	

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

31 December 2021

5 CREDIT RISK *(continued)*

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:

- Murabaha:	An agreement whereby the Islamic Window sells to a customer a commodity or a property which the Islamic Window has purchased and acquired based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises of the cost of the commodity and an agreed profit margin.
- Financing Ijarah:	An agreement whereby the Islamic Window (lessor) leases an asset or services to a customer (lessee), for a specific period against certain rent installments. Ijarah could end in transferring the ownership of the asset to the lessee at the end of the lease period.
- Musharaka:	An agreement between the Islamic Window and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing agreement set between both parties while the loss is shared in proportion to their shares of capital in the enterprise.
-Wakala bil Istithmar	An agreement whereby the principal provides a certain sum of money (Wakala Capital) to an agent, who invests it according to specific conditions in return for a certain fee. The arrangement may also include agreement on an expected profit rate for principal and incentive fee for Wakeel for performance beyond the agreed expected profit.

Credit Risk Mitigation (CRM)

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

The Islamic Window normally accepts the following types of collateral:

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

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

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

31 December 2021

5 CREDIT RISK *(continued)*

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 0.514 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 2021.

Particulars	RO '000
Gross Exposure - banking book	484,861
Credit risk mitigation	(514)
Risk weight impact - for banking book	(103,293)
Risk weighted assets - banking book	381,054
Capital charge for credit risk	41,916

Quantitative Disclosures:

					As of 31 December 2021
Rating	Impairment allowance as at year end	Financings written off during the year	CBO Classification	IFRS 9 Classification	
1 – 6	1,655	-	Standard	Stage 1 & 2	
7	676	-	Special mention	Stage 3	
8 – 10	5,939	-	Non-performing		
Total	8,270	-			
					As of 31 December 2020
Rating	Impairment allowance as at year end	Financings written off during the year	CBO Classification	IFRS 9 Classification	
1 – 6	746	-	Standard	Stage 1 & 2	
7	1,071	-	Special mention	Stage 3	
8 – 10	3,831	-	Non-performing		
Total	5,648	-			

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.

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

31 December 2021

6 MARKET RISK *(continued)*

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

As of 31 December 2021							
Particular	Effective profit rate	within 3 months	4 to 12 months	1 to 5 years	More than 5 years	Non-sensitive to profit rate	Total
RO'000		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
ASSETS							
Cash and balances with Central Bank of Oman		-	-	-	-	40,526	40,526
Due from banks		679	-	-	-	-	679
Financing Assets	5.45%	41,756	13,203	99,642	233,010	698	388,309
Investments	4.45%	-	-	32,849	1,774	270	34,893
Property and equipment		-	-	-	-	2,552	2,552
Other assets		-	-	-	-	8,407	8,407
Total profit bearing assets		42,435	13,203	132,491	234,784	52,453	475,366
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS							
Due to banks		-	76	-	-	-	76
Equity of investment accountholders and other liabilities	3.03%	190,192	133,947	66,923	-	23,478	414,540
Shareholders fund		-	-	-	-	60,750	60,750
Total		190,268	133,947	66,923	0	84,227	475,366
Net gap		(147,833)	(120,744)	65,568	234,784	(31,775)	-
Cumulative net gap		(147,833)	(268,577)	(203,009)	31,775	-	-

As of 31 December 2020

Particular	Effective profit rate	within 3 months	4 to 12 months	1 to 5 years	More than 5 years	Non-sensitive to profit rate	Total
RO'000		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
ASSETS							
Cash and balances with Central Bank of Oman		-	-	-	-	9,283	9,283
Due from banks		-	3,488	-	-	-	3,488
Financing Assets	5.47%	11,640	17,821	98,689	216,576	563	345,289
Investments	4.46%	-	-	2,514	26,057	325	28,896
Property and equipment		-	-	-	-	1,665	1,665
Other assets		-	-	-	-	6,324	6,324
Total profit bearing assets		15,128	17,821	101,203	242,633	18,160	394,945

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

31 December 2021

6 MARKET RISK *(continued)*

LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS							
Due to banks	-	203	-	-	-	-	203
Equity of investment accountholders and other liabilities	3.64%	126,444	65,969	123,450	-	32,283	348,146
Shareholders fund	-	-	-	-	-	46,596	46,597
Total	-	126,647	65,969	123,450	-	78,879	394,945
Net gap		(111,519)	(48,147)	(22,247)	242,633	(60,719)	-
Cumulative net gap		(111,519)	(159,666)	(181,914)	60,719	-	-

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 5.405 mn (OMR 4.448 mn position is in effectively pegged currencies) as on 31 December 2021.

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 2021.

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 2021 is RO 0.269 mn with cost amounts to RO 0.334 mn. The Islamic Window also has invested in sukuks carried at fair value through equity. The fair value of investments as of 31 December 2021 is RO 34.624 mn with a cost amounts to RO 34.635 mn.

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

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

31 December 2021

6 MARKET RISK *(continued)*

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 2021 is given below:

Type of risk (RO '000)	2021	2020
Profit rate risk	-	-
Equity position risk	-	-
Foreign exchange risk	445	210
Percentage of NOP to regulatory capital	10.29%	10.73%
Regulatory ceiling (% to total net worth)	40%	40%

Total risk weighted assets for trading book is RO 5.557 million.

Price Risk

Impact of 10% change in price

Investment type	Change in price	Effect on equity ('000)	
		2021	2020
Regional listed Sukuk	10%	+/- 847	+2775
Foreign listed Sukuk	10%	+/- 81	+/- 81
Listed equities	10%	+/- 27	+/- 32

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 considering 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.

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

31 December 2021

7 LIQUIDITY RISK *(continued)*

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 2021 was 92.5%.

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

Ratios	2021	2020
Financing ratio	%	%
Year end	82.8	88.2
Maximum for the year	90.2	91.1
Minimum for the year	78.1	84.2
Average for the year	86.0	87.8
Other Ratios		
Financing to customers to total assets	81.7	87.4
Equity to total assets	12.8	11.8
Liquid assets to total assets	8.3	9.2
Liquid assets to short term liabilities	17.9	25.5
Prime assets to volatile liabilities	29.7	18.8
Liquidity Coverage Ratio	241.1	195.3
Net Stable Funding Ratio	115.0	110.0

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.

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

31 December 2021

7 LIQUIDITY RISK *(continued)*

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.

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.

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

31 December 2021

8 OPERATIONAL RISK

Operational Risk Framework

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

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

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

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

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

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

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

Control and Mitigation of Operational Risk

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

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

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

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

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

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

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

31 December 2021

8 OPERATIONAL RISK *(continued)*

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 endeavors to develop a culture of fraud awareness and prevention across all areas of its operations to limit possible financial losses and safeguard the brand and financial reputation of the Islamic Window.

Reputation Risk

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

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

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

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

Business Continuity Risk

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

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

Business Continuity Test

During the year 2021, 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 2021

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.

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

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

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

Model Risk

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

Other Risks

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

Operational risk capital charge and risk weighted amount

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

Item (RO '000)	2021	2020	2019
Net Income from financing and investing activities	21,498	18,654	19,067
Other income – net	1,647	747	949
Gross Income	23,145	19,401	20,016
Return to investment account holders	(10,757)	(11,883)	(12,146)
Net Operating Income	12,388	7,518	7,870
Average Income	9,259		
Gross Income times of Alpha (15%)	1,389		
Operational risk based on Basic Indicator Approach	17,360		

Capital Charge for Operational Risk under Basic Indicator Approach as per Basel II is RO 1,214 million as of 31 December 2021. The Risk weighted assets for operational risk as per Basel II is RO 15.179 million.

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

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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 (Mudaraba Deposits Only) by Islamic Window is as follows:

	2021	2020	2019	2018	2017
Total Profits available for distribution	9,321	7,596	6,538	5,948	5,196
Profit Sharing:					
- Profit to Shareholders	7,498	5,501	4,554	3,773	3,616
- Share of IAH	1,272	1,377	1,181	1,312	1,580
- Mudarib Share	551	718	803	863	783

During the year ended 31 December 2021 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.

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 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. 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, if any) 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 equalization and investment risk reserves, if any. Profit equalization 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.

Only profits earned on pool of assets funded from IAH are allocated between the owners' equity and IAH. All equity of investment account holders is carried at cost plus profit and related reserves less amounts settled. The basis applied by the Islamic Window in arriving at the equity of investment account holder's share of income is total investment income less shareholders' income. In case of Wakala contracts, the Islamic Window does not act as both an investment agent and Mudarib of the same fund at one time. Therefore, in case of comingling of Wakala investment funds with the Mudaraba pool, the investment agent will only charge Wakala Fee and will not share profits from the Mudaraba investment pool in the capacity of Mudarib.

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.

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

31 December 2021

10 INVESTMENT ACCOUNT HOLDERS *(continued)*

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:

	2021	2020
Unrestricted Investment Accounts Share	70%	70%
Mudarib Share	30%	30%

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

Mudaraba fee

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

Investment Risk Reserve (IRR)

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

Transfer to or from Profit Equalization reserve (PER)

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

No PER has been created and no transfer has been made during the year ended December 2021.

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 2021.

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 2021.

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

Type (Mudaraba Contracts)	Equity of IAH	
	2021	2020
Saving & Call accounts	153,296	98,295

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

31 December 2021

10 INVESTMENT ACCOUNT HOLDERS *(continued)*

II. Equity of Investment Accountholders – Ratios

RO in '000	2021	2020	2019	2018	2017
Ratios and Returns					
Amount of total net income	5,293	2,841	4,748	6,975	5,758
Average amount of assets	435,155	400,150	380,456	328,640	284,225
ROA (Net income before IA's distribution / total assets)	1.22%	0.71%	1.25%	2.12%	2.03%
Amount of total net income	4,021	1,463	3,556	5,663	4,958
Average amount of shareholder's equity	53,673	45,954	43,307	38,580	35,856
ROE (Net income after IA's distribution / Shareholders equity)	7.49%	3.19%	8.23%	14.68%	13.83%
PSR - Average Profit Paid					
Profit sharing ratio (Mudarib : Investment Accountholders)	30:70	30:70	40:60	40:60	40:60
Average Profit paid to investment accountholders	2.86%	1.42%	2.27%	2.60%	2.37%
Average Profit distributed per type of IAH					
Savings (RO 100 – RO 999.999)	0.23%	0.26%	0.25%	0.26%	0.26%
Savings (RO 1,000 – RO 9,999.999)	0.43%	0.44%	0.41%	0.42%	0.42%
Savings (above RO 10,000)	0.57%	0.58%	0.57%	0.59%	0.58%
Call Account (RO 100 - RO 999.999)	0.16%	0.03%	0.25%	0.26%	0.30%
Call Account (RO 1,000 - RO 9,999.999)	-	-	0.43%	0.43%	-
Al Nama Smart Saving (RO 100 – RO 2,499.99)	0.48%	0.58%	0.57%	0.59%	0.58%
Al Nama Smart Saving (RO 2,500 – RO 49,999.99)	1.99%	2.08%	2.04%	2.10%	2.08%
Al Nama Smart Saving (RO 50,000 – RO 499,999.99)	2.59%	2.64%	2.59%	2.67%	2.64%
Al Nama Smart Saving (500,000 - 999,999.999)	2.89%	3.19%	3.13%	3.22%	3.19%
Al Nama (Above 1,000,000)	3.52%	3.57%	3.51%	3.60%	3.55%
URIA Saving Awqaf	0.41%	0.43%	0.43%	-	-
Qitaf Saving Account	0.16%	0.25%	0.25%	-	-

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

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

31 December 2021

10 INVESTMENT ACCOUNT HOLDERS *(continued)*

III. Computation of pool income for the year ended 31 December 2021 (RO '000)

Income generated	2021	2020
Income from financing	19,935	16,934
Income from placements	1,563	1,720
Total	21,498	18,654
Distribution of Income (Mudaraba Deposits)	2021	2020
Profit equalization reserve	-	-
Mudarib share	551	718
Investment risk reserve	-	-
Distributable Profit	8,770	6,878
Share of Profit for IAH and shareholders	9,321	7,596

IV. Investment account holders under Wakala (RO '000)

	2021	2020
Average Wakala deposits	213,666	149,175
Average Profit paid to investment accountholders %	4.22	3.89

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 2021

Type of Credit Exposure	RWAs	
	2021	2020
Sovereign	814	824
Banks	197	763
Musharaka receivables	199,943	174,148
Ijarah assets – Ijarah Muntahia Bittamleek	115,523	127,668
Murabaha receivables	36,973	42,967
Credit card receivables	595	563
Service Ijarah	667	497
Other Assets & off balance sheet items	26,342	11,750
Total	381,054	359,180

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.

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

31 December 2021

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 2021, 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 2021, Islamic Window has taken approval from SSB for deferment of disbursement to next year.

14 COMPENSATION POLICY AND REMUNERATION OF SHARIA Supervisory BOARD (SSB)

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

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

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

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

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

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

15 GENERAL DISCLOSURES

Shari'a governance

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

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

Shari'a audit and compliance department

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

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

Trainings

The Sharia Audit and Compliance Department (SACD) prepared a comprehensive training plan for year 2021 and got that approved by the SSB. In accordance with the training plan, Sharia Audit and Compliance prepared material on the Islamic Window products and their Shari'a Principles by including essential features of Islamic banking, Sharia governance, Sharia structures of Islamic banking products and their process flows, list of legal documentation and Sharia principles underlying to each product. The training material was made in line with SSB directives, Islamic banking guidelines issued by CBO and AAOIFI Sharia Standards. The trainings were made as mandatory for the related staff of ahli islamic and ahlibank.

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

31 December 2021

15 GENERAL DISCLOSURES

The trainings were conducted by Head SAC and Manager Sharia Audit as per SSB approved Training Plan for 2021 for staff of the Bank and through online application. Additionally, staff of Sharia Audit and Compliance was facilitated to attend AAOIFI and IIFM conference for industry updates on Sharia and Islamic banking practices. The SSB members were also facilitated by the Bank to attend AAOIFI conference to go through the industry developments on Sharia governance and compliance.

For 2022, the training plan has been approved by the SSB and annual training budget is in place for employees as part of the bank's overall training and development budget. The continued development, qualification and certification of all Islamic Banking personnel is an ongoing process.

Complaints

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

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

Awareness

The Bank has trained customer services representatives in all the branches and call center staff who provide appropriate guidance to customers with regard to Islamic Banking. Furthermore, product brochures are available at all the branches. Product feature and related SSB Fatawa and glossary of Islamic banking are also available on the website for public information. Additionally, during 2021 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 2021 are disclosed in note 30 of Islamic Window financial statements.

16 SUBSIDIARIES AND SIGNIFICANT INVESTMENTS

The Islamic Window does not have any subsidiary or other significant equity investments as on 31 December 2021.

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)

		2021	2020
Common Equity Tier 1 capital: instruments and reserves			
1	Directly issued qualifying common share capital plus related stock surplus	35,000	25,000
2	Retained earnings	21,263	17,242
6	Common Equity Tier 1 capital before regulatory adjustments	56,263	42,242
Common Equity Tier 1 capital: regulatory adjustments			
7	Prudential valuation adjustments	(677)	(741)
28	Total regulatory adjustments to Common equity Tier 1	(677)	(741)
29	Common Equity Tier 1 capital (CET1)	55,586	41,501
Additional Tier 1 capital: instruments			
36	Additional Tier 1 capital before regulatory adjustments	-	-

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

31 December 2021

17 BASEL III REGULATORY CAPITAL DISCLOSURES *(continued)*

Additional Tier 1 capital before regulatory adjustments			
43	Total regulatory adjustments to Additional Tier 1 capital	-	-
44	Additional Tier 1 capital (AT1)	-	-
45	Tier 1 capital (T1 = CET1 + AT1)	55,586	41,501
Tier 2 capital: instruments and provisions			
50	Provisions (provision and fair value reserve)	1,464	998
51	Tier 2 capital before regulatory adjustments	1,464	998
Tier 2 capital: regulatory adjustments			
57	Total regulatory adjustments to Tier 2 capital	-	-
58	Tier 2 capital (T2)	1,464	998
59	Total capital (TC = T1 + T2)	57,050	42,499
60	Total risk weighted assets	401,790	376,920
60a	Of which: Credit risk weighted assets	381,054	359,180
60b	Of which: Market risk weighted assets	5,557	2,630
60c	Of which: Operational risk weighted assets	15,179	15,110
Capital Ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	13.83%	11.01%
62	Tier 1 (as a percentage of risk weighted assets)	13.83%	11.01%
63	Total capital (as a percentage of risk weighted assets)	14.20%	11.28%
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	<i>of which: capital conservation buffer requirement</i>	-	-
66	<i>of which: bank specific countercyclical buffer requirement</i>	-	-
67	<i>of which: G-SIB buffer requirement</i>	-	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	3.20%	0.28%
National minima (if different from Basel 3)			
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	7.000%	7.000%
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	9.000%	9.000%
71	National total capital minimum ratio (if different from Basel 3 minimum)	11.000%	11.000%
Amounts below the thresholds for deduction (before risk weighting)			
72	Non-significant investments in the capital of other financials	135	192
Applicable caps on the inclusion of provisions in Tier 2			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	1,310	885
77	Cap on inclusion of provisions in Tier 2 under standardized approach	5,022	4,712

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

31 December 2021

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)

	Balance sheet as in published financial statements	Under regulatory scope of consolidation
Assets		
Cash and balances with Central Bank of Oman	40,526	40,526
Certificates of deposit	-	-
Due from banks	679	679
Financings, net	388,309	388,309
Investments in securities	34,893	34,893
Placements with banks	-	-
Property and equipment	2,552	2,552
Deferred tax assets	-	-
Other assets	8,407	8,407
Total assets	475,366	475,366
Liabilities		
Due to banks	76	76
Customer deposits	408,857	408,857
Current and deferred tax liabilities	-	-
Other liabilities	5,683	5,683
Subordinated bonds	-	-
Total liabilities	414,616	414,616
Shareholders' Equity		
Paid-up share capital	35,000	35,000
Share premium	-	-
Legal reserve	-	-
General reserve	-	-
Retained earnings	21,263	21,263
Cumulative changes in fair value of investments	(66)	(66)
Subordinated debt reserve	-	-
Other Reserves	4,553	4,553
Total shareholders' equity	60,750	60,750
Total liability and shareholders' funds	475,366	475,366

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

31 December 2021

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 2021	31-Dec-21	Under Regulatory scope of consolidation	Reference
Assets			
Cash and balances with CBO	40,526	40,526	
Due from banks	679	679	
Financings - Net, of which:	388,309	388,309	
- Financings to domestic customers		394,903	
- Provision against financings, of which:		(6,594)	
- Stage 3 Impairment allowance		(4,263)	
- Stage 1 / 2 impairment allowance, of which		(2,331)	
- Amount eligible for T2		1,310	a
- Amount ineligible for T2		1,022	
Investments, of which:	34,893	34,893	
- fair value through other comprehensive income		34,893	
- Stage 1 / 2 impairment allowance, of which			
- amount eligible for T2		-	
- amount ineligible for T2		-	
Fixed assets	2,552	2,552	
- Intangibles (CET1 adjustment)		(258)	e
- Other fixed Asset		2,294	
Other assets	8,407	8,407	
Total Assets	475,366	475,366	
Capital & Liabilities			
Paid-up Capital, of which:	35,000	35,000	
- Amount eligible for CET1		35,000	b
Reserves & Surplus; of which	25,750	25,750	
- Amount eligible for CET1		21,263	c
- Amount eligible for T2 (Investments Fair value gains)		154	d
- AFS investments fair value loss (CET1 adjustment)		(419)	e
- AFS investments fair value gain unutilized & impairment		199	
- Reserves (impairment reserve - not eligible for CET1)		4,553	
Total Capital	60,750	60,750	
Deposits	408,857	408,857	
Due to banks	76	76	
Other liabilities and provisions	5,683	5,683	
Other liabilities & provisions, of which			
'- Stage 1 / 2 impairment allowance, of which		7	
- amount eligible for T2		-	
- amount ineligible for T2		7	
TOTAL	475,366	475,366	

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

31 December 2021

17 BASEL III REGULATORY CAPITAL DISCLOSURES *(continued)*

Step 3: Step Reconciliation of Regulatory Capital:

Common Equity Tier 1 capital: instruments and reserves (RO' 000)		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
Year ended 31 December 2021			
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	35,000	b
2	Retained earnings	21,263	c
3	Common Equity Tier 1 capital before regulatory adjustments	56,263	
4	Prudential valuation adjustments	(677)	e
5	Total regulatory adjustments to Common equity Tier 1	(677)	
6	Common Equity Tier 1 capital (CET1)	55,586	
Additional Tier 1 capital: instruments			
7	Additional Tier 1 capital (AT1)	-	
	Tier 1 capital (T1 = CET1 + AT1)	55,586	
Tier 2 capital: instruments and provisions			
8	Provisions	1,310	a
9	Fair value reserve of AFS investments	154	d
	Tier 2 capital before regulatory adjustments	1,464	
	Tier 2 capital: regulatory adjustments	-	
	Tier 2 capital (T2)	1,464	
	Total capital (TC = T1 + T2)	57,050	

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

31 December 2021

17 BASEL III REGULATORY CAPITAL DISCLOSURES *(continued)*

17.1 MAIN FEATURES OF REGULATORY CAPITAL

Year ended 31 December 2021

1	ahli islamic	Common Equity Share Capital
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 recognized in regulatory capital (Currency in mil, as of most recent reporting date)	35 million
9	Par value of instrument	-
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	RO 25 Million allocated in 2013 and RO 10 Million allocated in 2021.
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	
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	NA
31	If write-down, write-down trigger(s)	Yes
32	If write-down, full or partial	Statutory approach
33	If write-down, permanent or temporary	Write down fully
34	If temporary write-down, description of write-up mechanism	Permanent
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA
36	Non-compliant transitioned features	NA
37	If yes, specify non-compliant features	No

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

31 December 2021

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 2021

		Total Unweighted Value (average)	Total Weighted Value (average)
(RO '000)			
High Quality Liquid Assets			
1	Total High-Quality Liquid Assets (HQLA)		82,386
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	268,550	16,626
3	Stable deposits	3,432	103
4	Less stable deposits	265,118	16,523
5	Unsecured wholesale funding, of which:	53,399	18,742
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	93	23
7	Non-operational deposits (all counterparties)	53,305	18,718
8	Unsecured debt	1	1
9	Secured wholesale funding		-
10	Additional requirements, of which		
11	Outflows related to derivative exposures and other collateral requirements	281	281
12	Outflows related to loss of funding on debt products		
13	Credit and liquidity facilities	2,426	243
14	Other contractual funding obligations		
15	Other contingent funding obligations	4,424	221
16	TOTAL CASH OUTFLOWS		36,113
Cash Inflows			
17	Secured lending (e.g. reverse repos)		
18	Inflows from fully performing exposures	2,322	1,661
19	Other cash inflows	55,732	281
20	TOTAL CASH INFLOWS	58,054	1,942
			Total Adjusted Value
21	TOTAL HQLA		82,386
22	TOTAL NET CASH OUTFLOWS		34,171
23	LIQUIDITY COVERAGE RATIO (%)		241.10%

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

31 December 2021

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

The below Net Stable Funding Ratio (NSFR) disclosure is presented for year ended 31 December 2021 and prepared in accordance with the requirements of the CBO letter vide circular reference 1147 issued on October 26, 2016.

Sr No.	Particulars	31 December 2021				Weighted Value
		No Maturity	<6 Months	6 Months to < 1 Year	>= 1 Year	
ASF ITEM						
1	Capital	57,050	-	-	-	57,050
2	Regulatory Capital	57,050	-	-	-	57,050
3	Retail Deposits and Deposits from small Business Customers		33,276	65,537	9,892	
4	Stable Deposit	170,829			9,892	253,612
5	Less Stable Deposit	20,847	33,276	65,537		29,696
6	Wholesale Funding	149,982	37,642	18,910	21,948	223,915
7	Operational	51,875				76,161
7	Other Wholesale Funding	76	37,642	18,910	21,948	38
8	All other liabilities and equities not included in above categories	8,409	-	-	-	-
9	Total ASF					386,822
RSF ITEMS						
10	Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	1,345
11	Deposits held at other financial institutions for operational purposes	679	-	-	-	340
12	Performing loans to financial institutions secured by non- Level 1 HQLA and unsecured performing loans to financial institutions	-	-	-	-	450
13	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which	8,675	29,802	889	346,761	314,430
13	With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk	-	-	-	-	-
	Performing residential mortgages, of which:					
14	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	-	-	-	-
15	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	6,954	5,911
16	All other assets not included in the above categories	-	-	-	13,142	13,142
17	Off-balance sheet items	-	21,730	914	69.00	1,136
18	Total RSF					336,354
19	NET STABLE FUNDING RATIO					115.00%

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

31 December 2021

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: 26 January 2022

Contact Centre: 24577177

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