



AHLI ISLAMIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2023

In the name of Allah, The Beneficent, The Merciful

Ahli Islamic, Ahli Bank SAOG

Shari'a Supervisory Board Report

All praise to Allah, and peace be upon His messenger, his family, his companions and 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 (01.01.2023 to 31.12-2023) ended 2023 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 2023 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)



SSB Resolution during year 2023

SSB Meeting	Resolution No.	Subject of the Resolution	Brief of the SSB Resolution
SSB First Quarter Meeting on March 16, 2023 (SSB-43-2023)	1 (SSB –43 – 2023)	Minutes of SSB 42nd Meeting	The SSB signed the Minutes of the 43 number Meeting.
	2 (SSB –43 – 2023)	Retail Banking Sharia Audit Status Report of 2nd Quarter 2022	The SSB reviewed the Retail Banking Sharia Audit Status Report of 2nd Q. 2022 and noted compliance with the SSB opinion in the audit report.
	3 (SSB –43 – 2023)	Retail Banking Sharia Audit Report of 3rd Q. 2022	The SSB reviewed the observations noted in the Retail Banking Shari'a audit report of Ahli Islamic for 3rd Q. 2022 and gave its opinion to each observation.
	4 (SSB –39 – 2022)	Ahli Islamic Corporate Debit, Prepaid and Credit cards	The SSB reviewed the Corporate Islamic product proposal for Corporate Islamic Debit, Prepaid and Credit Cards and approved it. The Proposal comprises the structure of each type of card, underlying services and different fees applicable to these cards.
	5 (SSB –43 – 2023)	Restructuring of DM cum Ijara Facility	The SSB reviewed the Corporate Islamic Restructuring of DM cum Ijara Facility of the Customer and approved it.
	6 (SSB –43 – 2023)	Restructuring of Ijara Financing Facility	The SSB reviewed Corporate Islamic Restructuring proposal of Ijara Financing Facility of a Customer and approved it.
	7 (SSB –43 – 2023)	IIFM Wakala Agreement Implementation	The SSB reviewed the IIFM Wakala Agreement and approved it with certain conditions. The IIFM Wakala Agreement is a standard Wakala Agreement used in most of the Islamic financial institutions across industry and it has been adopted to due to its better contents and vaibility.
SSB Second Quarter Meeting on 27 July 2023 (SSB-44-2023)	1 (SSB –44 – 2023)	Ratification of Minutes of SSB 43rd Meeting	The SSB signed the Minutes of the 43rd Meeting.
	2 (SSB –44 – 2023)	Retail Banking Sharia Audit Report of 4th Q 2022 and 1st Q. 2023	The SSB reviewed the Sharia Audit Reports of 4th Q 2022 and 1st Q. 2023 and made its notes.
	3 (SSB –43 – 2023)	Wakala Bil Bai' and Istisna'a cum Wakala Documents	The SSB reviewed Wakala Bil Bai' and Istisna'a cum Wakala Documents and and decided to further review the documents. Wakala Bil Bai's is Wakala based product which has been devised to buy an asset from customer on agreed price and to appoing the customer to sell the asset on spot and pay the sale proceedings to the Bank after deducting agreed Wakala fee. Istisna'a instrument is devised to order to the prospective manufacturer (customer) and appointing the customer to sell the manufactured products in the market on spot bases and pay the sale price to the Bank.
	4 (SSB –44 – 2023)	Report on Shari'a Risk Control of Ahli Islamic 2022	The SSB reviewed Report on Shari'a Risk Control of Ahli Islamic 2022 and noted the Shari'a compliance of Ahli Islamic. The Report comprises the Shari'a Risk analysis of the Ahli Islamic for FY 2022.
	5 (SSB –44 – 2023)	"Key Facts Statement (KFS): 1- Murabaha Goods/ Vehicle/Machines – SMEs 2- SME Islamic Financing – Ijarah MBT 3- SME Wakala Call Account 4. SME Islamic Financing –Murabaha 5. SME Islamic Financing – Diminishing Musharaka 6. SME Islamic Financing – Wakala Bil Istithmar"	The SSB reviewed the subject Key Facts Statement (KFS) and approved them. These KFSs have prepared for purpose of giving detailed information to stakholders on Ahli islamic liabilities and asset products. The KFSs have prepared based on the SSB approved products papers and documents.
	6 (SSB –44 – 2023)	Micro Business Entities Segment Current Account Product Proposal	The SSB reviewed the proposal on Micro Business Entities Segment Current Account Product and approved it.

SSB Third Quarter Meeting on October 19, 2023 (SSB –45 – 2023)	1 (SSB –45 – 2023)	Ratification of Minutes of SSB 44th Meeting	The SSB signed the Minutes of the 44 number Meeting.
	2 (SSB –45 – 2023)	Sharia Audit Report of 2nd Q. 2023: i. Retail Banking ii. Corporate Banking iii. Treasury iv. Trade Finance v. SME	The SSB reviewed the Sharia Audit Reports of Q. 2. 2023 and noted.
	3 (SSB –45 – 2023)	Transaction Information Sheet (TIS) of a corporate customer	The SSB reviewed and approved Transaction Information Sheet (TIS) of a corporate customer
	4 (SSB –45 – 2023)	Manufacturing (Istisna) Finance Product for Retail Customers	The SSB reviewed Istisna'a Finance Product Paper and approved it.
	5 (SSB –45 – 2023)	Application of existing Service Ijara Product for Takaful services	The SSB approved the Services Ijara product application for Takaful Services. The SSB approved the Services Ijara Product Paper through the resolution 5 (SSB-15-2016) through approval of the proposal the Takaful Services are also offered under the SSB approved Services Ijara product.
SSB Fourth Quarter Meeting on Dec. 13, 2023 (SSB-46-2023)	1 (SSB –46 – 2023)	Ratification of Minutes of SSB 45th Meeting	The SSB signed the Minutes of the 45 Meeting.
	2(SSB-46-2023)	Schedule of Charges for Corporate and SME Banking	The SSB reviewed the SOC for Corporate Banking and approved it after making necessary changes in it. The SOC comprises of the charges and fees for banking services.
	3 (SSB-46-2023)	Product Proposal for Crowd Funding by SME	The SSB reviewed the Crowd Funding Proposal for SME and approved it. Under Crowd Funding, Ahli Islamic will be participating as one of the preferred financiers in the financing opportunities sourced and presented by the Company on the platform, subject to an agreed credit matrix and credit rating of the underlying investment opportunity acceptable to Ahli Islamic. The key products offered under this platform includes Murabaha term finance, Murabaha and service Ijara for working capital finance and financing against Point of Sale (PoS) receivables.
	4 (SSB-46-2023)	Children savings account– Expected profit rates	The SSB approved the Children Savings Account expected rate proposal. The proposal contains the details about assigning a weightage on children account to introduce a slightly higher rate from normal saving accounts to attract customers based on the attractive profit rates and remain competitive in market for this segment.
	5 (SSB-46-2023)	Charity Memo 2023	The SSB approved the proposal for charity amount disbursement to the following charitable organization: 1. Oman Cancer Association 2. Oman Hereditary Blood Disorder Association 3. Oman Diabetes Association 4. Oman Autism Association 5. Oman Association for Hearing Impaired 6. Association of Early intervention for 7. Children with Disability
	6 (SSB-46-2023)	Islamic Loyalty Program	The SSB reviewed and approved the Islamic Loyalty Program of Ahli Islamic which was proposed to run discounts offer to Ahli Islamic loyal customers in financing and to acquire new to bank finance to widen the asset-based portfolio.
	7 (SSB-46-2023)	Escrow Account Agreement	The SSB reviewed the Escrow Account Agreement and approved it.

In the Name of Allah, the Merciful, the Compassionate

Fatwa of Shari'a Supervisory Board on

**Ahli Islamic Money Market Fund
(Open Ended Fund)**

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

On Wednesday Safar 28, 1445 AH that corresponds to September 13, 2023, the Shari'a Supervisory Board (SSB) of Ahli Islamic, Ahli Bank SAOG (the "Ahli Islamic/Bank") issued the following pronouncement on Ahli Islamic Money Market Fund (Fund):

The Fund is an open-ended Shariah-compliant investment fund established as per the Shari'a rules and principles. It is a contractual arrangement between Investors (that is, Unitholders), the Fund Management Body and the Investment Manager, under which Investors acquire Units providing a pro-rata entitlement to the net assets of the Fund on a divisible basis. The Funds are invested in Shari'a compliant securities and investments for the purpose of earning profits.

The Fund will solely invest in Shari'a based instruments which may include the following:

- Mudaraba/Wakala Fixed Deposits;
- Ijara Assets;
- Shariah-compliant Sukuk;
- Islamic Certificate of deposit;
- Shari'a compliant money market funds; and
- Other short-term liquid and Shariah-compliant instruments.

The Fund management Body must ensure with the financial certificates' issuing entities that they are in line with the provisions of Islamic Shari'a, or obtain a fatwa approving these certificates from a Sharia Board or the relevant supervisory committee, if any.

The Unitholders are entitled to the net returns realized by the Fund after deducting all liabilities, including fees, expenses and tax. The Fund Management Body may approve dividends, in respect of any financial period, to be paid to Unitholders out of:

- (a) Profit income received by the Fund; and
- (b) Realized or unrealized gains derived by the Fund.

The SSB has reviewed the Prospectus and Article of Association of Ahli Islamic Money Market Fund and confirms that they are line with Shari'a rules and principles.

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

Purchase of Shares and their Shari'a Compliance

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 Sha'ban 24, 1444 AH that corresponds to March 16, 2023, the Shari'a Supervisory Board (SSB) of Ahli Islamic, Ahli Bank SAOG (the "Ahli Islamic/Bank") issued the following pronouncement on Purchase of Shares and their Shari'a Compliance:

1.0. Shares and their Trading

- 1.1. A share represents an undivided share in the capital of a corporation, just as it represents an undivided share in its assets and the rights associated with it upon conversion of the capital into tangible things, benefits, debts and so on.
- 1.2. It is permissible to buy and sell shares of corporations, on a spot or deferred basis, in which delay is permissible, if the activity of the corporation is permissible irrespective of its being an investment (that is, the share is acquired with the aim of profiting from it) or dealing in it (that is, with the intention of benefiting from the difference in prices).
- 1.3. The fundamental rule is that of prohibition of acquiring shares and transactions (investment and trading) in the shares of corporations that sometimes undertake transactions in Riba and other prohibited things even when their primary activity is permissible, but from this rule subscription and transactions (investment or trading) are exempted with the following conditions:

1.3.1. That the corporation does not state in its memorandum of association that one of its objectives is to deal in interest, or in prohibited goods or materials like pork (swine) and the like¹.

¹ Following is a general list of Sharia non-permissible business activities:

- i. Advertising
 - Advertisers of pork, alcohol, gambling, tobacco, and all other non-Islamic activities.
 - Advertising means and modes which contravene the tenets of Islam
- ii. Media & Entertainment
 - Producers, distributors and broadcasters of music, movies, television shows and musical radio shows
 - Cinema operators except News Channels, Newspapers, Sports Channels, Children’s Channels, Educational Channels.
- iii. Alcohol
- iv. Financial Services, except:
 - o Islamic Banks,
 - o Islamic Financial Institutions,
 - o Islamic Insurance Companies and
 - o Defined as a company having:
 - Shariah Committee or Shariah scholar to supervise all activities
 - All products are Islamic
 - All investments and non-operating business activities of the company are Islamic
 - Passes the criteria mentioned in this resolution.
- v. Gambling
- vi. Pork related activities
- vii. Pornography
- viii. Tobacco and electronic cigarettes/vaping products
- ix. Recreational cannabis, including products derived from cannabis used recreationally
- x. Cannabis-based products which are produced, sold and consumed under medical supervision for health reasons are considered compliant
- xi. Trading of gold and silver as cash on deferred basis

Fatwa of Shari’a Supervisory Board on Purchase of Shares and their Shari’a Compliance

- 1.3.2. That the collective amount raised as loan on interest – whether long-term or short-term debt – does not exceed 33% of the market capitalization of the corporation, knowingly that raising loans on interest is prohibited whatsoever the amount is. In case this percentage is higher with minor percentage then the SSB will review the case in view of minimal percentage of Shari'a non-compliant income from prohibited activity stated in point 3 below, cash in hand and overall business activity perspective, whether Shari'a exception can be given.
- 1.3.4. That the amount of income generated from prohibited component does not exceed 5% of the total income of the corporation irrespective of the income being generated by undertaking a prohibited activity, by ownership of a prohibited asset or in some other way. If a source of income is not properly disclosed then more effort is to be exerted for identification thereof giving due care and caution in this respect.
- 1.3.5. It is essential for the investing bank to purify the prohibited income of the forbidden element.

2.0. Elimination of Prohibited Income

2.1. It is obligatory to eliminate prohibited income specific to the share that is mixed up with the earnings of the corporations, and this in accordance with the following:

- 2.1.1. The elimination of prohibited income is obligatory on one who is the owner of the share, whether an investor or a trader, at the end of the financial period, even if the payment is due at the time of issuance of the final financial statements whether quarterly, annual or for other period. Accordingly, elimination is not obligatory for one who sells the shares before the end of the financial period.
- 2.1.2. The subject-matter of elimination is the prohibited income specific to the share whether or not the profits have been distributed and whether or not the corporation has declared a profit or suffered a loss.
- 2.1.3. Elimination is not obligatory for the intermediary, agent or manager out of part of their commission or wages, because this is their right in lieu of the work they have undertaken.

- 2.1.4. A differentiation must be made between the concepts of investing in stocks and trading in stocks. Investing in shares is the acquisition of a share with the intention of obtaining its annual profit (revenue). As for trading, it is buying and selling with the intention of obtaining the profit resulting from the difference between the two prices (the purchase price and the sale price), whether the investing bank (or financial institution) does it by itself or through others. Whether the investment bank's dealings are for the benefit of itself or for others as a means of mediation and brokerage.

3.0. Purification Process

3.1. Purification is based on two things:

- 3.1.1 The first element is the benefit of the interest-based loan in the event that the bank or financial institution borrows with interest.
- 3.1.2 The second element is the forbidden revenue, whatever its source.

3.2. The purification is as follows:

- 3.2.1. In the case of usurious borrowing, the benefit of the money borrowed on interest must be avoided, from the given net profit. And since the profit is produced from two elements, which are capital and work, and that the forbidden element came from the money taken with interest, in this case the profit resulting from the interest-based loan must be divided into two halves.

For example, if the interest rate of the loan to the assets is 20%, then 10% of the net profit per share must be disposed of, whether the profit is distributed or not. If there is no profit, then it is not necessary to purify or dispose of anything. The disposal of the interest of short-term loans shall be in proportion to the duration of its stay during the period of time subject to purification.

- 3.2.2. In the event that there is a prohibited income, the entire amount of the prohibited income must be set aside, regardless of the source from which it came, whether or not profits were

made, and whether profits were distributed or not. And if the revenue is not known precisely, it must be calculated approximately in order to discharge the obligation of the dealer.

- 3.2.3. As for the way to get rid of the forbidden element, it is by dividing the total forbidden revenue of the company whose shares are dealt with by the number of shares of that company, so what pertains to each share is obtained, then the result is multiplied by the number of shares owned by that dealer (whether it is an individual, company, fund, etc.,). The result of that equation is the amount that must be disposed of.
- 3.2.4. It is not permissible to benefit from the prohibited element in any way, nor to employ it as fictional device (Hilah) in any way, so the dealer does not calculate it from his zakat or from his own charity, nor pay tax from it, nor use it in advertising, or anything else.
- 3.2.5. The responsibility for getting rid of the prohibited element rests with the investor (investing bank or individual) if it deals for itself or if it manages an investment fund or portfolio.

4.0. Shari'a Monitoring and Compliance

4.1. Responsibility to Shari'a compliance with guidelines lies with both corporation issuing IPOs and the investor of the stock. The corporation has to maintain the following compliance criteria:

4.1.1. **Leverage Compliance.** This is measured as:

It is debt to trailing 12-month average market capitalization which is computed as:

$$\frac{[(\text{Total Interest} - \text{Bearing Debt}) / (12 \text{ months Average Capital Cap})] \times 100}{\text{Threshold: 33 percent}}$$

Threshold: 33 percent

Any corporation with a debt to trailing 12-month average market capitalization ratio exceeding 33 percent will be excluded. The justification is payment of a substantial portion of its earnings as interest on debts.

4.1.2. **Liquid Assets Compliance:** This is computed as:

[Cash Deposits + Marketable Securities + Interest-Bearing Instruments / trailing 12-month average market capitalization] x 100

Threshold: 33 percent

4.1.3. **Cash Compliance.** Following conditions for cash holding must be met:

- Accounts Receivables / Market value of Equity (12-month average) < 49 %
- (Cash + Interest Bearing Securities) / Market value of Equity (12-month average) < 33%

4.1.4. **Dividend Purification Ratio.** Investors should calculate the following ratio for purification purposes:

Dividends x (Non-Permissible Revenue / Total Revenue)

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 of Ahli Islamic
on OQ Gas Networks IPO Shares**

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

On Wednesday Safar 28, 1445 AH that corresponds to September 24, 2023, the Shari'a Supervisory Board (SSB) of Ahli Islamic, Ahli Bank SAOG (the "Ahli Islamic/Bank") issued the following pronouncement on OQGN IPO Shares.

The SSB assessed OQ Gas Network SOAG IPO-shares details, stated in its prospectus, in perspective of the SSB fatwa on Purchase of Shares and their Shari'a Compliance issued on March 16, 2023 which is in line with Shari'a rules and principles and AAOIFI's Shari'a Standards. The review includes OQGN business activities, debts and liabilities, investments which are provided in the prospectus. Following is a summary of the Shari'a review of the OQGN IPO:

1. The activities in which OQGN is involved are construction, maintenance, repairment and augment gas transportation pipelines and perform other activities relating to the gas transportation industry.
2. OQGN has an interest-based loan that does not comply with Shari'a however, these loans are within the threshold set by the SSB and AAOIFI in its Shari'a Standard No. 21.
3. OQGN has interest income from fixed deposits amounts which does not comply with Shari'a. The interest income amounts to 3.03% of OQGN total income which is within the threshold set by the AAOIFI Shari'a Standards No. 21.
4. Finance income on concession arrangements were considered Shari'a compliant in nature as the OQGN has recognized financial asset ("concession receivable and contract asset") applying IFRIC 12 which recognizes financial asset for the future cash flows of the agreement discounted to current value using an implied interest rate and there is no interest income that the company generates from this agreement.

Fatwa of Shari'a Supervisory Board of Ahli Islamic
on OQ Gas Networks IPO Shares

5. The company recognized a Finance Income from interest rate swap derivatives after terminating the derivative in Q2-2023 for no consideration. The finance income was matched with a reduction of retained earning representing nil impact from the termination of the derivative.

SSB Opinion

After research and study regarding the subscription to the shares of OQ Gas Networks Company, the following opinion is made:

1. The business activities of OQGN, stated under point 1 above, are Shari'a compliant.
2. The interest income from fixed deposits, stated above under point 3, is not permissible in Shari'a therefore, the responsibility for getting rid of the prohibited income stays with investor (individual or company).

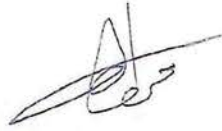
And based on the above:

The Shari'a Supervisory Board opines that investment in OQGN IPO-Shares is Shari'a permissible and in accordance with dictates of Shari'a.

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)



Fatwa of Shari'a Supervisory Board of Ahli Islamic
on OQ Gas Networks IPO Shares

In the Name of Allah, the Merciful, the Compassionate

Fatwa of Shari'a Supervisory Board on

Running Muasharaka 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 Tuesday the 11 Shawwal-1444AH that corresponds to May 2, 2023, the Shari'a Supervisory Board (SSB) of Ahli Islamic, Ahli Bank SAOG (the "Ahli Islamic/Bank") issued Shari'a pronouncement on Ahli Islamic Running Musharaka Financing Product as follows:

The SSB Opinion:

The SSB studied the Running Musharaka Financing Product based on the principles relating to Musharaka contract and found that Running Musharaka is not a commonly practiced product in Islamic banking however, it has been practiced in some of the institutions in Kingdom of Saudi Arabia and Pakistan.

After the study and the review of the principles which are basis for the Running Musharaka Product, the SSB has decided to approve the product proposal with condition that all the beginning stage Running Musharaka based financing proposals should be submitted to the SSB for review and approval to ensure that the application of the product is in line with Shari'a rules and principles which are foundation to this fatwa.

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

Bills 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 Tuesday the 11 Shawwal-1444AH that corresponds to May 2, 2023, the Shari'a Supervisory Board (SSB) of Ahli Islamic, Ahli Bank SAOG (the "Ahli Islamic/Bank") issued Shari'a pronouncement on Ahli Islamic Bills Financing Product as follows:

The SSB Opinion:

After detailed study and review of the documents of Bills Financing Product, which confirmed to the SSB that the structure of Bills Financing will be based on principles of Murabaha, Services Ijara and Istisna'a that conform to the rules and principles of Shari'a, the SSB has decided to approve the proposed product based on the Shari'a principles which are foundation to Murabaha, Services Ijara and Istisna'a.

And all praise is due to Allah.

Shari'a Supervisory Board



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



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



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

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

1

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of **Ahli Islamic** (the 'Islamic Window'), Islamic window of Ahli Bank SAOG (the 'Bank'), which comprise the statement of financial position as at 31 December 2023, and the statement of comprehensive income, statement of changes in owners' equity, statement of cash flows for the year then ended, statement of sources and uses of charity fund, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Islamic Window as at 31 December 2023, and the results of the operations, its cash flows, changes in owners' equity for the year then ended in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") as modified by Central Bank of Oman (CBO) and other applicable requirements of CBO.

In our opinion, the Islamic Window has also complied with the Islamic Shari'ah Principles and Rules as determined by the Shari'ah Supervisory Board of the Islamic Window during the period under audit.

Basis for opinion

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions ("ASIFI") 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 are independent of the Islamic Window in accordance with the AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions, and we have fulfilled our other ethical responsibilities in accordance with this Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The financial statements of Ahli Islamic for the year ended 31 December 2022 were audited by another auditor who express an unmodified opinion on those statements on 6 March 2023.

Other information

Other information consists of the information included in the Annual Report Section of Islamic Window, other than the financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information. Prior to the date of this auditors' report, we obtained the Shari'ah Supervisory Board Report including List of Fatwas and Regulatory disclosure under Basel II and Basel III framework of the Islamic Window which form part of the annual report section of Islamic Window. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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Other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information 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 have obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

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

The Banks' Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with Financial Accounting Standards issued by the AAOIFI as modified by 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 is responsible for assessing the Islamic 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 intends to liquidate the Window or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with 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 AAOIFI, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Islamic 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Deloitte & Touche

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
3 March 2024



STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2023

2022	2023		Note	2023	2022
US\$ '000	US\$ '000			RO '000	RO '000
ASSETS					
49,709	203,740	Cash and balances with Central Bank of Oman	6	78,440	19,138
2,982	100,678	Due from banks	7	38,761	1,148
131,195	161,174	Investment securities	11	62,052	50,510
102,644	106,768	Murabaha receivables	8	41,106	39,518
75,255	166,169	Wakala bil Istithmar	9	63,975	28,973
835,784	802,570	Musharaka receivables	10	308,990	321,777
229,379	223,901	Ijarah assets - Ijarah Muntahia Bittamleek	12	86,202	88,311
2,117	2,797	Credit Card receivables	13	1,077	815
3,912	6,946	Service ijarah	14	2,674	1,506
-	13,101	Istisna receivable	15	5,044	-
-	192	Qard Hassan Financing	16	74	-
9,995	14,481	Property, equipment and intangibles	17	5,575	3,848
11,403	12,878	Other assets	18	4,958	4,390
<u>1,454,375</u>	<u>1,815,395</u>	TOTAL ASSETS		<u>698,928</u>	<u>559,934</u>
LIABILITIES					
2,262	21	Due to banks	19	8	871
84,325	75,624	Customers' current accounts		29,116	32,465
21,965	30,158	Other liabilities	20	11,611	8,456
108,552	105,803	TOTAL LIABILITIES		40,735	41,792
1,186,418	1,504,431	Equity of investment account holders	21	579,206	456,771
<u>1,294,970</u>	<u>1,610,234</u>	TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS		<u>619,941</u>	<u>498,563</u>
OWNERS' EQUITY					
90,909	116,883	Share capital	22	45,000	35,000
(1,834)	(397)	Investment fair value reserve		(153)	(706)
11,826	8,787	Impairment reserve		3,383	4,553
58,504	79,888	Retained earnings		30,757	22,524
<u>159,405</u>	<u>205,161</u>	TOTAL OWNERS' EQUITY		<u>78,987</u>	<u>61,371</u>
<u>1,454,375</u>	<u>1,815,395</u>	TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY		<u>698,928</u>	<u>559,934</u>
<u>55,597</u>	<u>140,855</u>	Contingent liabilities and commitments	23	<u>54,229</u>	<u>21,405</u>

The financial statements and the accompanying notes were approved by the Board of Directors on 29 January 2024 and signed on their behalf by:



Hamdan Ali Nasser Al Hinai
Chairman



Said Abdullah Al Hatmi
Chief Executive Officer

The accompanying notes form an integral part of these financial statements

STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2023

2022	2023		Note	2023	2022
US\$ '000	US\$ '000			RO '000	RO '000
58,823	75,762	Income from financing activities	24	29,168	22,647
5,223	9,462	Income from investing activities	25	3,643	2,011
6,969	8,055	Other operating income	26	3,101	2,683
71,015	93,279			35,912	27,341
(36,065)	(47,449)	Return to investment account holders	27	(18,268)	(13,885)
922	1,091	Islamic Windows' share as Mudarib		420	355
(35,143)	(46,358)	Return to investment account holders before zakah		(17,848)	(13,530)
35,872	46,921	Islamic Window's share in income from financing and investing activities (as Mudarib and Rab ul Maal)		18,064	13,811
(14,197)	(4,413)	Net impairment on financial assets		(1,699)	(5,466)
21,675	42,508	Net operating income		16,365	8,345
(11,401)	(12,556)	Staff expenses	28	(4,834)	(4,389)
(1,945)	(2,535)	Depreciation	17	(976)	(749)
(4,479)	(5,833)	Other operating expenses	29	(2,245)	(1,725)
(17,825)	(20,924)	Total expenses		(8,055)	(6,863)
3,850	21,584	Profit before taxation		8,310	1,482
(574)	(3,239)	Taxation		(1,247)	(221)
3,276	18,345	Profit for the year		7,063	1,261
		Other comprehensive income/(loss)			
		Items that will not be reclassified to profit or loss			
(41)	161	Changes in fair value of securities measured through Equity		62	(16)
		Items that will be reclassified to profit or loss			
(1,622)	1,275	Changes in fair value of debts measured through Equity		491	(624)
(1,663)	1,436	Other comprehensive income/(loss) for the year		553	(640)
1,613	19,781	Total comprehensive income for the year		7,616	621

The accompanying notes form an integral part of these financial statements

STATEMENT OF CHANGES IN OWNERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2023

Note	Share capital	Investment fair value reserve	Impairment reserve	Retained earnings	Total
	RO '000	RO '000	RO '000	RO '000	RO '000
Balance at 1 January 2023	35,000	(706)	4,553	22,524	61,371
Profit for the year	-	-	-	7,063	7,063
Other comprehensive income	-	553	-	-	553
Transfer from impairment reserve	-	-	(1,170)	1,170	-
Allocation of capital	10,000	-	-	-	10,000
At 31 December 2023	45,000	(153)	3,383	30,757	78,987
At 31 December 2023 (US\$ '000)	116,883	(397)	8,787	79,888	205,161

	Share capital	Investment fair value reserve	Impairment reserve	Retained earnings	Total
	RO '000	RO '000	RO '000	RO '000	RO '000
Balance at 1 January 2022	35,000	(66)	4,553	21,263	60,750
Profit for the year	-	-	-	1,261	1,261
Other comprehensive income	-	(640)	-	-	640
At 31 December 2022	35,000	(706)	4,553	22,524	61,371
At 31 December 2022 (US\$ '000)	90,909	(1,834)	11,826	58,504	159,405

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2023

2022	2023		2023	2022
US\$ '000	US\$ '000	Note	RO '000	RO '000
CASH FLOWS FROM OPERATING ACTIVITIES				
3,850	21,584	Profit for the year	8,310	1,482
		Adjustments for:		
1,945	2,535	Depreciation - property and equipment	976	749
14,197	4,413	Net impairment on financial assets	1,699	5,466
(75)	(621)	Gain on sale of investment	(239)	(29)
19,917	27,911	Operating profit before change in operating assets and liabilities	10,746	7,668
(11,052)	(7,592)	Increase in Murabaha receivables	(2,923)	(4,255)
(310,309)	33,151	(Increase)/Decrease in Musharaka receivables	12,763	(119,469)
(2,179)	(3,036)	Increase in Service ijarah receivables	(1,169)	(839)
(577)	(686)	Increase in Credit card receivables	(264)	(222)
(57)	(91,083)	Increase in Wakala bil Istithmar	(35,067)	(22)
-	(13,117)	Increase in Istisna Receivable	(5,050)	-
-	(192)	Increase in Qard Hassan Financing	(74)	-
-	(99,000)	Increase in Wakala Placements	(38,115)	-
10,348	(1,626)	(Increase)/Decrease in other assets	(626)	3,984
2,065	(2,242)	(Decrease)/Increase in due to banks	(863)	795
37,070	(8,699)	(Decrease)/Increase in customers' current accounts	(3,349)	14,272
2,017	8,195	Increase in other liabilities	3,155	776
171,706	318,013	Increase in equity of investment account holders	122,435	66,107
(81,051)	159,997	Cash generated from (used in) operations	61,599	(31,205)
CASH FLOWS FROM INVESTING ACTIVITIES				
71,631	5,218	Decrease in Investment in Ijarah assets - Ijarah Muntahia Bittamleek	2,009	27,578
(42,234)	(31,919)	Purchase of investments	(12,289)	(16,232)
-	2,119	Proceeds from sale/maturity of investments	816	-
(1,492)	(7,163)	Purchase of Property, equipment and Intangibles	(2,755)	(575)
27,905	(31,745)	Net cash (used in) generated from investing activities	(12,219)	10,771
CASH FLOWS FROM FINANCING ACTIVITY				
-	25,974	Proceeds from allocation of capital	10,000	-
(1,266)	(1,345)	Repayment of principal of lease liabilities	(518)	(488)
(1,266)	24,629	Net cash generated/(used in) from financing activity	9,482	(488)
(54,337)	152,881	NET CHANGE IN CASH AND CASH EQUIVALENTS	58,862	(20,922)
107,027	52,690	Cash and cash equivalents at 1 January	20,283	41,205
52,690	205,571	CASH AND CASH EQUIVALENTS AT 31 DECEMBER (Refer below)	79,145	20,283
CASH AND CASH EQUIVALENTS AT 31 DECEMBER (Refer below)				
2022	2023		2023	2022
US\$ 000	US\$ 000		RO '000	RO '000
49,708	203,740	Cash and current balances with Central Bank of Oman	78,440	19,135
2,982	1,831	Due from banks	705	1,148
52,690	205,571	Cash and cash equivalents	79,145	20,283

STATEMENT OF SOURCES AND USES OF CHARITY FUND FOR THE YEAR ENDED 31 DECEMBER 2023

2022 US\$ '000	2023 US\$ '000	Note	2023 RO '000	2022 RO '000
Sources of charity fund				
3	4		2	1
10	3		1	4
5	5		2	2
<u>18</u>	<u>12</u>		<u>5</u>	<u>7</u>
Uses of charity fund				
Distributed to charity organizations				
-	1		0.3	-
-	1		0.3	-
-	1		0.3	-
-	1		0.3	-
-	1		0.3	-
-	1		0.3	-
3	-		-	1
3	-		-	1
2	-		-	1
3	-		-	1
3	-		-	1
<u>14</u>	<u>6</u>		<u>2</u>	<u>5</u>
<u>4</u>	<u>6</u>	20	<u>3</u>	<u>2</u>
Undistributed charity fund at the end of the year				

The accompanying notes form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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 Ahli Bank 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 Istisna, Qard Hassan, 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 twenty two branches as at year end (31 December 2022: nineteen branches).

The Islamic Window employed 187 employees as at 31 December 2023 (31 December 2022: 177 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

During the year, the Islamic Window applied the following standards in preparation of these financial statements. The adoption of the below standards and amendments to standards did not result in changes to previously reported net profit or equity of the Islamic Window.

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

The revised FAS 1 supersedes the earlier FAS 1 General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions and 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.

3.1.1 FAS 39 Financial Reporting for Zakah

FAS 39 improves upon and supersedes FAS 9 Zakah and aims at setting out the accounting treatment of Zakah in the books of the institutions, including the presentation and disclosure by an Islamic financial institution.

3.1.2 FAS 44

The objective of this standard is to establish the principles of assessing as to whether and when and institution controls an asset or a business, both in case of underlying asset(s) of a participatory structure, as well as, for the purpose of consolidation of financial statements of subsidiaries

3.2 Standards, amendments and interpretations effective in 2023 and relevant for the Bank's operations

3.2.1 FAS 40 Financial Reporting for Islamic Finance Windows

This standard 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.

3.2.2 FAS 42 Presentation and Disclosures in the Financial Statements of Takaful Institutions

This standard was issued in 2022. The objective of this standard is to set out the overall requirements for the presentation of financial statements, the minimum requirement for the contents and disclosures in the financial statements and a recommended structure of financial statements that facilitates fair presentation in line with Shari'ah principles and rules for Takaful institutions. This standard shall be effective for the financial periods beginning on or after 1st January 2025, with early adoption permitted. Since, it is applicable to Takaful Institutions, the Islamic Window will not be impacted by these amendments.

3.2.3 FAS 43 Accounting for Takaful: Recognition and Measurement

This standard was issued in 2022. The objective of this standard is to set out principles for the recognition and measurement of Takaful arrangements and ancillary transactions with the objective of faithfully representing the information related to these arrangements to the relevant stakeholders. This standard shall be effective for the financial periods beginning on or after 1st January 2025, with early adoption permitted. The Islamic Window is assessing the impact of these standards on the financial statements upon the initial application. Since, it is applicable to Takaful Institutions, the Islamic Window will not be impacted by these amendments.

3.2.4 FAS 45 Quasi-equity including investment accounts

The objective of this standard is to establish the principles of financial reporting related to instruments classified as quasi-equity, such as investment accounts and similar instruments invested with the Islamic financial institutions (IFIs / the institutions). Quasi-equity is an element of financial statements of an institution in line with the "AAOIFI Conceptual Framework for Financial Reporting" (the conceptual framework). This standard shall be effective for the financial periods beginning on or after 1st January 2026, with early adoption permitted.

3.2.5 FAS 46 Off-Balance sheet assets under management

The objective of this standard is to establish the principles of financial reporting related to off-balance-sheet assets under management in line with the "AAOIFI Conceptual Framework for Financial Reporting" (the conceptual framework). This standard shall be effective for the financial periods beginning on or after 1st January 2026, with early adoption permitted. This standard shall be adopted at the same time as adoption of FAS 45 "Quasi-Equity (including Investment Accounts).

3.2.6 FAS 47 Transfer of Assets between investment pools

The objective of this standard is to establish the principles of financial reporting principles that apply in respect of transfer of assets between various investment pools of an Islamic financial institution. This standard shall be effective for the financial periods beginning on or after 1st January 2026, with early adoption permitted.

4 SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Foreign currency translation

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

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

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

4.2 Cash and cash equivalents

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

4.3 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

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

FAS 31 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.

4.6 Ijarah assets – Ijarah Muntahia Bittamleek

Ijarah Muntahia Bittamleek (Ijarah MBT) is a hybrid Ijarah arrangement which, in addition to the Ijarah contract, includes a promise resulting in transfer of the ownership of the underlying asset to the lessee, either after the end of the term of the Ijarah period or by stages during the term of the contract. Such transfer of the ownership is executed through a sale or a gift, or a series of sales transactions – independent of Ijarah contract.

The Islamic Window, in its capacity either as a lessor or lessee, classifies each of its Ijarah as:

- a. an operating Ijarah;
- b. an Ijarah MBT, including the following types:
 - i. an Ijarah MBT – with expected transfer of ownership after the end of the Ijarah term – either through a sale or a gift; or
 - ii. an Ijarah MBT with gradual transfer – with gradual transfer of ownership during the Ijarah term (including Diminishing Musharaka Ijarah).

Assets acquired for Ijarah are stated at cost, less accumulated depreciation. Depreciation is provided on the straight-line method over the period of the lease or useful life, whichever is lower. Ijarah income receivables represent outstanding rentals at the end of the period less any expected credit losses.

4.7 Investments

Investment securities comprise investments in debt-type, equity-type or other investment instruments.

Classification

Debt-type instruments are a type of investment instruments, whereby the transaction structure results in creation of a monetary or non-monetary liability. Equity-type instruments are the instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities and quasi-equity balances, including ordinary equity instruments and such other structured investment instruments that classify as equity instrument. Other investment instruments are such investment instruments which do not meet the definition of either debt-type or equity-type instruments.

Investments in debt-type instruments are classified into the following categories: 1) at amortised cost or 2) at fair value through equity.

An investment is measured at amortised cost if both of the following conditions are met:

- a. the investment is held within a business model whose objective is to hold such investment in order to collect expected cash flows till maturity of the instrument; and
- b. the investment represents either a debt-type instrument or other investment instrument having reasonably determinable effective yield.

An investment is measured at fair value through equity if both of the following conditions are met:

- a. the investment is held within a business model whose objective is achieved by both collecting expected cash flows and selling the investment; and
- b. the investment represents a non-monetary debt-type instrument or other investment instrument having reasonably determinable effective yield.

An investment is measured at fair value through statement of income unless it is measured at amortised cost or at fair value through equity or if irrevocable classification choices at initial recognition.

On initial recognition, the Group makes an irrevocable election to designate certain equity instruments that are not designated at fair value through statement of income to be classified as investments at fair value through other comprehensive income.

Measurement

Initial recognition

All investments are initially recognized at their fair value plus transaction costs except for investments at fair value through statement of income. Transaction costs relating to investments at fair value through statement of income are charged to the statement of income when incurred.

At the end of each reporting period, investments carried at amortised cost are re-measured as such using the effective profit rate method. All gains or losses arising from the amortization process and those arising from de-recognition or impairment of the investment, are recognized in the statement of income. While applying the effective profit rate method, the commencement (or consummation in case of trade-based transaction) date of the respective transaction in line with Shari'ah is considered as the date of initial cash outflow, if the investment is made at the subscription stage of the instrument or at any time before the commencement (consummation) of such transaction. Investments carried at amortised cost are tested for impairment at each reporting period in accordance with FAS 30 "Impairment, credit losses and onerous commitments".

Subsequent measurement

Investments carried at fair value through statement of income are re-measured at fair value at the end of each reporting period. The resultant re-measurement gain or loss, if any, being the difference between the carrying amount and the fair value is recognized in the income statement. All other income and expenses arising from these investments shall be recognized in the statement of income.

Investments carried at fair value through equity are re-measured at fair value at the end of each reporting period. The resultant re-measurement gain or loss, if any, being the difference between the carrying amount and the fair value is directly recognized in equity under "investments fair value reserve".

Investments carried at fair value through equity are tested for impairment at each reporting period in accordance with FAS 30 "Impairment, credit losses and onerous commitments".

Measurement principles

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus capital repayments, plus or minus the cumulative amortisation using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The calculation of the effective profit rate includes all fee and points paid or received that are an integral part of the effective profit rate.

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or an obligation settled between well informed and willing parties (seller and buyer) in an arm's length transaction. The Bank measures the fair value of quoted investments using the market bid price for that instrument at the close of business on the consolidated statement of financial position date. For investment where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument, which is substantially the same or is based on the assessment of future cash flows. The cash equivalent values are determined by the Group by discounting future cash flows at current profit rates for contracts with similar term and risk characteristics.

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 Service Ijarah

service ijarah is based on ijarah principle, whereby islamic window acquires the services from the third party and then sub-lease it to the customers. Service ijarah are stated at cost net of expected credit loss allowance if any.

4.10 Istisna receivable

Istisna receivable is a sale agreement between the islamic window as a seller and the customer as the ultimate purchaser whereby, the islamic window undertakes to have manufactured (or Acquire) goods and sell it to the customer for an agreed price on completion at future dates. Istisna receivable are stated at net deferred profit and expected credit loss.

4.11 Qard Hasan

Qard Hasan is based on Islamic financial principle of profit-free Qard Hasan whereby, the customer is required to repay the financing amount without any profit. Qard Hasan finance is stated at cost net of expected credit loss allowance, if any.

4.12 Property, equipment and Intangibles

Items of Property, equipment and Intangibles 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, equipment and Intangibles.

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	5-10

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 statement of income.

Repairs and renewals are charged to the statement of income when the expense is incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditures are recognised in the statement of income as an expense when incurred.

4.13 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.

4.14 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 account holder authorizes the Islamic Window to invest the account holder'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 account holders. 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 account holders 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 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. Under FAS 30, ECL is allocated to the assets invested using funds from unrestricted investment accounts.

4.15 Profit equalisation reserve

Profit equalisation reserves are amounts appropriated out of the Mudaraba income, before allocating the mudarib share, in order to maintain a certain level of return on investments for equity of investment account holders.

4.16 Investment risk reserve

Investment risk reserves are amounts appropriated out of the income of equity of investment account holders, after allocating the mudarib share, in order to cater against future losses for equity of investment account holders.

4.17 Revenue recognition

4.17.1 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.

4.17.2 Musharaka

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

4.17.3 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 statement of income, net of suspended profit.

4.17.4 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.

4.17.5 Income from investments

Income from investments is recognised when earned.

4.17.6 Istisna

Profit from Istisna is recognised using proportionate allocation over the future financial period of financing whereby, each financial period shall carry its portion of profits irrespective of whether or not cash received, net of suspended profit.

4.17.7 Service Ijarah

Service ijarah income is recognised on the portion basis over the ijarah term, net of suspended profit.

4.17.8 Dividend

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

4.17.9 Fee and commissions

Fee and commission income recognised when earned.

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

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

4.17.10 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.

4.17.11 Profit suspension

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

4.18 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.

4.19 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 1.247 Mn (2022: (0.221Mn)).

4.20 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, service ijarah, Istisna receivable 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.

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

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

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

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

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

Details of these statistical parameters/inputs are as follows:

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

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

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

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 statement of income.

4.21 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.

4.22 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.

4.23 Employee terminal benefits

4.23.1 Terminal benefits

End of service benefits are accrued in accordance with the terms of employment of the Bank's employees at the reporting date, having regard to the requirements of the Oman Labor Law RD 35/2003 (prior to 31 July 2023) and Oman Labor Law RD 53/2023 (starting 31 July 2023), as amended and in accordance with IAS 19 employee benefits.

Contribution to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurance Law RD 72/1991, and amendments to the same that were effective 19 July 2023 by way of the Social Protection Fund Law RD 52/2023 are recognised as an expense in the statement of comprehensive income when incurred.

4.23.2 Short term benefits

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

4.24 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.

4.25 Zakah

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

4.26 Offsetting

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

4.27 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.

4.28 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".

4.29 Commingling of funds

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

4.30 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.

4.31 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 are in the followings:

5.1 Financial asset classification

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

5.2 Measurement of the expected credit loss allowance 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 behavior (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.

5.3 Useful life of property, equipment and Intangible and Ijarah Muntahia Bittamleek

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

6 CASH AND BALANCES WITH CENTRAL BANK OF OMAN

2022	2023		2023	2022
US\$ '000	US\$ '000		RO '000	RO '000
12,252	18,416	Cash	7,090	4,717
37,457	85,324	Clearing account with Central Bank of Oman	32,850	14,421
-	100,000	Placement with CBO	38,500	-
<u>49,709</u>	<u>203,740</u>		<u>78,440</u>	<u>19,138</u>

7 DUE FROM BANKS

2022	2023		2023	2022
US\$ '000	US\$ '000		RO '000	RO '000
-	99,000	Wakala placements	38,115	-
2,982	1,831	Nostro account balances	705	1,148
<u>2,982</u>	<u>100,831</u>		<u>38,820</u>	<u>1,148</u>
		Less: Impairment loss allowance		
-	(153)	Stage 1 and 2 (Note 33)	(59)	-
<u>2,982</u>	<u>100,678</u>		<u>38,761</u>	<u>1,148</u>

8 MURABAHA RECEIVABLES

2022	2023		2023	2022
US\$ '000	US\$ '000		RO '000	RO '000
33,325	45,932	Vehicles	17,684	12,830
62,504	58,273	Personal financing	22,435	24,064
25,800	26,548	Corporate	10,221	9,933
<u>121,629</u>	<u>130,753</u>	Gross receivables	<u>50,340</u>	<u>46,827</u>
(13,114)	(14,647)	Deferred profits	(5,639)	(5,049)
<u>108,515</u>	<u>116,106</u>		<u>44,701</u>	<u>41,778</u>
		Less: Impairment loss allowance		
(216)	(153)	Stage 1 and 2 (Note 33)	(59)	(83)
(5,655)	(9,185)	Stage 3 (Note 33)	(3,536)	(2,177)
<u>102,644</u>	<u>106,768</u>		<u>41,106</u>	<u>39,518</u>

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

8.1 DEFERRED PROFIT

2022	2023		2023	2022
US\$ '000	US\$ '000		RO '000	RO '000
(12,988)	(13,114)	Deferred profit at the beginning of the year	(5,049)	(5,000)
(32,112)	(39,057)	Murabaha sales during the year	(15,037)	(12,363)
27,252	32,018	Murabaha cost of sales	12,327	10,492
(4,860)	(7,039)	Deferred profit on sales	(2,710)	(1,871)
4,734	5,506	Murabaha income recognised during the period	2,120	1,823
<u>(13,114)</u>	<u>(14,647)</u>	Deferred profit at the end of the year	<u>(5,639)</u>	<u>(5,049)</u>

9 WAKALA BIL ISTITHMAR

2022	2023		2023	2022
US\$ '000	US\$ '000		RO '000	RO '000
75,325	166,409	Gross receivables	64,067	29,000
(70)	(240)	Less: Stage 1 Impairment loss allowance (Note 33)	(92)	(27)
<u>75,255</u>	<u>166,169</u>		<u>63,975</u>	<u>28,973</u>

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

10 MUSHARAKA RECEIVABLES

2022	2023		2023	2022
US\$ '000	US\$ '000		RO '000	RO '000
855,135	821,984	Musharaka receivables	316,464	329,227
		Less: Impairment loss allowance		
(12,083)	(5,000)	Stage 1 and 2 (Note 33)	(1,925)	(4,652)
(7,268)	(14,414)	Stage 3 (Note 33)	(5,549)	(2,798)
<u>835,784</u>	<u>802,570</u>		<u>308,990</u>	<u>321,777</u>

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

11 INVESTMENT SECURITIES

2022	2023		2023	2022
US\$ '000	US\$ '000		RO '000	RO '000
		Debt type instrument at fair value through equity		
117,500	127,771	Sukuks	49,192	45,237
		Equity type instrument at fair value through equity		
708	13,722	Open end mutual fund and equity	5,283	273
12,987	19,681	Additional Tier 1 perpetual security	7,577	5,000
<u>131,195</u>	<u>161,174</u>		<u>62,052</u>	<u>50,510</u>

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

12 IJARAH ASSETS - IJARAH MUNTAHIA BITTAMLEEK

2022	2023		2023	2022
US\$ '000	US\$ '000		RO '000	RO '000
338,327	334,036	Cost	128,604	130,256
(105,070)	(105,997)	Accumulated depreciation	(40,809)	(40,452)
233,257	228,039	Book value	87,795	89,804
		Less: Impairment loss allowance		
(2,857)	(3,215)	Stage 1 and 2 (Note 33)	(1,238)	(1,100)
(1,021)	(923)	Stage 3 (Note 33)	(355)	(393)
<u>229,379</u>	<u>223,901</u>	Net book value	<u>86,202</u>	<u>88,311</u>

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

13 CREDIT CARD RECEIVABLES

2022	2023		2023	2022
US\$ '000	US\$ '000		RO '000	RO '000
2,122	2,808	Islamic Credit Card	1,081	817
		Less: Impairment loss allowance		
(5)	(11)	Stage 1,2 & 3 (Note 33)	(4)	(2)
<u>2,117</u>	<u>2,797</u>	Net book value	<u>1,077</u>	<u>815</u>

14 SERVICE IJARAH

2022	2023		2023	2022
US\$ '000	US\$ '000		RO '000	RO '000
3,912	6,947	Service Ijarah	2,675	1,506
		Less: Impairment loss allowance		
-	(1)	Stage 1 & 2	(1)	-
<u>3,912</u>	<u>6,946</u>	Net book value	<u>2,674</u>	<u>1,506</u>

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

15 ISTISNA RECEIVABLE

2022	2023		2023	2022
US\$ '000	US\$ '000		RO '000	RO '000
-	13,117	Istisna receivable	5,050	-
		Less: Impairment loss allowance		
-	(16)	Stage 1 & 2 (Note 33)	(6)	-
<u>-</u>	<u>13,101</u>	Net book value	<u>5,044</u>	<u>-</u>

16 QARD HASSAN FINANCING

2022	2023		2023	2022
US\$ '000	US\$ '000		RO '000	RO '000
-	192	Qard Hassan Financing	74	-
		Less: Impairment loss allowance		
-	-	Stage 1 & 2 (Note 33)	(0)	-
<u>-</u>	<u>192</u>	Net book value	<u>74</u>	<u>-</u>

16.1 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.

16.1.1 Comparison of provision held as per IFRS 9 and required as per CBO norms

Disclosure requirements for the year ended 31 December 2023, 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	Suspended profit 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
						RO '000		
(1)	(2)	(3)	(4)	(5)	(6)	(7) = (4)+(5)-(6)	(8)=(3)-(4)	(9) = (3)-(6)
Standard	Stage 1	458,568	4,786	-	1,356	3,430	453,782	457,212
	Stage 2	24,319	254	-	668	(414)	24,065	-
	Stage 3	-	-	-	-	-	-	23,651
Subtotal		482,887	5,040	-	2,024	3,016	477,847	480,863
Special Mention	Stage 1	-	-	-	-	-	-	-
	Stage 2	20,135	210	-	1,299	(1,089)	19,925	18,836
	Stage 3	-	-	-	-	-	-	-
Subtotal		20,135	210	-	1,299	(1,089)	19,925	18,836
Substandard	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	1,382	346	2	172	176	1,036	1,210
Subtotal		1,382	346	2	172	176	1,036	1,210
Doubtful	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	360	126	8	125	9	234	235
Subtotal		360	126	8	125	9	234	235
Loss	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	17,143	12,085	2,662	11,818	2,929	5,058	5,325
Subtotal		17,143	12,085	2,662	11,818	2,929	5,058	5,325
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	208,781	-	-	114	(114)	208,781	208,667
	Stage 2	12,387	-	-	805	(805)	12,387	11,582
	Stage 3	142	-	-	142	(142)	142	-
Subtotal		221,310	-	-	1,061	(1,061)	221,310	220,249
		667,349	4,786	-	1,470	3,316	662,563	665,879
Total		56,841	464	-	2,772	(2,308)	56,377	54,069
		19,027	12,557	2,672	12,257	2,972	6,470	6,770
		743,217	17,807	2,672	16,499	3,980	725,410	726,718

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

16.2 Restructured Loans **

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Carrying Amount	Provision required as per CBO Norms	Suspended profit as per CBO norms	Provision held as per IFRS 9	Difference	Net	Net Carrying Amount as per IFRS 9
						between CBO provision required and provision held	Carrying Amount as per CBO norms*	
(1)	(2)	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
		(3)	(4)	(5)	(6)	(7) = (4)+(5)-(6)	(8)=(3)-(4)	(9) = (3)-(6)
Classified as performing	Stage 1	48,340	242	-	698	(456)	48,098	47,642
	Stage 2	25,650	128	-	1,713	(1,585)	25,522	23,937
	Stage 3	-	-	-	-	-	-	-
Subtotal		73,990	370	-	2,411	(2,041)	73,620	71,579
Classified as non-performing	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	65	16	-	23	(7)	49	42
Sub total		65	16	-	23	(7)	49	42
Total	Stage 1	48,340	242	-	698	(456)	48,098	47,642
	Stage 2	25,650	128	-	1,713	(1,585)	25,522	23,937
	Stage 3	65	16	-	23	(7)	49	42
	Total	74,055	386	-	2,434	(2,048)	73,669	71,621

*Net of provisions and suspended profit as per CBO norms

16.3 Impairment charge and provisions held

	As per CBO Norms***	As per IFRS 9	Difference
Impairment loss charged to profit and loss account	1,699	1,699	-
Provisions required as per CBO norms/ held as per IFRS 9	17,807	16,499	3,980
Gross NPL ratio (percentage)	3.62%	3.62%	-
Net NPL ratio (percentage)	0.70%	1.27%	-0.57%

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.

**Restructured loans include the restructuring/rescheduling of certain affected borrowers allowed as per CBO circular BSD/CB & FLCs/2021/004 dated November 18, 2021 & circular SD/CB & FLCs/2022/005 dated October 4, 2022. As per these CBO circulars, the loan classification of the borrowers were continued to be retained as either Stage 1 or Stage 2 upon implementation of restructuring/rescheduling, however appropriate ECL is maintained.

*** CBO provision does not include suspended profit

16.4 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.

16.4.1 Comparison of provision held as per IFRS 9 and required as per CBO norms as at 31 December 2022:

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	Suspended profit 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
		RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
(1)	(2)	(3)	(4)	(5)	(6)	(7) = (4)+(5)-(6)	(8)=(3)-(4)	(9) = (3)-(5)
Standard	Stage 1	410,110	4,253	-	1,658	2,595	405,857	408,452
	Stage 2	49,517	511	-	3,221	(2,710)	49,006	46,296
	Stage 3	-	-	-	-	-	-	-
Subtotal		459,627	4,764	-	4,879	(115)	454,863	454,748
Special Mention	Stage 1	-	-	-	-	-	-	-
	Stage 2	15,101	156	-	987	(831)	14,945	14,114
	Stage 3	-	-	-	-	-	-	-
Subtotal		15,101	156	-	987	(831)	14,945	14,114
Substandard	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	324	82	31	133	(20)	242	191
Subtotal		324	82	31	133	(20)	242	191
Doubtful	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	367	116	5	105	16	251	262
Subtotal		367	116	5	105	16	251	262
Loss	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	16,713	12136	2,195	7,359	6,972	4,577	9,354
Subtotal		16,713	12136	2,195	7,359	6,972	4,577	9,354
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	75,428	-	-	25	(25)	75,428	75,403
	Stage 2	11,783	-	-	787	(787)	11,783	10,996
	Stage 3	84	-	-	84	(84)	84	-
Subtotal		87,295	-	-	896	(896)	87,295	86,399
Total		485,538	4,253	-	1,683	2,570	481,285	483,855
		76,401	667	-	4,995	(4,328)	75,734	71,406
		17,488	12,334	2,231	7,681	6,884	5,154	9,807
		579,427	17,254	2,231	14,359	5,126	562,173	565,068

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

16.5 Restructured Loans

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Carrying Amount	Provision required as per CBO Norms	Suspended profit 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
		RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
(1)	(2)	(3)	(4)	(5)	(6)	(7) = (4)+(5)-(6)	(8)=(3)-(4)	(9) = (3)-(5)
Classified as performing	Stage 1	60,429	302	-	855	(553)	60,127	59,574
	Stage 2	61,439	307	-	4,930	(4,623)	61,132	56,509
	Stage 3	-	-	-	-	-	-	-
Subtotal		121,868	609	-	5,785	(5,176)	121,259	116,083
Classified as non-performing	Stage 1	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-
	Stage 3	8,371	3,767	1,630	2,114	3,283	4,604	6,257
Sub total		8,371	3,767	1,630	2,114	3,283	2,974	6,257
Total	Stage 1	60,429	302	-	855	(553)	60,127	59,574
	Stage 2	61,439	307	-	4,930	(4,623)	61,132	56,509
	Stage 3	8,371	3,767	1,630	2,114	3,283	4,604	6,257
	Total	130,239	4,376	1,630	7,899	(1,893)	125,863	122,340

*Net of provisions and suspended profit as per CBO norms

16.6 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	17,254	14,359	5,126
Gross NPL ratio (percentage)	3.54%	3.54%	-
Net NPL ratio (percentage)	0.58%	1.98%	-1.40%

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.

*** CBO provisions does not include suspended profit

17 Property, equipment and Intangibles

	Building	Leasehold improvements	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 2023	477	1,438	845	1,075	211	3,187	2	7,235
Additions	-	36	22	70	38	568	2,021	2,755
Transfers	1,285	461	205	17	55	-	(2,023)	-
Disposals / scrapped	-	(36)	(12)	-	(25)	(522)	-	(595)
At 31 December 2023	1,762	1,899	1,060	1,162	279	3,233	-	9,395
Accumulated depreciation:								
At 1 January 2023	173	694	471	827	97	1,125	-	3,387
Depreciation	49	248	103	64	18	494	-	976
Disposals / scrapped	-	(36)	(12)	-	(25)	(470)	-	(543)
At 31 December 2023	222	906	562	891	90	1,149	-	3,820
Net book value as at								
At 31 December 2023	1,540	993	498	271	189	2,084	-	5,575
At 31 December 2023 (US\$ '000)	4,000	2,579	1,294	704	491	5,413	-	14,481

	Building	Leasehold improvements	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 2022	477	1,122	673	1,025	174	1,717	2	5,190
Additions	-	316	172	50	37	1,470	-	2,045
Transfers	-	-	-	-	-	-	-	-
At 31 December 2022	477	1,438	845	1,075	211	3,187	2	7,235
Accumulated depreciation:								
At 1 January 2022	154	523	394	767	88	712	-	2,638
Depreciation	19	171	77	60	9	413	-	749
Disposals / scrapped	-	-	-	-	-	-	-	-
At 31 December 2022	173	694	471	827	97	1,125	-	3,387
At 31 December 2022	304	744	374	248	114	2,062	2	3,848
At 31 December 2022 (US\$ '000)	789	1,933	970	644	297	5,357	5	9,995

18 OTHER ASSETS

2022	2023		2023	2022
US\$ '000	US\$ '000		RO '000	RO '000
10,177	10,595	Profit receivable on financing	4,079	3,918
475	499	Profit receivable on sukuks	192	183
-	1,076	Profit receivable on Wakala placement	414	-
488	851	Others	328	188
481	226	Prepayments	87	185
(218)	(369)	Impairment loss allowance	(142)	(84)
<u>11,403</u>	<u>12,878</u>		<u>4,958</u>	<u>4,390</u>

19 DUE TO BANKS

2022	2023		2023	2022
US\$ '000	US\$ '000		RO '000	RO '000
2,262	21	Vostro account balances	8	871
<u>2,262</u>	<u>21</u>		<u>8</u>	<u>871</u>

20 OTHER LIABILITIES

2022	2023		2023	2022
US\$ '000	US\$ '000		RO '000	RO '000
6,421	10,265	Accrued expenses and payable	3,952	2,472
5,538	5,396	Profit payable	2,078	2,132
779	4,947	Lease liability	1,905	300
1,006	3,238	Provision for tax	1,246	387
4,743	2,538	Manager cheque payable	977	1,826
58	1,010	Unearned fee income	389	22
579	278	Others	107	223
756	265	Profit Equalization Reserve	102	291
5	8	Charity payable	3	2
2,081	2,213	Impairment loss allowance	852	801
<u>21,965</u>	<u>30,158</u>		<u>11,611</u>	<u>8,456</u>

21 EQUITY OF INVESTMENT ACCOUNT HOLDERS

2022	2023		2023	2022
US\$ '000	US\$ '000		RO '000	RO '000
341,002	379,252	Saving and call accounts	146,012	131,286
25,974	17,501	Wakala acceptances	6,738	10,000
3,361	2,564	Wakala Deposits - Financial institutions	987	1,294
816,138	1,105,379	Wakala Deposits - Others	425,571	314,213
1,186,475	1,504,696	Equity of investment account holders	579,308	456,793
(57)	(265)	Less: Profit Equalisation Reserve	(102)	(22)
<u>1,186,418</u>	<u>1,504,431</u>		<u>579,206</u>	<u>456,771</u>

The average profit rate for the investment accountholders during the year was 3.10% (2022: 3.01%). Profit sharing ratio of mudarib as at 31 December 2023 was 25% (2022: 25%)

22 SHARE CAPITAL

The allocated share capital of the Islamic Window is RO 45 million equivalent to US\$ 116.883 million. During the year, the Bank raised additional capital through rights issue of 400 million shares at 125 baiza per share. The Bank has allocated RO 10 million share capital to the Islamic Window from the rights issue.

23 CONTINGENT LIABILITIES AND COMMITMENTS

2022	2023		2023	2022
US\$ '000	US\$ '000		RO '000	RO '000
48,584	63,063	Guarantees	24,279	18,705
7,013	77,792	Financing Commitment	29,950	2,700
<u>55,597</u>	<u>140,855</u>		<u>54,229</u>	<u>21,405</u>

24 INCOME FROM FINANCING ACTIVITIES

2022	2023		2023	2022
US\$ '000	US\$ '000		RO '000	RO '000
36,673	53,473	Musharaka	20,587	14,119
13,099	12,218	Rental income on ijarah assets	4,704	5,043
4,734	5,507	Murabaha	2,120	1,823
4,317	4,161	Wakala bil Istithmar	1,602	1,662
-	403	Istisna	155	-
<u>58,823</u>	<u>75,762</u>		<u>29,168</u>	<u>22,647</u>

25 INCOME FROM INVESTING ACTIVITIES

2022	2023		2023	2022
US\$ '000	US\$ '000		RO '000	RO '000
5,127	6,368	Income from investments	2,452	1,974
96	3,094	Income from wakala placements	1,191	37
<u>5,223</u>	<u>9,462</u>		<u>3,643</u>	<u>2,011</u>

26 OTHER OPERATING INCOME

2022	2023		2023	2022
US\$ '000	US\$ '000		RO '000	RO '000
5,613	5,570	Fee and commission income	2,144	2,161
(288)	(418)	Fee and commission expense	(161)	(111)
878	1,107	Dividend income	426	338
369	788	Service charges and other	304	142
75	621	Gain on sale of investment	239	29
322	387	Foreign exchange gain, net	149	124
<u>6,969</u>	<u>8,055</u>		<u>3,101</u>	<u>2,683</u>

27 RETURN TO INVESTMENT ACCOUNT HOLDERS

2022	2023		2023	2022
US\$ '000	US\$ '000		RO '000	RO '000
4,848	4,333	Return on investment account holders under Mudaraba - before Mudarib's share	1,668	1,866
30,262	41,345	Return on customer Wakala deposits	15,918	11,651
955	1,771	Return on inter bank Wakala deposit	682	368
<u>36,065</u>	<u>47,449</u>		<u>18,268</u>	<u>13,885</u>

28 STAFF EXPENSES

2022	2023		2023	2022
US\$ '000	US\$ '000		RO '000	RO '000
5,616	6,120	Salaries and wages	2,356	2,162
5,785	6,436	Allowances and other staff cost	2,478	2,227
<u>11,401</u>	<u>12,556</u>		<u>4,834</u>	<u>4,389</u>

29 OTHER OPERATING EXPENSES

2022	2023		2023	2022
US\$ '000	US\$ '000		RO '000	RO '000
2,890	3,990	Operating and administration costs	1,536	1,113
997	1,268	Advertisement costs	488	384
501	481	Occupancy costs	185	193
91	94	Shariah Supervisory Board related expenses	36	35
<u>4,479</u>	<u>5,833</u>		<u>2,245</u>	<u>1,725</u>

30 ZAKAH

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

31 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:

2022	2023		2023	2022
US\$ '000	US\$ '000		RO '000	RO '000
		Directors, Shariah Supervisory Board and senior management		
73	52	Financing assets	20	28
332	2,919	Customers' deposits	1,124	128
		Major shareholders and its subsidiaries		
52	138	Nostro account balances	53	20
399	400	Investment securities	154	154
25,974	17,500	Due to banks - Wakala acceptances	6,738	10,000

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

2022	2023		2023	2022
US\$ '000	US\$ '000		RO '000	RO '000
		Directors, Shariah Supervisory Board and senior management		
4	3	Profit earned	1	2
60	68	Shariah Supervisory Board remuneration	26	23
31	26	Shariah Supervisory Board sitting fee	5	5

The Islamic Window has not rented any branch premises from a Director during the year 2023 and 2022.

32 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 2023 is RO 62.052 million equivalent to US\$ 161.17 million (31 December 2022 is RO 50.510 million equivalent to US\$ 131.19 million) with cost amounts to RO 51.229 million equivalent to US\$ 133.06 million (31 December 2022: RO 34.969 million equivalent to US\$ 90.83 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:

	2023	2023	2023	2022	2022	2022
	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	49,192	-	49,192	45,237	-	45,237
Investment - equity type instrument at fair value through equity	12,860	-	12,860	5,273	-	5,273
	<u>62,052</u>	<u>-</u>	<u>62,052</u>	<u>50,510</u>	<u>-</u>	<u>50,510</u>
Financial assets	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Investment - debt type instruments at fair value through equity	127,771	-	127,771	117,500	-	117,500
Investment - equity type instrument at fair value through equity	33,403	-	33,403	13,695	-	13,695
	<u>161,174</u>	<u>-</u>	<u>161,174</u>	<u>131,195</u>	<u>-</u>	<u>131,195</u>

No financial instruments are carried at level 2 and level 3 fair values as on 31 December 2023 (31 December 2022: NIL)

33 FINANCIAL 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

33.1 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.

33.1.1 TYPE OF CREDIT RISK

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

33.1.1.1 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.

33.1.1.2 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.

33.1.1.3 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.

33.1.1.4 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.

33.1.1.5 CREDIT CARD RECIEVABLES

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

33.1.1.6 WAKALA BIL ISTITHMAR

This is an investment in which the Islamic window, in its capacity as the "Muwakil" (principle) appoints the customer as "Wakeel" (Agent) to manage the invested funds in Sharia Compliant activities. The investment amount is not guranteed while the profit rate is anticipated and cannot be fixed. Therefore, the utmost care is taken before taking any exposuere.

33.1.2 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.

Credit quality rating	Risk Rating(RR)	Classification
Standard	RR1 to RR6	Not credit impaired on initial recognition- classified under 'Stage 1'.
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'.

33.1.3 Exposure to credit risk

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

	2023				2022
	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	71,350	-	-	71,350	14,421
Due from banks	38,820	-	-	38,820	1,148
Financing to customers - Gross	458,568	44,454	18,885	521,907	492,132
Investment securities	56,770	-	-	56,769	50,237
Financing Commitments and financial guarantees	41,842	12,387	-	54,229	21,405
Other assets			142	142	84
Gross carrying amount	667,349	56,841	19,027	743,217	579,427
Impairment loss allowance	1,470	2,772	12,257	16,499	14,359
Carrying amount	665,880	54,069	6,770	726,718	565,068

	2023				2022
	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	185,325	-	-	185,325	37,457
Due from banks	100,831	-	-	100,831	2,982
Financing to customers - Gross	1,191,086	115,465	49,052	1,355,603	1,278,265
Investment securities	147,455	-	-	147,452	130,486
Financing Commitments and financial guarantees	108,681	32,174	-	140,855	55,597
Other assets			369	369	218
Gross carrying amount	1,733,378	147,639	49,421	1,930,435	1,505,005
Impairment loss allowance	3,818	7,200	31,836	42,854	37,296
Carrying amount	1,729,560	140,439	17,585	1,887,581	1,467,709

IMPAIRED FINANCING

The collateral held against impaired financing is RO 30.123 million equivalent to US\$ 78.242 million (31 December 2022 RO 27.727 million equivalent to US\$ 72.018 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 statement of income together with financing commitments and financial guarantee contracts.

33.1.4 Expected credit loss measurement

Overview of ECL principles

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 4.20

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 2023				
Financings	1,658	4,208	7,597	13,463
Investment Securities & Due from Banks	11	-	-	11
Financing commitments and financial guarantees	14	787	-	801
Other assets	-	-	84	84
Net transfer between stages				
Financings	(217)	185	32	-
Investment Securities & Due from Banks	-	-	-	-
Financing commitments and financial guarantees	-	-	-	-
Other assets	-	-	-	-
Charge for the Year (net)				
Financings	(85)	(2,426)	4,486	1,975
Investment Securities & Due from Banks	56	-	-	56
Financing commitments and financial guarantees	33	18	-	51
Other assets	-	-	58	58
Closing balance as at 31 December 2023				
Financings	1,356	1,967	12,115	15,438
Investment Securities & Due from Banks	67	-	-	67
Financing commitments and financial guarantees	47	805	-	852
Other assets	-	-	142	142

Note: Charge for the year includes suspended profit of RO 0.441 Mn

33.1.5 Significant increase in credit risk (SICR)

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

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

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

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

33.1.6 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.

An investment is measured at fair value through statement of income unless it is measured at amortised cost or at fair value through equity or if irrevocable classification choices at initial recognition.

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.

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%.

2023			2023		
Impact on ECL	ECL		ECL	Impact on ECL	
US\$'000	US\$'000		RO'000	RO'000	
	11,018	ECL on non impaired financial contracts	4,242		
(600)	10,418	Good scenario - 100% weighted	4,011	(231)	
(25)	10,992	Base scenario - 100% weighted	4,232	(9)	
649	11,668	Bad scenario - 100% weighted	4,492	250	

2022			2022		
Impact on ECL	ECL		ECL	Impact on ECL	
US\$'000	'US\$'000		RO'000	RO'000	
	17,345	ECL on non impaired financial contracts	6,678		
(3,432)	13,914	Good scenario - 100% weighted	5,357	(1,321)	
128	17,474	Base scenario - 100% weighted	6,727	49	
3,175	20,520	Bad scenario - 100% weighted	7,900	1,222	

For computation of ECL, the Islamic Window considers three scenarios ie., Good, base and bad with weightage of 25%, 50% and 25% respectively for the year 2023 and 2022.

33.2 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 2023.

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 2023	RO '000	RO '000	RO '000	RO '000	RO '000
Assets					
Cash and balances with Central Bank of Oman	78,440	-	-	-	78,440
Due from banks	646	38,115	-	-	38,761
Financing assets	50,904	42,657	79,696	335,885	509,142
Investment securities	43,129	18,923	-	-	62,052
Property, equipment and Intangibles	-	-	-	5,575	5,575
Other assets	4,958	-	-	-	4,958
Total assets	178,077	99,695	79,696	341,460	698,928
Liabilities, equity of investment account holders and owners' equity					
Due to banks	8	-	-	-	8
Customers' deposits	114,486	176,030	120,448	197,358	608,322
Other liabilities	7,899	-	-	3,712	11,611
Shareholder's fund	-	-	-	78,987	78,987
Total liabilities, equity of investment account holders and owners' equity	122,393	176,030	120,448	280,057	698,928
Net liquidity gap	55,684	(76,335)	(40,752)	61,403	-
Cummulative liquidity gap	55,684	(20,651)	(61,403)	-	-

	Upto three months	Above three months to twelve months	Above one year to five years	More than five years	Total
31 December 2023	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Assets					
Cash and balances with Central Bank of Oman	203,740	-	-	-	203,740
Due from banks	1,678	99,000	-	-	100,678
Financing assets	132,218	110,797	207,003	872,426	1,322,444
Investment securities	112,023	49,151	-	-	161,174
Property and equipment	-	-	-	14,481	14,481
Other assets	12,878	-	-	-	12,878
Total assets	462,537	258,948	207,003	886,907	1,815,395
Liabilities, equity of investment account holders and owners' equity					
Due to banks	21	-	-	-	21
Customers' deposits	297,366	457,221	312,852	512,616	1,580,055
Other liabilities	20,517	-	-	9,641	30,158
Shareholder's fund	-	-	-	205,161	205,161
Total liabilities, equity of investment account holders and owners' equity	317,904	457,221	312,852	727,418	1,815,395
Net liquidity gap	144,633	(198,273)	(105,849)	159,489	-
Cummulative liquidity gap	144,633	(53,640)	(159,489)	-	-

	Upto three months	Above three months to twelve months	Above one year to five years	More than five years	Total
31 December 2022	RO '000	RO '000	RO '000	RO '000	RO '000
Assets					
Cash and balances with Central Bank of Oman	19,138	-	-	-	19,138
Due from banks	1,148	-	-	-	1,148
Financing assets	41,219	8,842	64,062	366,777	480,900
Investment securities	33,764	16,746	-	-	50,510
Property and equipment	-	-	-	3,848	3,848
Other assets	4,390	-	-	-	4,390
Total assets	99,659	25,588	64,062	370,625	559,934
Liabilities, equity of investment account holders and owners' equity					
Due to banks	871	-	-	-	871
Customers' deposits	111,658	119,666	136,963	120,949	489,236
Other liabilities	2,949	-	-	5,507	8,456
Shareholder's fund	-	-	-	61,371	61,371
Total liabilities, equity of investment account holders and owners' equity	115,478	119,666	136,963	187,827	559,934
Net liquidity gap	(15,819)	(94,078)	(72,901)	182,798	-
Cummulative liquidity gap	(15,819)	(109,897)	(182,798)	-	-

	Upto three months	Above three months to twelve months	Above one year to five years	More than five years	Total
Rentals accrued from ijarah financings is recognised on a time-apportioned basis over the lease term net of depreciation charged are taken to the statement of income, net of suspended profit.	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
31 December 2022					
<i>Assets</i>					
Cash and balances with Central Bank of Oman	49,709	-	-	-	49,709
Due from banks	2,982	-	-	-	2,982
Financing assets	107,063	22,966	166,394	952,668	1,249,091
Investment securities	87,700	43,495	-	-	131,195
Property and equipment	-	-	-	9,995	9,995
Other assets	11,403	-	-	-	11,403
Total assets	258,857	66,461	166,394	962,663	1,454,375
<i>Liabilities, equity of investment account holders and owners' equity</i>					
Due to banks	2,262	-	-	-	2,262
Customers' deposits	290,020	310,821	355,749	314,153	1,270,743
Other liabilities	7,660	-	-	14,305	21,965
Shareholder's fund	-	-	-	159,405	159,405
Total liabilities, equity of investment account holders and owners' equity	299,942	310,821	355,749	487,863	1,454,375
<i>Net liquidity gap</i>	(41,085)	(244,360)	(189,355)	474,800	-
<i>Cummulative liquidity gap</i>	(41,085)	(285,445)	(474,800)	-	-

33.3 MARKET RISK

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

33.3.1 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;

	2023	2023	2022	2022
	RO '000	US\$ '000	RO '000	US\$ '000
Net profit earned	14,963	38,865	11,128	28,904
Impact of +200 bps profit rate increase	(1,731)	(4,496)	(1,372)	(3,564)
Impact of -200 bps profit rate decrease	1,731	4,496	1,372	3,564

33.3.2 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:

2022	2023		2023	2022
US\$ '000	US\$ '000		RO '000	RO '000
4,674	65,931	US Dollar	25,384	1,799
426	133	Euro	51	164
1,060	2,649	UAE Dirham	1,020	408
44	87	GBP Sterling	34	17
69	132	Others	51	26

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 2023.

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

33.3.3 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.

2022	2023		Change	2023	2022
US\$ '000	US\$ '000		(+/-)	RO '000	RO '000
11,751	12,777	Sukuks	10%	4,919	4,524
1,369	3,340	Open end mutual fund and equity	10%	1,286	527

33.4 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.

33.5 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.

2023							
	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	-	-	-	-	-	-	62,052
Corporate	9,851	64,067	250,453	28,547	5,050	-	-
Personal	34,850	-	66,011	59,248	3,830	-	-
Banks	-	-	-	-	-	38,820	-
	<u>US\$ '000</u>	<u>US\$ '000</u>	<u>US\$ '000</u>	<u>US\$ '000</u>	<u>US\$ '000</u>	<u>US\$ '000</u>	<u>US\$ '000</u>
Sovereign	-	-	-	-	-	-	161,174
Corporate	25,587	166,409	650,527	74,148	13,116	-	-
Personal	90,519	-	171,457	153,891	9,948	-	-
Banks	-	-	-	-	-	100,831	-

2022							
Concentration by industry	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Sovereign	-	-	-	-	-	-	49,550
Corporate	9,713	29,000	276,287	24,384	-	-	960
Personal	32,065	-	52,940	65,420	2,323	-	-
Banks	-	-	-	-	-	1,148	-
	<u>US\$ '000</u>	<u>US\$ '000</u>	<u>US\$ '000</u>	<u>US\$ '000</u>	<u>US\$ '000</u>	<u>US\$ '000</u>	<u>US\$ '000</u>
Sovereign	-	-	-	-	-	-	128,701
Corporate	25,229	75,325	717,629	63,335	-	-	2,493
Personal	83,286	-	137,506	169,922	6,034	-	-
Banks	-	-	-	-	-	2,982	-

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

2023							
	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	44,701	64,067	316,464	87,795	8,880	38,115	62,052
Other GCC countries	-	-	-	-	-	165	-
Unites States of America	-	-	-	-	-	479	-
OECD countries	-	-	-	-	-	61	-
Others	-	-	-	-	-	-	-
	<u>US\$ '000</u>	<u>US\$ '000</u>	<u>US\$ '000</u>	<u>US\$ '000</u>	<u>US\$ '000</u>	<u>US\$ '000</u>	<u>US\$ '000</u>
Oman	116,106	166,409	821,984	228,039	23,064	99,000	161,174
Other GCC countries	-	-	-	-	-	428	-
Unites States of America	-	-	-	-	-	1,245	-
OECD countries	-	-	-	-	-	158	-
Others	-	-	-	-	-	-	-

	2022						
	Murabaha, gross	Wakala bil Istithmar gross	Musharaka, gross	Ijarah Muntahia Bittamleek	Other financings, gross	Due from banks	Investment securities
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
<i>Concentration by location</i>							
Oman	41,778	29,000	329,227	89,804	2,323	-	49,702
Other GCC countries	-	-	-	-	-	76	-
Unites States of America	-	-	-	-	-	190	-
OECD countries	-	-	-	-	-	882	808
Others	-	-	-	-	-	-	-
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Oman	108,514	75,325	855,135	233,257	6,034	-	129,096
Other GCC countries	-	-	-	-	-	198	-
Unites States of America	-	-	-	-	-	493	-
OECD countries	-	-	-	-	-	2,290	2,099
Others	-	-	-	-	-	-	-

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.

34 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 2013. During the year 2020, as part of the covid 19 relief measures CBO has lowered the Capital Conversion Buffer (CCB) requirement by 50% from 2.5% to 1.25%. In order to smoothen the higher volatility in ECL computation and its impact on regulatory capital of the banks amid covid-19 outbreak, CBO has issued a new requirement to apply a "prudential filter" approach on IFRS 9 expected credit loss (ECL) provisions on calculating the regulatory capital. Any increase in the Stage 2 provisioning compared to December 31, 2019 will be added back to regulatory capital while these provisions will be gradually phased-in during a five-year period ending 31 December 2024. The 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.

2022	2023		2023	2022
US\$ '000	US\$ '000		RO '000	RO '000
146,431	194,777	Common Equity Tier 1 (CET1)	74,989	56,376
146,431	194,777	Tier 1	74,989	56,376
9,795	5,406	Tier 2	2,081	3,771
156,226	200,183	Total regulatory capital	77,070	60,147
		Risk weighted assets		
1,129,249	1,437,828	Credit risk	553,564	434,761
7,629	11,135	Market risk	4,287	2,937
47,722	58,312	Operational risk	22,450	18,373
1,184,600	1,507,275	Total risk weighted assets	580,301	456,071
		Capital adequacy ratio		
12.36%	12.92%	CET1 capital expressed as a percentage of total risk weighted assets	12.92%	12.36%
12.36%	12.92%	Total tier I capital expressed as a percentage of total risk weighted assets	12.92%	12.36%
0.84%	0.37%	Tier II capital expressed as a percentage of total risk weighted assets	0.37%	0.84%
13.19%	13.28%	Total regulatory capital expressed as a percentage of total risk weighted assets	13.28%	13.19%

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 8 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.

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

35 SOCIAL RESPONSIBILITY

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







AHLI ISLAMIC BASEL II PILLAR III AND BASEL III DISCLOSURES

31 December 2023

Report of factual findings to the Board of Directors of Ahli Islamic (the 'Islamic Window') in respect of Basel II - Pillar III Disclosures and Basel III related disclosures

Purpose of the Agreed Upon Procedures Report and Restriction on Use and Distribution

Our report is solely for the purpose of assisting the **Ahli Islamic** ('the Islamic Window') in reporting factual findings to the Board of Directors of the Ahli Bank SAOG ('the Bank') in respect of Basel II - Pillar III Disclosures and Basel III related disclosures and may not be suitable for another purpose.

The report is intended solely for the **Ahli Islamic** (the "Engaging Party" or the 'Islamic Window') and should not be used by, or distributed to, any other parties. Our report is not to be used for any other purpose, recited or referred to in any document, copied or made available (in whole or in part) to any other person without our prior written express consent. We accept no duty, responsibility or liability to any other party in connection with the report or this agreed upon procedures engagement. This report relates only to the matters specified below and does not extend to any financial statements of **Islamic Window** taken as a whole.

Responsibility of the Engaging Party

The Bank has acknowledged that the agreed upon procedures are appropriate for the purpose of the engagement.

The Bank is responsible for the subject matter on which the agreed upon procedures are performed.

Practitioner's Responsibilities

We have conducted the agreed upon procedures engagement in accordance with the International Standard on Related Services 4400 (Revised), Agreed Upon Procedures Engagements. An agreed upon procedures engagement involves our performing the procedures that have been agreed with the Engaging Party, and reporting the findings, which are the factual results of the agreed upon procedures performed. We make no representation regarding the appropriateness of the agreed upon procedures.

This agreed upon procedures engagement is not an assurance engagement. Accordingly, we do not express an opinion or an assurance conclusion.

Had we performed additional procedures, other matters might have come to our attention that would have been reported.

Professional Ethics and Quality Control

We have complied with the ethical requirements of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* ("IESBA Code") and the independence requirements in accordance with local laws.

Our firm applies International Standard on Quality Management ("ISQM") 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, and accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Procedures and Findings

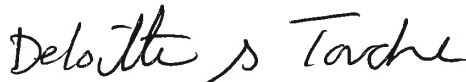
We have performed the procedures agreed with you in our terms of engagement letter date **28 March 2023** and as prescribed in the Central Bank of Oman ("CBO") Islamic Banking Regulatory Framework (IBRF), with respect to the Basel II - Pillar III disclosures and Circular No. BM 1114 dated 17 November 2013, with respect to Basel III related disclosures (the disclosures) of the **Ahli Islamic** ('the Islamic Window') set out on the attached pages as at and for the year ended **31 December 2023**.

We report no findings based on the work performed.

You have acknowledged that the agreed upon procedures are appropriate for the purpose of the engagement.

This report is based on the information provided to us by the management of the Engaging Party. We did not subject the information contained in our report or given to us by management to checking or verification procedures except to the extent expressly stated above. This is normal practice when carrying out such limited scope procedures, but contrasts significantly with, for example, an audit. The procedures we performed were not designed to and are not likely to reveal fraud.

All monetary amounts noted are in **OMR** unless otherwise stated.



Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
3 March 2024



BASEL II PILLAR III AND BASEL III DISCLOSURES

31 December 2023

1. INTRODUCTION

Ahli Islamic (the Islamic window) was licensed by Central Bank of Oman (CBO) to operate as an Islamic Banking Window of Ahli Bank SAOG (the Bank) to carry out banking and other financial activities in accordance with Islamic Shari'a rules and regulations.

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 2023.

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), title 9, section 1.10.2, 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 assigned capital, and retained earnings reduced by cumulative unrealized losses on FVOCI investments and intangibles recognized directly in equity. 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, which includes stage 1 and stage 2 provision as calculated under IFRS 9 subject to ceilings as per CBO guidelines and investment fair value reserve with regulatory haircut. 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).

There are no amounts in capital adequacy calculation of the Islamic Window which are subject to a different pre-Basel III treatment.

Quantitative Disclosure

The Islamic window's capital structure as at 31 December 2023, based on the CBO guidelines is as follows:

Elements of Capital – RO '000	2023	2022
Tier I Capital		
Assigned capital / Share capital	45,000	35,000
Retained earnings	30,757	22,524
Less: cumulative unrealized losses and intangibles recognized directly in equity	(768)	(1,148)
Tier I capital	74,989	56,376
Tier II Capital		
Revaluation reserves / cumulative fair value gains on FVOCI Instruments	155	81
Stage 1 & Stage 2 expected credit losses	1,926	3,690
Total Tier II Capital	2,081	3,771
Total Regulatory Capital	77,070	60,147
Total equity of investment account holders	579,206	456,771

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.

Risk weights are assigned to assets as per the regulatory guidelines from the CBO. Assets funded by investment accounts are also assigned same risk weights as the assets funded by own equity.

The Islamic window's total capital adequacy ratios is 13.28% and Tier 1 capital adequacy ratios is 12.92% as against the CBO requirement of 11% and 9%, respectively, as at 31st December 2023.

The summary of capital adequacy ratio of the Islamic Window is as below:

Particulars	Risk weighted assets 31 December 2023 – RO 000's	Risk weighted assets 31 December 2022 – RO 000's
On-balances sheet items	539,722	425,305
Off-balance sheet items	13,842	9,456
Total Credit Risk	553,564	434,761
Market risk	4,287	2,937
Operational Risk	22,450	18,373
Total risk weighted assets	580,301	456,071
CET1 capital	74,989	56,376
Tier 1 capital	74,989	56,376
Tier 2 capital	2,081	3,771
Total Regulatory Capital	77,070	60,147
Capital requirement for credit risk	60,892	47,824
Capital requirement for market risk	472	323
Capital requirement for operational risk	2,470	2,021
Total required capital	63,834	50,168
CET 1 ratio	12.92%	12.36%
Tier 1 ratio	12.92%	12.36%
Total capital ratio	13.28%	13.19%

i) Computation of Capital adequacy ratio

		(RO '000)	
S.No	Simple Approach	2023	2022
1	Tier I capital (after supervisory deductions)	74,989	56,376
2	Tier II capital (after supervisory deductions and up to eligible limits)	2,081	3,771
3	Risk weighted assets – banking book	553,564	434,761
4	Risk weighted assets – operational risk	22,450	18,373
5	Total Risk Weighted Assets – Banking Book + Operational Risk	576,014	453,134
6	Minimum required capital to support RWAs of banking book and operational risk	63,362	49,845
6.1	i) Minimum required Tier I capital for banking book and operational risk	51,841	40,782
6.2	ii) Tier II capital required for banking book and operational risk	11,520	9,063
7	Tier I capital available for supporting trading book	13,703	10,301
8	Tier II capital available for supporting trading book	-	-
9	Risk Weighted Assets – trading book	4,287	2,937
10	Total capital required to support trading book	472	323
11	Minimum Tier I capital required for supporting trading book	135	92
12	Total Regulatory Capital	77,070	60,146
13	Total Risk Weighted Assets – Whole bank	580,301	456,071
14	BIS Capital Adequacy Ratio	13.28%	13.19%

ii) Capital adequacy ratio

		(RO '000)	
Particulars	2023	2022	
Total risk weighted assets	580,301	456,071	
Total eligible capital	77,070	60,146	
Capital adequacy ratio	13.28%	13.19%	

iii) Ratio of total capital to total assets

		(RO '000)	
Particulars	2023	2022	
Total capital	77,070	60,146	
Total assets	698,928	559,934	
Total capital to total assets	11.03%	10.74%	

iv) Capital requirements according to different risk categories for each Shariah compliant financing contract

		(RO '000)	
		2023	2022
Balances with Central bank of Oman		-	-
Sovereign		-	89
Due from Banks		4,232	25
Murabaha receivables		4,853	4,557
Musharaka receivables		30,807	32,216
Ijarah assets – Ijarah Muntahia Bittamleek		9,079	8,860
Service Ijarah		294	165
Wakala bil istithmar		7,714	-
Istisna receivable		556	-
Qard hasan		8	-
Credit card receivables		119	90
Other Assets & off-balance sheet items		3,230	1,822
Total		60,892	47,824

4. Risk Management of the Bank

The Islamic window's risk management is centralized at Bank. It is a process whereby the Bank identifies key risks, applies consistent risk measurement techniques, and recommends which risks to accept or reject or mitigate, by what means and establishes procedures to monitor and report the resulting risk position for necessary action. The objective of risk management is to ensure that the Islamic window operates within the risk appetite levels set by the Bank's Board of Directors while pursuing its objective of maximizing the risk adjusted returns.

Being a window operation, the Islamic window risk management is the overall responsibility of the Bank's Board of Directors. The detailed risk management approach of the Bank, which is also applicable to the Islamic window, is explained in the main Pillar III document. The Bank's risk management processes have proven effective for the Islamic window throughout the current year. The Bank's Board of Directors and various management risk committees have remained closely involved with key risk management initiatives, in ensuring the Islamic window's risks are effectively managed and adequate capital is held in line with the requirements.

Detailed risk governance structure of the Bank, which is also applicable to the Islamic Window is disclosed in the main Pillar III document of the Bank. In addition, a dedicated Shari'a Supervisory Board (SSB) has been established which reports to the Board of Directors of the Bank and ensures Shari'a compliance in the operations of the Islamic Window.

Specifically, the Islamic window has exposure to the following risks:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk
- Rate of return risk
- Displaced commercial risk
- Sharia non-compliance risk

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.

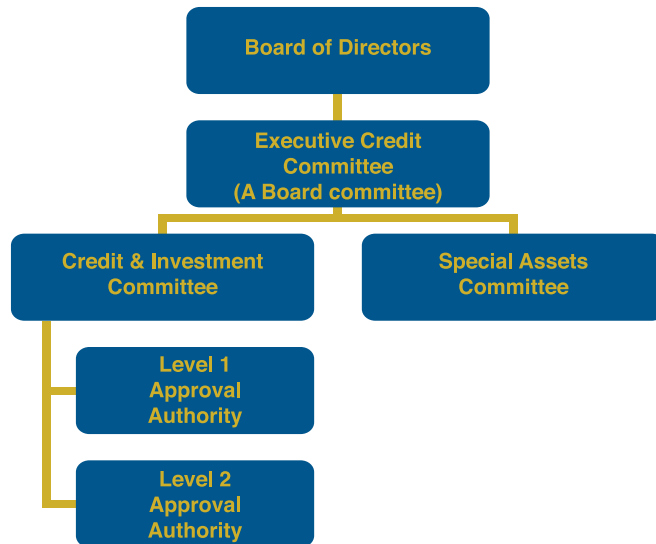
The Islamic window has a comprehensive due diligence system for approving credit facilities, and well-defined policies on controlling credit risk at the counter-party, group, economic sector, and country levels.

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 authority (CAA). All credit approvals are strictly in accordance with the regulatory guidelines issued from time to time by the Central Bank of Oman. Exceptions in retail credit exposure are escalated to Risk Management Department for necessary approvals.

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

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

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



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

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

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

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

Stage 2

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

Stage 3

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

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

Quantitative Disclosure:

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

Type of credit exposure	(RO '000)					
	Average Gross Exposure			Total Gross Exposure		
	31-Dec-23	31-Dec-22	% of total exposure	31-Dec-23	31-Dec-22	% of total exposure
Balances with Central bank of Oman	42,886	25,480	6.6%	71,350	14,421	9.9%
Sovereign	43,914	34,024	6.8%	45,831	41,997	6.3%
Banks	19,984	1,062	3.1%	38,820	1,148	5.4%
Musharaka receivables	322,845	269,493	49.7%	316,464	329,227	43.8%
Ijarah assets - Ijarah Muntahia Bittamleek	88,799	103,593	13.7%	87,795	89,804	12.2%
Murabaha receivables	43,240	39,651	6.7%	44,701	41,778	6.2%
Credit Card Receivable	949	706	0.1%	1,081	817	0.1%
Service Ijarah	2,091	1,087	0.3%	2,675	1506	0.4%
Wakala bil istithmar	46,533	28,989	7.2%	64,067	29,000	8.9%
Istisna receivable	2,525	-	0.4%	5,050	-	0.7%
Qard Hasan	37	-	0.0%	74	-	0.0%
Other assets & off-balance sheet items	35,367	26,249	5.4%	44,628	26,106	6.2%
Total	649,170	530,332	100%	722,536	575,804	100%

ii) Credit exposure by risk weighted assets:

Type of credit exposure	Gross Balance	(RO '000)
		As of 31 December 2023 Risk Weighted Assets
Balances with Central bank of Oman	71,350	-
Sovereign	45,831	-
Banks	38,820	38,476
Musharaka receivables	316,464	280,059
Ijarah assets - Ijarah Muntahia Bittamleek	87,795	82,539
Murabaha receivables	44,701	44,115
Credit Card Receivable	1,081	1,081
Service Ijarah	2,675	2,675
Wakala bil istithmar	64,067	70,134
Istisna receivable	5,050	5,050
Qard hasan	74	74
Other Assets & off-balance sheet items	44,628	29,361
Total	722,536	553,564

Type of credit exposure	Gross Balance	As of 31 December 2022
		Risk Weighted Assets
Balances with Central bank of Oman	14,421	-
Sovereign	41,997	808
Banks	1,148	231
Musharaka receivables	329,227	292,872
Ijarah assets – Ijarah Muntahia Bittamleek	89,804	80,542
Murabaha receivables	41,778	41,424
Credit Card Receivable	817	817
Service Ijarah	1,506	1,505
Wakala Bil Istithmar	29,000	-
Other Assets & off-balance sheet	26,106	16,562
Total	575,804	434,761

iii) Credit exposure by business unit:

Credit exposure	Business Unit	Gross Balance	(RO '000)
			As of December 2023 Risk Weighted Assets
Balances with Central bank of Oman		71,350	-
Sovereign		45,831	-
Banks		38,820	38,476
	SME	12,701	9,526
Musharaka receivables	Corporate	237,752	237,752
	Retail	66,011	32,781
	SME	2,344	1,758
Murabaha receivables	Corporate	7,507	7,507
	Retail	34,850	34,850
	SME	2,009	1,506
Ijarah assets – Ijarah Muntahia Bittamleek	Corporate	26,538	26,538
	Retail	59,248	54,495
Credit Card Receivable	Retail	1,081	1,081
Service Ijarah	Retail	2,675	2,675
Wakala bil istithmar	Corporate	64,067	70,134
Istisna receivable	Corporate	5,050	5,050
Qard Hassan	Retail	74	74
Other Assets & off-balance sheet items		44,628	29,361
Total		722,536	553,564

Credit exposure	Business Unit	Gross Balance	As of 31 December 2022
			Risk Weighted Assets
Balances with Central bank of Oman		14,421	-
Sovereign		41,997	808
Banks		1,148	231
	SME	24,985	18,742
Musharaka receivables	Corporate	251,302	251,302
	Retail	52,940	22,828
	SME	1,724	1,371
Ijarah assets – Ijarah Muntahia Bittamleek	Corporate	8,019	8,019
	Retail	32,035	32,034
	SME	5,717	4,317
Murabaha receivables	Corporate	18,671	18,671
	Retail	65,416	57,554
Credit Card Receivable	Retail	817	817
Service Ijarah	Retail	1,506	1,505
Wakala Bil Istithmar	Corporate	29,000	-
Other Assets & off-balance sheet items		26,106	16,562
Total		575,804	434,761

iv) Geographic distribution of exposures by major types of credit exposure:

Type of Credit Exposure	(RO '000)						
	As of 31 December 2023						
	Oman	Other GCC Countries	OECD countries	India	Pakistan	Others	Total
Balances with Central bank of Oman	71,350	-	-	-	-	-	71,350
Sovereign	45,831	-	-	-	-	-	45,831
Banks	38,115	165	61	-	-	479	38,820
Murabaha receivables	44,701	-	-	-	-	-	44,701
Musharaka receivables	316,464	-	-	-	-	-	316,464
Ijarah assets - Ijarah Muntahia Bittamleek	87,795	-	-	-	-	-	87,795
Service ijarah	2,675	-	-	-	-	-	2,675
Credit card receivables	1,081	-	-	-	-	-	1,081
Istisna receivable	5,050	-	-	-	-	-	5,050
Qard / Qard-e-Hasna	74	-	-	-	-	-	74
Wakala Bil Istithmar	64,067	-	-	-	-	-	64,067
Other Assets & off-balance sheet items	44,628	-	-	-	-	-	46,705
Total	721,831	165	61	-	-	479	722,536

Type of Credit Exposure	As of 31 December 2022						
	Oman	Other GCC Countries	OECD countries	India	Pakistan	Others	Total
Balances with Central bank of Oman	14,421	-	-	-	-	-	14,421
Sovereign	41,189	-	808	-	-	-	41,997
Banks	-	76	882	-	-	190	1,148
Musharaka receivables	41,778	-	-	-	-	-	41,778
Ijarah assets – Ijarah Muntahia Bittamleek	329,227	-	-	-	-	-	329,227
Murabaha receivables	89,804	-	-	-	-	-	89,804
Credit card receivables	1,506	-	-	-	-	-	1,506
Service ijarah	817	-	-	-	-	-	817
Wakala Bil Istithmar	29,000	-	-	-	-	-	29,000
Other Assets & off-balance sheet items	26,106	-	-	-	-	-	26,106
Total	573,848	76	1,690	-	-	190	575,804

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

(RO '000)
As of December 2023

Economic Sector	Musharaka receivables	Ijarah assets – Ijarah Muntahia Bittamleek	Murabaha receivables	Credit card	Service Ijarah	Wakala Bil Istithmar	Istisna receivable	Qard Hasan	Total	Off Balance Sheet Exposure
Wholesale & Retail Trade	5,141	864	1,910	-	-	309	-	-	8,224	1,875
Mining & Quarrying	137	-	-	-	-	2,264	-	-	2,401	-
Construction	70,755	21,375	128	-	-	-	-	-	92,258	3,900
Manufacturing	14,563	5,849	6,932	-	-	-	5,050	-	32,394	6,082
Transport & Communication	32,317	6	830	-	-	29,500	-	-	62,653	20
Electricity, gas and water	-	-	-	-	-	31,000	-	-	31,000	-
Services	127,541	453	51	-	-	994	-	-	129,039	12,403
Personal Financings	66,010	59,248	34,850	1,081	2,675	-	-	74	163,938	-
All Others	-	-	-	-	-	-	-	-	-	-
Total	316,464	87,795	44,701	1,081	2,675	64,067	5,050	74	521,907	24,280

As of 31 December 2022

Economic Sector	Musharaka receivables	Ijarah assets – Ijarah Muntahia Bittamleek	Murabaha receivables	Credit card	Service Ijarah	Wakala	Total	Off Balance Sheet Exposure
Wholesale & Retail Trade	4,502	2,409	161	-	-	-	7,072	2,927
Mining & Quarrying	160	-	3	-	-	-	163	-
Construction	71,111	21,471	285	3	-	-	92,870	3,880
Manufacturing	7,699	20	8,256	-	-	-	15,975	100
Transport & Communication	27,585	10	981	1	-	29,000	57,577	-
Services	165,230	473	57	-	-	-	165,760	11,798
Personal Financings	52,940	65,421	32,035	813	1,506	-	152,715	-
Total	329,227	89,804	41,778	817	1,506	29,000	492,132	18,705

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

As of 31 December 2023

Time Band	Musharaka receivables	Ijarah assets – Ijarah		Credit card	Service Ijarah	Istisna receivable	Qard Hasan	Wakala Bil Istithmar	Total	Off Balance Sheet Exposure
		Muntahia Bittamleek	Murabaha receivables							
Up to 1 month	4,744	167	7,002	1,081	-	-	-	29,050	42,044	110
1-3 Months	3,579	1,227	2,962	-	93	5,050	16	30	12,957	2,384
3-6 Months	2,573	1,005	2,632	-	63	-	16	1,523	7,812	484
6-9 Months	2,956	959	1,931	-	94	-	24	-	5,964	474
9-12 Months	3,525	974	1,984	-	93	-	18	31,417	38,011	79
1-3 Years	35,151	8,159	12,204	-	716	-	-	434	56,664	7,875
3-5 Years	43,276	11,914	7,380	-	627	-	-	441	63,638	12,410
Over 5 Years	220,660	63,390	8,606	-	989	-	-	1,172	294,817	464
Total	316,464	87,795	44,701	1,081	2,675	5,050	74	64,067	521,907	24,280

As of 31 December 2022

Time Band	Musharaka receivables	Ijarah assets – Ijarah		Credit card	Service Ijarah	Wakala Bil Istithmar	Total	Off Balance Sheet Exposure
		Muntahia Bittamleek	Murabaha receivables					
Up to 1 month	2	119	8,036	817	-	29,000	37,974	27
1-3 Months	16	4	193	-	2	-	215	15,854
3-6 Months	4	27	274	-	-	-	305	2,725
6-9 Months	21	31	220	-	7	-	279	8
9-12 Months	258	455	352	-	-	-	1,065	15
1-3 Years	7,543	2,452	6,256	-	35	-	16,286	42
3-5 Years	9,345	1,197	9,765	-	202	-	20,509	23
Over 5 Years	312,038	85,519	16,682	-	1,260	-	415,499	11
Total	329,227	89,804	41,778	817	1,506	29,000	492,132	18,705

Total Financing broken down by major industry or counterparty type:

(RO '000)

As of December 2023

Economic Sector	Gross financings	Of Which NPLs	ECL stage 1 & 2	ECL stage 3*	Impairment charge/ (reversed) during the Year	Financings written off during the year
Mining & Quarrying	2,401	137	9	66	68	-
Construction	92,258	1,268	1,947	224	466	-
Manufacturing	32,394	9,956	54	5,691	746	-
Transport & Communication	62,653	623	131	335	90	-
Electricity, gas and water	31,000	-	48	-	48	-
Services	129,039	6,037	1,018	2,204	(2,562)	-
Personal Financings	163,938	857	96	307	(157)	-
All others	-	-	-	3,280	3,280	-
Total	521,907	18,885	3,323	12,115	1,975	-

* Stage 3 allowance includes suspended profit of RO 2.672 million and additional ECL overlays of RO 3.280 million.

5. Credit Risk (continued)

Total Financing broken down by major industry or counterparty type: (continued)

(RO '000)						
As of 31 December 2022						
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
Wholesale & Retail Trade	7,072	11	24	8	(27)	-
Mining & Quarrying	163	-	7	-	(15)	-
Construction	92,870	132	1,595	110	649	-
Manufacturing	15,975	9,956	16	4,983	1,133	-
Transport & Communication	57,577	296	234	142	229	-
Services	165,760	5,986	3,914	1,870	3,204	-
Personal Financings	152,715	1,023	76	484	20	-
Total	492,132	17,404	5,866	7,597	5,193	-

* Stage 3 ECL include suspended profit of RO 2.231 million

* above ECL includes additional overlays of RO 2.000 million

vii) 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 2023						
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	521,907	18,885	3,323	12,115	1,975	-
Other GCC Countries	-	-	-	-	-	-
OECD Countries	-	-	-	-	-	-
India	-	-	-	-	-	-
Pakistan	-	-	-	-	-	-
Others	-	-	-	-	-	-
Total	521,907	18,885	3,323	12,115	1,975	-

* Stage 3 allowance includes suspended profit of RO 2.672 million and additional ECL overlays of RO 3.280 million.

As of 31 December 2022						
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	492,132	17,404	5,866	7,597	5,193	-
Other GCC Countries	-	-	-	-	-	-
OECD Countries	-	-	-	-	-	-
India	-	-	-	-	-	-
Pakistan	-	-	-	-	-	-
Others	-	-	-	-	-	-
Total	492,132	17,404	5,866	7,597	5,193	-

* Stage 3 ECL include suspended profit of RO 2.231 million

* above ECL includes additional overlays of 2.000 million

viii) Movement of gross financing during the year:

Details	(RO '000)			
	As of 31 December 2023			
	Stage 1	Stage 2	Stage 3	Total
Opening Balance	410,110	64,618	17,404	492,132
Migration / changes (+ / -)	(25,652)	24,009	1,643	-
New financings	85,208	2	4	85,214
Recovery of financings	(11,098)	(44,175)	(166)	(55,439)
Financing Written Off	-	-	-	-
Closing Balance	458,568	44,454	18,885	521,907

Details	(RO '000)			
	As of 31 December 2022			
	Stage 1	Stage 2	Stage 3	Total
Opening Balance	314,054	63,912	16,937	394,903
Migration / changes (+ / -)	1,024	(1,544)	520	-
New financings	101,122	2,773	51	103,946
Recovery of financings	(6,090)	(523)	(104)	(6,717)
Financing Written Off	-	-	-	-
Closing Balance	410,110	64,618	17,404	492,132

ix) Past due and impaired financing:

	(RO '000)									
	As of 31 December 2023									
	Murabaha receivables	Musharaka receivables	Ijarah assets - Ijarah Muntahia Bittamleek	Service Ijarah	Credit Card	Istisna receivable	Qard Hasan	Wakala Bil Istithmar	Total	Off Balance Sheet Exposure*
Neither past due not impaired	38,695	271,451	69,217	2,532	955	5,050	74	64,067	452,040	24,280
Past due but not impaired	1,261	31,661	17,799	143	117	-	-	-	50,981	-
Past due and impaired	4,697	13,352	779	-	8	-	-	-	18,836	-
Impaired but not past due	48	-	-	-	1	-	-	-	49	-
Total	44,701	316,464	87,795	2675	1,081	5,050	74	64,067	521,907	24,280

	(RO '000)									
	As of 31 December 2022									
	Musharaka receivables	Ijarah assets - Ijarah Muntahia Bittamleek	Murabaha receivables	Credit Card	Service Ijarah	Wakala Bil Istithmar	Total	Off Balance Sheet Exposure*		
Neither past due not impaired	35,482	284,760	72,428	1,494	708	29,000	423,873	18,705		
Past due but not impaired	1,773	32,577	16,388	11	103	-	50,853	-		
Impaired but not past due	4,509	11,890	988	-	5	-	17,391	-		
Past due and impaired	14	-	-	1	1	-	15	-		
Total	41,778	329,227	89,804	1,506	817	29,000	492,132	18,705		

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.
Istisna	Istisna receivable is a sale agreement between the Islamic window as a seller and the customer as the ultimate purchaser whereby, the Islamic window undertakes to have manufactured (or Acquire) goods and sell it to the customer for an agreed price on completion at future dates. Istisna receivable are stated at net deferred profit and expected credit loss.
Qard Hasan	Qard Hasan is based on Islamic financial principle of profit-free Qard Hasan whereby, the customer is required to repay the financing amount without any profit. Qard Hasan finance is stated at cost net of expected credit loss allowance, if any.

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 Jiddiyyah, 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

5. Credit Risk (continued)

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

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

The Simplified approach for collateral recognition under the standardized approach is applied where 0% risk weight is assigned for the exposure covered by Cash collateral. All other financing exposures to corporates and retail are assigned 100% risk weight (except retail mortgage financings, which are assigned 35% risk weight). The Islamic window stands in possession of cash collateral of RO 0.193 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 2023.

Particulars	RO'000
Gross Exposure - banking book	722,536
Credit risk mitigation	(7,812)
Risk weight impact - for banking book	(161,160)
Risk weighted assets - banking book	553,564
Capital charge for credit risk	60,892

Quantitative Disclosures:

As of 31 December 2023;				
Rating	Impairment allowance as at year end	Financings written off during the year	CBO Classification	IFRS 9 Classification
1 – 6	2,025	-	Standard	Stage 1 & 2
7	1,298	-	Special mention	
8 – 10	12,115	-	Non-performing	Stage 3
Total	15,438	-		

As of 31 December 2022;				
Rating	Impairment allowance as at year end	Financings written off during the year	CBO Classification	IFRS 9 Classification
1 – 6	4,878	-	Standard	Stage 1 & 2
7	988	-	Special mention	
8 – 10	7,597	-	Non-performing	Stage 3
Total	13,463	-		

6. Market Risk:

Qualitative disclosure

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

Rate of Return risk in banking book (RRRBB)

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

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

As of 31 December 2023;

Particular	Effective profit rate					Non-sensitive to profit rate	Total
		within 3 months	4 to 12 months	1 to 5 years	More than 5 years	RO'000	
RO'000		RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
ASSETS							
Cash and balances with Central Bank of Oman		-	-	-	-	78,440	78,440
Due from banks		646	38,115	-	-	-	38,761
Financing Assets	5.82%	53,620	49,704	121,608	284,210	-	509,142
Investments	4.52%	-	1,627	36,223	18,919	5,283	62,052
Property and equipment		-	-	-	-	5,575	5,575
Other assets		-	-	-	-	4,958	4,958
Total profit bearing assets		54,266	89,446	157,831	303,129	94,256	698,928
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS							
Due to banks	5.30%	8	-	-	-	-	8
Equity of investment accountholders and other liabilities	3.19%	112,948	186,799	277,115	-	43,071	619,933
Shareholders fund		-	-	-	-	78,987	78,987
Total		112,956	186,799	277,115		122,058	698,928
Net gap		(58,690)	(97,353)	(119,284)	303,129	(27,802)	-
Cumulative net gap		(58,690)	(156,043)	(275,327)	27,802	-	-

6. Market Risk (continued)

Rate of Return risk in banking book (RRRBB) (continued)

Particular RO'000	Effective profit rate						As of 31 December 2022;	
		within 3 months RO'000	4 to 12 months RO'000	1 to 5 years RO'000	More than 5 years RO'000	Non- sensitive to profit rate RO'000	Total RO'000	
ASSETS								
Cash and balances with Central Bank of Oman		-	-	-	-	19,138	19,138	
Due from banks		1,148	-	-	-	-	1,148	
Financing Assets	5.86%	43,599	13,914	100,562	322,825	-	480,900	
Investments	3.27%	-	807	32,652	16,778	273	50,510	
Property and equipment		-	-	-	-	3,848	3,848	
Other assets		-	-	-	-	4,390	4,390	
Total profit bearing assets		44,747	14,721	133,214	339,603	27,649	559,934	
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS								
Due to banks	3.85%	10,871	-	-	-	-	10,871	
Equity of investment accountholders and other liabilities	2.48%	84,802	101,483	233,217	90	68,101	487,694	
Shareholders fund		-	-	-	-	61,370	61,370	
Total		95,674	101,483	233,217	90	129,471	559,934	
Net gap		(50,927)	(86,761)	(100,002)	339,513	(101,822)	-	
Cumulative net gap		(50,927)	(137,688)	(237,691)	101,822	-	-	

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 26.539 mn (OMR 25.384 mn position is in effectively pegged currencies) as on 31 December 2023.

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 2023.

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 2023 is RO 12.860 mn with cost amounts to RO 12.834 mn. The Islamic window also has invested in sukuks carried at fair value through equity. The fair value of investments as of 31 December 2023 is RO 49.191 mn with a cost amount to RO 49.371 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.

6. Market Risk (continued)

Investment Price Risk (continued)

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

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

Capital Charge:

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

Table showing capital charge for profit Rate, Equity and foreign exchange risk as on 31 December 2023 is given below:

Type of risk (RO '000)	2023	2022
Profit rate risk	-	-
Equity position risk	-	-
Foreign exchange risk	343	235
Percentage of NOP to regulatory capital	34.4%	4.01%
Regulatory ceiling (% to total net worth)	40%	40%

Total risk weighted assets for trading book is RO 4.287 Mn.

Price Risk

Impact of 10% change in price

Investment type	Change in price	Effect on equity ('000) 2023
Regional listed Sukuk	10%	+/- 4,919
Foreign listed Sukuk	10%	-
Listed equities	10%	+/- 1,286

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.

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 33.2 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 2023 was 92.5%.

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

Ratios	2023	2022
Financing ratio	%	%
Year end	66.8	87.4
Maximum for the year	89.0	91.7
Minimum for the year	63.3	79.7
Average for the year	79.4	85.2
Other Ratios		
Financing to customers to total assets	72.8	85.9
Equity to total assets	11.3	11.0
Liquid assets to total assets	15.4	10.1
Liquid assets to short term liabilities	37.9	19.9
Prime assets to volatile liabilities	80.7	40.2
Liquidity Coverage Ratio	453.5	159.6
Net Stable Funding Ratio	139.6	119.1

Stock of Liquid Assets

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

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

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

Diversification of liabilities

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

The liquidity and funding policy recognize 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.

8. OPERATIONAL RISK

Operational Risk Framework

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 2023, the Bank has carried out a comprehensive BCP test including a volume test on a working day in order to test the resilience of the bank's business systems at the DR site. The scope of the test was arrived at based on the Business Impact Analysis (BIA) carried by the Bank and the volume test results were submitted to the Board. The Bank has in place a Crisis Management Team (CMT), and the processes to be followed during a disaster scenario has been detailed out in the BCP documents of the Bank.

Concentration Risk

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

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

Information Security Risk

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

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

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

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

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)	2023	2022	2021
Net Income from financing and investing activities	32,811	24,687	21,498
Other income – net	3,101	2,654	1,647
Gross Income	35,912	27,341	23,145
Return to investment account holders	(17,848)	(13,530)	(10,757)
Net Operating Income	18,064	13,811	12,388
Average Income			14,754
Gross Income times of Alpha (15%)			2,213
Operational risk based on Basic Indicator Approach			27,663

Capital Charge for Operational Risk under Basic Indicator Approach as per Basel II is RO 1,796 million as of 31 December 2023. The Risk weighted assets for operational risk as per Basel II is RO 22.450 million.

9. DISPLACED COMMERCIAL RISK

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

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

An analysis of distribution during the year to IAH's (Modaraba Deposits Only) by Islamic window is as follows:

	2023	2022	2021	2020	2019
Total Profits available for distribution	11,176	10,752	9,321	7,596	6,538
Profit Sharing:					
- Profit to Shareholders	9,087	8,531	7,498	5,501	4,554
- Share of IAH	1,669	1,866	1,272	1,377	1,181
- Mudarib Share	420	355	551	718	803

During the year ended 31 December 2023, Islamic Window has appropriated RO 0.101 mn towards Profit equalization 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.

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:

	2023	2022
Unrestricted Investment Accounts Share	75%	75%
Mudarib Share	25%	25%

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.

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 2023.

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 2023.

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

Type (Mudaraba Contracts)	Equity of IAH	
	2023	2022
Saving & Call accounts	146,012	131,286

II. Equity of Investment Accountholders – Ratios

RO in ‘000	2023	2022	2021	2020	2019
Ratios and Returns					
Amount of total net income	8,312	2,773	5,293	2,841	4,748
Average amount of assets	629,431	517,650	435,155	400,150	380,456
ROA (Net income before IA's distribution / total assets)	1.32%	0.54%	1.22%	0.71%	1.25%
Amount of total net income	7,063	1,261	4,021	1,463	3,556
Average amount of shareholder's equity	70,179	61,060	53,673	45,954	43,307
ROE (Net income after IA's distribution / Shareholders equity)	10.06%	2.07%	7.49%	3.19%	8.23%
PSR - Average Profit Paid					
Profit sharing ratio (Mudarib: Investment Accountholders)	25:75	25:75	30:70	30:70	40:60
Average Profit paid to investment accountholders	0.90%	1.06%	2.86%	1.42%	2.27%
Average Profit distributed per type of IAH					
Savings (RO 100 – RO 999.999)	0.14%	0.15%	0.23%	0.26%	0.25%
Savings (RO 1,000 – RO 9,999.999)	0.39%	0.39%	0.43%	0.44%	0.41%
Savings (above RO 10,000)	0.53%	0.53%	0.57%	0.58%	0.57%
Call Account (RO 100 - RO 999.999)	0.00%	0.00%	0.16%	0.03%	0.25%
Call Account (RO 1,000 - RO 9,999.999)	0.00%	0.04%	-	-	0.43%
Al Nama Smart Saving (RO 100 – RO 2,499.99)	-	-	0.48%	0.58%	0.57%
Al Nama Smart Saving (RO 2,500 – RO 49,999.99)	-	-	1.99%	2.08%	2.04%
Al Nama Smart Saving (RO 50,000 – RO 499,999.99)	-	-	2.59%	2.64%	2.59%
Al Nama Smart Saving (500,000 - 999,999.999)	-	-	2.89%	3.19%	3.13%
Al Nama (Above 1,000,000)	-	-	3.52%	3.57%	3.51%
URIAH call Retail (Balances Above 10K)	0.22%	-	-	-	-
URIA Saving Awqaf	0.39%	0.17%	0.41%	0.43%	0.43%
Qitaf Saving Account	0.15%	0.39%	0.16%	0.25%	0.25%
Children Saving (Balances from 100 To 999.999)	0.02%	-	-	-	-
Children Saving (Balances from 1,000 To 3,999.999)	0.04%	-	-	-	-
Children Saving (Balances from 4,000 To 9,999.999)	0.06%	-	-	-	-
Children Saving (Balances from Above 10K)	0.13%	-	-	-	-
Al Nama (0 - 999)	0.05%	0.15%	-	-	-
Al Nama (1,000 - 4,999)	0.15%	0.04%	-	-	-
Al Nama (5,000 - 9,999)	0.51%	0.16%	-	-	-
Al Nama (10,000-19,999)	1.02%	0.71%	-	-	-
Al Nama (20,000 - 34,999)	1.36%	1.14%	-	-	-
Al Nama (35,000 - 49,999)	1.52%	1.42%	-	-	-
Al Nama (50,000-99,999)	1.69%	1.57%	-	-	-
Al Nama (100,000 - 149,999)	2.03%	1.71%	-	-	-
Al Nama (150,000 - 249,999)	2.20%	2.26%	-	-	-
Al Nama (250,000 - 349,999)	2.54%	2.54%	-	-	-
Al Nama (350,000 - 499,999)	2.80%	2.75%	-	-	-
Al Nama (500,000 - 749,999)	3.30%	2.43%	-	-	-
Al Nama (750,000 - 999,999)	1.11%	2.20%	-	-	-
Al Nama (1,000,000+)	3.39%	3.41%	-	-	-

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

III. Computation of pool income for the year ended 31 December 2023 (RO '000)

	2023	2022
Income generated		
Income from financing	29,168	22,647
Income from placements	3,643	2,011
Total	32,811	24,648
Distribution of Income (Mudaraba Deposits)	2023	2022
Profit equalization reserve	102	22
Mudarib share	420	355
Investment risk reserve	-	-
Distributable Profit	10,654	10,375
Share of Profit for IAH and shareholders	11,176	10,752

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

	2023	2022
Average Wakala deposits	371,033	265,938
Average Profit paid to investment accountholders %	4.29	4.33

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 2023

Type of Credit Exposure	RWAs	
	2023	2022
Sovereign	-	808
Banks	38,476	231
Musharaka receivables	280,059	292,872
Ijarah assets – Ijarah Muntahia Bittamleek	82,539	80,542
Murabaha receivables	44,115	41,424
Credit card receivables	1,081	817
Service Ijarah	2,675	1,505
wakala bil istithmar	70,134	-
Istisna receivable	5,050	-
Qard hasan	74	-
Other Assets & off-balance sheet items	29,361	16,562
Total	553,564	434,761

12. ZAKAH

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

13. EARNINGS PROHIBITED BY SHARIAH

The Islamic window is committed to avoid recognizing any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to the charity account where the Islamic Window uses these funds for charitable purposes. During the year ended 2023, income amounting to RO 0.003 mn 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 2023, 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 10,000 per annum (US\$ 25,974 per annum).

Member: RO 8,000 per annum (US\$ 20,779 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 Shari'a Audit and Compliance Department (SACD) prepared a comprehensive training plan for year 2023 and got that approved by the SSB. In accordance with the training plan, Shari'a Audit and Compliance prepared material on Ahli Islamic Products and their Shari'a Principles by including essential features of Islamic banking, Shari'a governance, Shari'a structures of Islamic banking products and their process flows, list of legal documentation and Shari'a principles underlying to each product. The training material was made in line with SSB directives, Islamic banking guidelines issued by CBO and AAOIFI Shari'a Standards. The trainings were made as mandatory for the related staff of Ahli Islamic and Ahli Bank.

The trainings were conducted by Head SAC, Manager Shari'a Audit, Manager Shari'a Compliance and Shari'a Risk Controller as per SSB approved Training Plan for 2023 for staff of the Bank. Additionally, online training and learning arrangement was made by Shari'a Department in coordination with the Bank T&D. The training was made mandatory for entire bank staff (Ahli Islamic) with requirement of passing a test at end of the training. Also, Head SAC started coaching and training 16 senior staff of Ahli Islamic for CIMA certification on Islamic Commercial Law. The staff of Shari'a (Sharia Auditor, manager Shari'a Compliance, and Shari'a Risk Controller) were also facilitated with CIMA certification in Islamic finance and they accomplished it. Additionally, the Bank has arranged the SSB participation in the AAOIFI-IsDB November 2023 conference Bahrain.

For 2024, the Shari'a Audit and Compliance team has worked with Training and Development Team. Annual training budget is in place for employees as part of the bank's overall training and development budget. The continued development, qualification and certification of all Islamic Banking personnel is an ongoing process. To further expand the exposure, the Bank has signed an MoU with AAOIFI in November 2023 whereby the Bank will be doing trainings and learning activities over the year 2024.

Complaints

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

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

Awareness

The Bank has trained customer services representatives in all business units who provide appropriate guidance to customers with regard to Islamic Banking products and services. Furthermore, products' brochures are made available at all the branches for customers information and knowledge. Products' feature and related SSB Fatwa and glossary of Islamic banking are also available on the website for public information. Additionally, during 2023 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 2023 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 2023.

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)

		2023	2022
Common Equity Tier 1 capital: instruments and reserves			
1	Directly issued qualifying common share capital plus related stock surplus	45,000	35,000
2	Retained earnings	30,757	22,524
6	Common Equity Tier 1 capital before regulatory adjustments	75,757	57,524
Common Equity Tier 1 capital: regulatory adjustments			
7	Prudential valuation adjustments	(768)	(1,148)
28	Total regulatory adjustments to Common equity Tier 1	(768)	(1,148)
29	Common Equity Tier 1 capital (CET1)	74,989	56,376
Additional Tier 1 capital: instruments			
36	Additional Tier 1 capital before regulatory adjustments	-	-
Additional Tier 1 capital before regulatory adjustments			
43	Total regulatory adjustments to Additional Tier 1 capital	-	-
44	Additional Tier 1 capital (AT1)	-	-
45	Tier 1 capital (T1 = CET1 + AT1)	74,989	56,376
Tier 2 capital: instruments and provisions			
50	Provisions (provision and fair value reserve)	2,081	3,771
51	Tier 2 capital before regulatory adjustments	2,081	3,771
Tier 2 capital: regulatory adjustments			
57	Total regulatory adjustments to Tier 2 capital	-	-
58	Tier 2 capital (T2)	2,081	3,771
59	Total capital (TC = T1 + T2)	77,070	60,147
60	Total risk weighted assets	580,301	456,071
60a	<i>Of which: Credit risk weighted assets</i>	553,564	434,761
60b	<i>Of which: Market risk weighted assets</i>	4,287	2,937
60c	<i>Of which: Operational risk weighted assets</i>	22,450	18,373
Capital Ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	12.92%	12.36%
62	Tier 1 (as a percentage of risk weighted assets)	12.92%	12.36%
63	Total capital (as a percentage of risk weighted assets)	13.28%	13.19%
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement expressed as a percentage of risk weighted assets)	7.000%	7.000%
65	<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)	2.28%	2.19%
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	154	154
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)	1,926	3,690
77	Cap on inclusion of provisions in Tier 2 under standardized approach	7,254	5,022

Step 1: Balance sheet under Regulatory scope of consolidation

(RO'000)	Balance sheet as in published financial statements	Under regulatory scope of consolidation
	31 DEC 2023	31 DEC 2023
Assets		
Cash and balances with Central Bank of Oman	78,440	78,440
Due from banks	38,761	38,761
Loans and advances	509,142	509,142
Investments in securities	62,052	62,052
Loans and advances to banks	-	-
Property and equipment	5,575	5,575
Deferred tax assets	-	-
Other assets	4,958	4,958
Total assets	698,928	698,928
Liabilities		
Due to banks	6,746	6,746
Customer deposits	601,584	601,584
Current and deferred tax liabilities	-	-
Other liabilities	11,611	11,611
Subordinated bonds	-	-
Total liabilities	619,941	619,941
Shareholders' Equity		
Paid-up share capital	45,000	45,000
Share premium	-	-
Legal reserve	-	-
General reserve	-	-
Retained earnings	30,757	30,757
Cumulative changes in fair value of investments	(153)	(153)
Subordinated debt reserve	-	-
Other Reserves	3,383	3,383
Total shareholders' equity	78,987	78,987
Total liability and shareholders' funds	698,928	698,928

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

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

Step 2: Expansion of Balance Sheet under Regulatory Scope of Consolidation

Year ended 31 December 2023	Balance sheet as In published financial statement	Under Regulatory scope of consolidation	Reference
Assets			
Cash and balances with CBO	78,440	78,440	
Due from banks	38,761	38,761	
Financings - Net, of which:	509,142	509,142	
- Financings to domestic customers		509,142	
- Provision against financings, of which:		(12,766)	
- Stage 3 Impairment allowance		(9,443)	
- Stage 1 / 2 impairment allowance, of which		(3,323)	
- Amount eligible for T2		1,926	a
- Amount ineligible for T2		1,397	
Investments, of which:	62,052	62,052	
- fair value through other comprehensive income		62,052	
- Stage 1 / 2 impairment allowance, of which		-	
- amount eligible for T2		-	
- amount ineligible for T2		-	
Fixed assets	5,575	5,575	
- Intangibles (CET1 adjustment)		(270)	e
- Other fixed Asset		(5,305)	
Other assets	4,958	4,958	
Total Assets	698,928	698,928	
Capital & Liabilities			
Paid-up Capital, of which:	45,000	45,000	
- Amount eligible for CET1		45,000	b
Reserves & Surplus; of which	33,987	33,987	
- Amount eligible for CET1		30,757	c
- Amount eligible for T2 (Investments Fair value gains)		155	d
- AFS investments fair value loss (CET1 adjustment)		(498)	e
- Investment fair value gains unutilized		190	
- Reserves (impairment reserve - not eligible for CET1)		3,383	
Total Capital	78,987	78,987	
Deposits	601,584	601,584	
Due to banks	6,746	6,746	
Other liabilities and provisions	11,611	11,611	
Other liabilities & provisions, of which			
- Stage 1 / 2 impairment allowance, of which		852	
- amount eligible for T2		-	
- amount ineligible for T2		852	
TOTAL	698,928	698,928	

Step 3: Step Reconciliation of Regulatory Capital:

Common Equity Tier 1 capital: instruments and reserves (RO' 000)

Year ended 31 December 2023	Component of regulatory capital reported by Bank	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from step 2
1 Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	45,000	b
2 Retained earnings	30,757	c
3 Common Equity Tier 1 capital before regulatory adjustments	75,757	
4 Prudential valuation adjustments	(768)	e
5 Total regulatory adjustments to Common equity Tier 1	(768)	
6 Common Equity Tier 1 capital (CET1)	74,989	
Additional Tier 1 capital: instruments		
7 Additional Tier 1 capital (AT1)	-	
Tier 1 capital (T1 = CET1 + AT1)	74,989	
Tier 2 capital: instruments and provisions		
8 Provisions	1,926	a
9 Fair value reserve of AFS investments	155	d
Tier 2 capital before regulatory adjustments	2,081	
Tier 2 capital: regulatory adjustments	-	
Tier 2 capital (T2)	2,081	
Total capital (TC = T1 + T2)	77,070	

17.1 MAIN FEATURES OF REGULATORY CAPITAL
Year ended 31 December 2023

1	Ahli Islamic	Common Equity Share Capital
2	Unique identifier (e.g. 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)	45 million
9	Par value of instrument	-
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	RO 25 Million allocated in 2013 RO 10 Million allocated in 2021 and 10 Million allocated in 2023
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	Statutory approach
32	If write-down, full or partial	Write down fully
33	If write-down, permanent or temporary	Permanent
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	NA

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.

Year ended 31 December 2023		Total Unweighted Value (average)	(RO '000) Total Weighted Value (average)
High Quality Liquid Assets			
1	Total High-Quality Liquid Assets (HQLA)	94,981	94,981
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	474,210	21,315
3	Stable deposits	8,293	249
4	Less stable deposits	465,917	21,066
6	Unsecured wholesale funding, of which:	73,615	26,991
7	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
8	Non-operational deposits (all counterparties)	71,307	24,683
9	Unsecured debt	2,308	2,308
10	Secured wholesale funding	-	-
11	Additional requirements, of which		
12	Outflows related to derivative exposures and other collateral requirements	34,907	34,907
13	Outflows related to loss of funding on debt products		
14	Credit and liquidity facilities	3,283	328
15	Other contractual funding obligations	-	-
16	Other contingent funding obligations	4,767	238
17	TOTAL CASH OUTFLOWS	590,782	83,779
Cash Inflows			
18	Secured lending (e.g. reverse repos)		
19	Inflows from fully performing exposures	47,676	31,731
20	Other cash inflows	60,853	34,907
21	TOTAL CASH INFLOWS	108,529	66,637
22	TOTAL HQLA		94,981
23	TOTAL NET CASH OUTFLOWS		20,945
24	LIQUIDITY COVERAGE RATIO (%)		453.48%

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

The below Net Stable Funding Ratio (NSFR) disclosure is presented for year ended 31 December 2023 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 2023				Weighted Value
		No Maturity	<6 Months	6 Months to < 1 Year	>= 1 Year	
		ASF ITEM				
1	Capital	77,070	-	-	-	77,070
2	Regulatory Capital	77,070				77,070
3	Retail Deposits and Deposits from small Business Customers	214,570	76,619	105,909	101,849	462,855
4	Stable Deposit	68,251	2,103	1,992	1,534	70,262
5	Less Stable Deposit	146,319	74,516	103,916	100,316	392,593
6	Wholesale Funding	72,369	3,659	11,106	17,553	61,120
7	Operational	-				-
7	Other Wholesale Funding	72,369	3,659	11,106	17,553	61,120
8	All other liabilities and equities not included in above categories	18,229	-	-	-	-
9	Total ASF					601,045
		RSF ITEMS				
10	Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	2,292
11	Deposits held at other financial institutions for operational purposes	705	-	-	-	353
12	Performing loans to financial institutions secured by non- Level 1 HQLA and unsecured performing loans to financial institutions	-	-	38,115	-	19,058
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	-	-	-	366,423	311,460
13	With a risk weight of less than or equal to 35% under the Basel II Standardized approach for credit risk	-	44,251	40,554	-	42,403
	Performing residential mortgages, of which:					
14	With a risk weight of less than or equal to 35% under the Basel II Standardized Approach for credit risk	-	-	-	58,435	37,983
15	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	16,220	13,787
16	All other assets not included in the above categories	-	-	-	515	515
17	Off-balance sheet items	-	20,467	12,516	21,247	2,711
18	Total RSF					430,561
19	NET STABLE FUNDING RATIO					139.59%

The financial statements and other related disclosures are also available on the ahlibank's website, to view it on the website refer the link <https://ahlibank.om/investor-relations/financial-highlights/annual-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 circular 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: 29 January 2024

The background is a solid blue color with several thin, white, curved lines that sweep across the frame, creating a sense of motion and modern design.

Your Partner in Excellence

