البنك الأهلي
ahlibank

2022
ANNUAL REPORT

REDEFINING BANKING EXPERIENCE

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 (01.01.2022 to 31.12-2022) ended 2022 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:

- The contracts, transactions and dealings entered into by the Bank during the year ended 2022 are in compliance with Shari'a rules and principles.
- The distribution of profit and charging of losses relating to investment accounts conform to the base that had been approved by the Shari'a Supervisory Board of the Bank in accordance with rules and principles of Islamic Shari'a.
- All earning that has been realized from sources or by means prohibited by rules and principles of Islamic Shari'a have been disposed of by the management of the Bank to charitable causes,
- The calculation of *Zakah* is in compliance with Shari'a rules and principles.

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

Sharia Supervisory Board

Sheikh Dr. Mohammed Taher Al-Ibrahim (Chairman)

Sheikh Dr. Mustain Ali Abdul Hameed (Deputy Chairman)

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

Resolutions issued by SSB during the year 2022

FOR THE YEAR ENDED 31 DECEMBER 2022

<table>
<tr><th>SSB Meeting</th><th>Resolution No.</th><th>Subject of the Resolution</th><th>Brief of the SSB Resolution</th></tr>
<tr><td rowspan="3">Meeting on April 10, 2022 (SSB-39-2022)</td><td>1 (SSB –39 – 2022)</td><td>Minutes of SSB 38th Meeting</td><td>The SSB signed the Minutes of the 38th Meeting.</td></tr>
<tr><td>2 (SSB –39 – 2022)</td><td>Shari’a Audit Reports of 4th Quarter 2021
1. Retail Banking
2. Corporate Banking
3. Treasury
4. Trade Finance
5. SME</td><td>The SSB reviewed the observations noted in the subject Shari’a audit reports and gave its opinion.</td></tr>
<tr><td>3 (SSB –39 – 2022)</td><td>Retail Banking Marketing Proposals
I. Gifts for Qitaf Upper Mass Customers
II. Gifts for Premium & Private Customer
III. Gifts for Prospective New Customers</td><td>The Shari’a Supervisory Board reviewed Retail Banking Marketing Proposals, details of which are briefly given below and approved them.

1. Gifts for Qitaf Upper Mass Customers
It is to give Ahli Islamic loyal Qitaf customers certain incentives to strengthen the Bank’s banking relationship with them. Following are the details of the gifts/incentives
<table>
<tr><th>Deposit Range</th><th>Per Gift cost</th><th>Total Gifts</th><th>Incentives/Gift ideas</th></tr>
<tr><td>10,000 - 34,999</td><td>30</td><td>2000</td><td>Hypermarket vouchers/ Talabat vouchers</td></tr>
</table>
2. Gifts for Premium & Private Customer
Loyal Qitaf customers under Premium & Private Customer are proposed to give incentives for strengthening the banking relationship with them. Following are the details of the incentives
<table>
<tr><th>Deposits</th><th>Accounts</th><th>Gift cost</th><th>Gifts:</th><th>Total cost of the gift</th><th>Incentives/Gift ideas</th></tr>
<tr><td>35,000 - 99,999</td><td>501</td><td>50</td><td>501</td><td>25,050</td><td>Hypermarket vouchers, Talabat vouchers</td></tr>
<tr><td>100,000 - 249,999</td><td>114</td><td>100</td><td>114</td><td>11,400</td><td>Hypermarket vouchers, perfumes</td></tr>
<tr><td>250,000 - 499,999</td><td>20</td><td>300</td><td>20</td><td>6,000</td><td>Hypermarket vouchers, electronic stores vouchers</td></tr>
<tr><td>500,000+</td><td>5</td><td>500</td><td>5</td><td>2,500</td><td>Iphone, laptop</td></tr>
<tr><td>Total</td><td>640</td><td></td><td>640</td><td>44,950</td><td></td></tr>
</table>
3. Gifts for Prospective New Customers
Following were the incentives proposed to give new customers under Qitaf Account to make and strengthen their banking relationship with the Bank. Following are the details of the incentives/gives
<table>
<tr><th>Gift Cost</th><th>Total Gifts</th><th>Incentives/Gift ideas</th></tr>
<tr><td>OMR 30</td><td>1,000</td><td>Hypermarket vouchers/ Talabat vouchers</td></tr>
</table>
The cost will be a part of marketing budget.</td></tr>
</table>

Resolutions issued by SSB during the year 2022 *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

SSB Meeting	Resolution No.	Subject of the Resolution	Brief of the SSB Resolution
Meeting on April 10, 2022 (SSB-39-2022)	4 (SSB –39 – 2022)	Salam Product Paper Approval	The SSB reviewed the Salam based financing Product Paper & approved it. The product is designed to facilitate the agriculture and mining related customers and its structure is as follows: **Shari'a Structure** Salam is a sale contract between a buyer and seller wherein the first party (the "Bank") purchases certain commodities/products permissible in Shari'a from the seller (customer) at an agreed prince which are to be produced and delivered in future time. The sale price is paid in full at the time of executing sale contract. The Salam contract must contain complete specification of the commodities in terms of size and quality and the buyer will accept the commodities if they are complying with the specification outlined in the Salam contract. For the purpose of sale of the commodities the Bank use any of the following options, which deems fit for the Bank: 1. The Bank may enter into a Parallel Salam contract with the third party for the purpose of selling a commodity which is acquired in the first Salam contract. 2. The Bank may appoint the seller in the first Salam contract as its agent to sell the commodities to a buyer on cash basis and provide the proceeds to the Bank.
Meeting July 04, 2022 (SSB-340-2022)	1 (SSB –40 – 2022)	Ratification of Minutes of SSB 39th Meeting	The SSB signed Minutes of the 39th Meeting.
	2 (SSB –40 – 2022)	Sharia Audit Reports of 1st Quarter 2022 i. Retail Banking ii. Corporate Banking iii. Treasury iv. Trade Finance v. SME	The SSB reviewed the observations noted in the subject Shari'a audit reports and gave its opinion on each audit observation.
	3 (SSB –40 – 2022)	Ahli Islamic Corporate Banking Proposal for Investment of Funds in Sharia Compliant Assets Through Agency Agreement with ahlibank Conventional and Other Companies	The Corporate banking proposal on structure of Ahli Islamic investment in Sharia compliant assets through agency agreement with ahlibank conventional and other companies was reviewed by the SSB and the SSB has approved it. The SSB has recommended that the financing products, types of asset (intended to finance) and legal documents used by the agent should be presented to SSB for review and approval before financing/investment.
	4 (SSB –40 – 2022)	Qard Hasan Facility to MOE New Joiners	Retail Islamic Banking requested for approval of the SSB to give Qard Hassan facility to Ministry of Education new joiners which has also been approved by the management. These new employees will be assigned/appointed in August but their first salary from the ministry will be credited in October and Ahli Islamic will be extending this facility to help the new joiners since their salaries will be credited two months later. The maximum amount for the Qard Hassan will be RO 1,000 payable in 12 months with the first three months as a grace period with no repayment. The SSB has approved the above proposal on giving Qard Hassan to Ministry of Education new joiners who seek this facility from the Bank. The SSB recommends that such funds for Qard Hassan should be used from the Bank's account.

Resolutions issued by SSB during the year 2022 *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

<table>
<tr><th>SSB Meeting</th><th>Resolution No.</th><th>Subject of the Resolution</th><th>Brief of the SSB Resolution</th></tr>
<tr><td rowspan="3">Meeting July 04, 2022 (SSB-340-2022)</td><td>5 (SSB – 40 – 2022)</td><td>Report on Shari'a Risk Control of Ahli Islamic</td><td>The SSB reviewed the report on Shari'a Risk Control of Ahli Islamic which was submitted by Shari'a Risk Control. The SSB noted the risk evaluation and assessment of Ahli Islamic for 1st half of 2022. After reviewing the Sharia Risk assessment report of Ahli Islamic, the SSB mentioned that the report is satisfactory.</td></tr>
<tr><td>6 (SSB – 40 – 2022)</td><td>SSB Approval on Islamic Banking Training Material</td><td>The SSB members reviewed the Islamic Banking training material which was prepared and designed for training of staff of the Bank. The SSB approved the material to use for face to face and online trainings of the staff of the Bank.</td></tr>
<tr><td>7 (SSB – 40 – 2022)</td><td>Transaction Banking License</td><td>The SSB reviewed the following proposal submitted by Corporate e-Channels, Corporate Banking to Shari'a for approval:

"As per our program on Transaction Banking 2.0, the Bank is in discussion with the vendors on the licensing part. In this regard, Corporate e-Channels seeks to have one instance count of license for both Conventional and Islamic which will perform as follows:

1. Front-end with embedding ahlibank and Ahli Islamic logo, and based on the user credentials will be accessed to either Conventional or Islamic portal.
2. Whether the account is associated with Conventional or Islamic the system will communicate with corresponding touch points accordingly (i.e. Conventional with Equation and Islamic with iMAL)."

The SSB approved to make Ahli Islamic specific front-end logo in application and with regard to agreement SSB decided that is fine to have Bank level agreement covering both Ahli Islamic and ahlibank with the vendor however, the costs for development of Ahli Islamic system should be charged to Ahli Islamic account.</td></tr>
<tr><td rowspan="4">Meeting August 22, 2022 (SSB-41-2022)</td><td>1 (SSB – 41 – 2022)</td><td>Ratification of Minutes of SSB 40th Meeting</td><td>The SSB signed Minutes of the 40th Meeting.</td></tr>
<tr><td>2 (SSB –41 – 2022)</td><td>Semi Annual Shari'a Compliance Report by Shari'a Compliance Unit</td><td>The SSB members reviewed the reports and noted the assignments performed over the period.</td></tr>
<tr><td>3 (SSB – 41 – 2022)</td><td>Amendment in Profit Calculation Policy</td><td>The SSB reviewed the additions in Profit Calculation Policy in line with the AAOIFI's new Financial Accounting Standard 31 "Investment Agency (Al-Wakala Bi Al-Istithmar)". After reviewing the proposed changes in the Profit Calculation Policy with regard to commingling the Wakala and Mudaraba deposit funds, the SSB pronounced that the changes proposed above are in line with Sharia rules and principles.</td></tr>
<tr><td>4 (SSB – 41 – 2022)</td><td>Removal of Memorandum of Understanding document from Services Ijara product</td><td>SSB reviewed the Business request for removing the subject MOU from the required financing documents. Such MOU is asked to execute with the services providers for each Service Ijara financing before approval while it does not have any impact since to purchase the services from service provider the Bank uses offer and acceptance document which meets the financing requirement.

After reviewing the MOU and Offer and Acceptance documents the SSB has agreed to remove the MOU application for each financing deal and approved it with the following recommendation:

1. Offer and Acceptance document should remain effective since they fulfil the requirement of the transaction for purchasing the services.
2. In case there is a tie up between Ahli Islamic and any service provider for a long run relation then such MOU can be used for the case.</td></tr>
</table>

Resolutions issued by SSB during the year 2022 *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

SSB Meeting	Resolution No.	Subject of the Resolution	Brief of the SSB Resolution
Meeting November 29, 2022 (SSB-42-2022)	1 (SSB – 42 – 2022)	Ratification of Minutes of Previous Meeting (41st Meeting)	The SSB signed Minutes of the 41st Meeting.
	2(SSB - 42 - 2022)	Retail Banking Sharia Audit Status Report of Q1 2022	The SSB members reviewed the subject Sharia Audit Report and noted the progress of compliance with the SSB opinion.
	3 (SSB - 42 - 2022)	Retail Banking Sharia Audit Report of 2nd Q2 2022 i. Retail Banking ii. Corporate Banking iii. Treasury iv. Trade Finance v. SME	The SSB reviewed the observations noted in the subject Shari'a audit reports and gave its opinion on each audit observation.
	4 (SSB - 42 - 2022)	Sharia Audits Plan 2023	The SSB members reviewed Shari'a Audit Plan for Year 2023 and approved it.
	5 (SSB - 42 - 2022)	Islamic Banking Training Plan 2023	The SSB members reviewed Shari'a Training Plan for Year 2023 and approved it.
	6 (SSB - 42 - 2022)	Approval of Running Musharaka Product Paper	The SSB reviewed the subject Product Paper on Running Musarhaka Product paper and gave its opinion as follows: "Although this formula (Running Musharakah) is not common in Islamic financial institutions, but rather known and has been applied in some Islamic financial institutions in the Kingdom of Saudi Arabia and the Islamic Republic of Pakistan. The Pakistani scholar Muhammad Taqi Al-Othmani also detailed it in the introduction to Islamic Finance book. It was presented in two separate scholar's papers at AAOIFI's 20th Annual Conference of Sharia Boards held in the Kingdom of Bahrain in May 2022. This product in this capacity is not objectionable in general, except that the percentage of profit that the bank actually obtains in this Running Musharakah is little related to the actual results of the company's business, but rather is linked to the prevailing interest rate. This is because the bank wants to get a specific rate of return. Any profit in excess of this percentage (attributed to the amount of financing and not to the profit achieved), the bank will waive it to the company as a gift. Which means, the bank waives what exceeds the prevailing profit rate in the market. The real test for the complaint of this Musharaka with the provisions of Sharia (and hence the justification for our SSB approval) is the Bank's participation in bearing the losses not designing the Musharaka in a way that protects the Bank from loss and placing it on the responsibility of the customer party. The SSB approves the Running Musharaka Product Paper however, in view of the above it is recommended that complete details of the initial three clients/deals should be submitted to the SSB to confirm the product's application fully conforms Sharia."
	7 (SSB-42-2022)	Approval of Bill Financing Product Paper	The SSB reviewed the Bill Financing Product Paper. After reviewing the product paper, the SSB approved paper and decided that product structure is in line with Sharia principles and it adheres the process of purchase and sale of goods and services

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

Report on the audit of the financial statements

Our opinion

In our opinion, the accompanying financial statements present fairly, in all materials respects, the financial position of the Ahli Islamic - Window ('the Window') of Ahli Bank SAOG ('the Bank') as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") as modified by the Central Bank of Oman ("CBO").

What we have audited

The financial statements comprise:

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

Basis for opinion

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

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

Independence

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

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

Emphasis of matter

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

Other information

The Bank's Board of Directors are responsible for the other information. The other information comprises the annual report of the Shari'a Supervisory Board, Shari'a resolutions issues by Shari'a Supervisory Board, Management Discussion and Analysis Report and 2022 Disclosure Requirements under Pillar III of Basel II (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

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

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

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with the Auditing Standards for Islamic Financial Institutions issued by AAOIFI, we exercise professional judgement and maintain professional 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 Window's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Bank's Board of Directors.

- Conclude on the appropriateness of the Bank's Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Window's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Window to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Report on other legal and regulatory and Shari'a requirements

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

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

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

PricewaterhouseCoopers

برايس وترهاوس كوبرز ش.م.م
PricewaterhouseCoopers LLC
C.R. No 1230865

Muscat, Sultanate of Oman
06 March 2023

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2022

2021 US$ '000	2022 US$ '000		Note	2022 RO '000	2021 RO '000
		ASSETS			
105,262	**49,709**	Cash and balances with Central Bank of Oman	6	**19,138**	40,526
1,764	**2,982**	Due from banks	7	**1,148**	679
93,541	**102,644**	Murabaha receivables	8	**39,518**	36,013
75,265	**75,255**	Wakala bil Istithmar	9	**28,973**	28,977
534,740	**835,784**	Musharaka receivables	10	**321,777**	205,875
90,632	**131,195**	Investment securities	11	**50,510**	34,893
301,777	**229,379**	Ijarah assets - Ijarah Muntahia Bittamleek	12	**88,311**	116,184
1,540	**2,117**	Credit Card receivables	13	**815**	593
1,732	**3,912**	Service ijarah	14	**1,506**	667
6,628	**9,995**	Property, equipment and intangibles	16	**3,848**	2,552
21,837	**11,403**	Other assets	17	**4,390**	8,407
1,234,718	**1,454,375**	**TOTAL ASSETS**		**559,934**	475,366
		LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY			
197	**2,262**	Due to banks	18	**871**	76
47,255	**84,325**	Customers' current accounts		**32,465**	18,193
14,761	**21,965**	Other liabilities	19	**8,456**	5,683
62,213	**108,552**	**TOTAL LIABILITIES**		**41,792**	23,952
1,014,712	**1,186,418**	Equity of investment account holders	20	**456,771**	390,664
1,076,925	**1,294,970**	**TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS**		**498,563**	414,616
90,909	**90,909**	Share capital	21	**35,000**	35,000
(171)	**(1,834)**	Investment fair value reserve		**(706)**	(66)
11,826	**11,826**	Impairment reserve		**4,553**	4,553
55,229	**58,504**	Retained earnings		**22,524**	21,263
157,793	**159,405**	**TOTAL OWNERS' EQUITY**		**61,371**	60,750
1,234,718	**1,454,375**	**TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY**		**559,934**	475,366
58,995	**55,597**	Contingent liabilities and commitments	22	**21,405**	22,713

The financial statements and the accompanying notes were approved by the Board of Directors on 25 January 2023 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 COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

2021	2022			2022	2021
US$ '000	**US$ '000**		**Note**	**RO '000**	RO '000
51,779	**58,823**	Income from financing activities	23	**22,647**	19,935
4,060	**5,223**	Income from investing activities	24	**2,011**	1,563
4,278	**6,969**	Other operating income	25	**2,683**	1,647
60,117	**71,015**			**27,341**	23,145
(29,371)	**(36,065)**	Return to investment account holders	26	**(13,885)**	(11,308)
1,431	**922**	Islamic Window's share as Mudarib		**355**	551
(27,940)	**(35,143)**	**Return to investment account holders before zakah**		**(13,530)**	(10,757)
32,177	**35,872**	**Islamic Window's share in income from financing and investing activities (as Mudarib and Rab ul Maal)**		**13,811**	12,388
(5,148)	**(14,197)**	Net impairment on financial assets		**(5,466)**	(1,982)
27,029	**21,675**	Net operating income		**8,345**	10,406
(8,127)	**(11,401)**	Staff expenses	27	**(4,389)**	(3,129)
(1,468)	**(1,945)**	Depreciation	16	**(749)**	(565)
(5,145)	**(4,479)**	Other operating expenses	28	**(1,725)**	(1,981)
(14,740)	**(17,825)**	**Total expenses**		**(6,863)**	(5,675)
12,289	**3,850**	**Profit before taxation**		**1,482**	4,731
(1,844)	**(574)**	**Taxation**		**(221)**	(710)
10,445	**3,276**	**Profit for the year**		**1,261**	4,021
		Other comprehensive (expense) income			
		Items that will not be reclassified to profit or loss			
3	**(41)**	Changes in fair value of securities measured through Equity		**(16)**	1
		Items that will be reclassified to profit or loss			
340	**(1,622)**	Changes in fair value of debts measured through Equity		**(624)**	131
343	**(1,663)**	**Other comprehensive (expense) /income for the year**		**(640)**	132
10,788	**1,613**	Total comprehensive income for the year		**621**	4,153

The accompanying notes form an integral part of these financial statements

STATEMENT OF CHANGES IN OWNERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	Share capital	Investment fair value reserve	Impair-ment 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**

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

The accompanying notes form an integral part of these financial statements

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022

2021 US$ '000	2022 US$ '000		Note	2022 RO '000	2021 RO '000
		CASH FLOWS FROM OPERATING ACTIVITIES			
12,289	**3,850**	**Profit for the year**		**1,482**	4,731
		Adjustments for:			
1,468	**1,945**	Depreciation - property and equipment	16	**749**	565
5,148	**14,197**	Net impairment on financial assets		**5,466**	1,982
18,905	**19,992**	**Operating profit before change in operating assets and liabilities**		**7,697**	7,278
15,171	**(11,052)**	(Increase) / Decrease in Murabaha receivables		**(4,255)**	5,841
(86,862)	**(310,309)**	Increase in Musharaka receivables		**(119,469)**	(33,442)
(442)	**(2,179)**	Increase in Service ijarah receivables		**(839)**	(170)
(83)	**(577)**	Increase in Credit card receivables		**(222)**	(32)
(75,268)	**(57)**	Increase in Wakala bil Istithmar		**(22)**	(28,978)
(5,519)	**10,348**	Decrease / (Increase) in other assets		**3,984**	(2,125)
(330)	**2,065**	Increase / (Decrease) in due to banks		**795**	(127)
(11,296)	**37,070**	Increase / (Decrease) in customers' current accounts		**14,272**	(4,349)
(2,209)	**2,017**	Increase / (Decrease) in other liabilities		**776**	(850)
183,745	**171,706**	Increase in equity of investment account holders		**66,107**	70,742
35,812	**(80,976)**	**Cash (used in) / generated from operations**		**(31,176)**	13,788
		CASH FLOWS FROM INVESTING ACTIVITIES			
30,626	**71,631**	Decrease in Investment in Ijarah assets - Ijarah Muntahia Bittamleek		**27,578**	11,791
(15,208)	**(42,234)**	Purchase of investments		**(16,261)**	(5,855)
(2,114)	**(1,492)**	Purchase of Property, equipment and Intangibles	16	**(575)**	(814)
13,304	**27,905**	**Net cash generated from investing activities**		**10,742**	5,122
		CASH FLOWS FROM FINANCING ACTIVITY			
25,974	**-**	Proceeds from allocation of capital		**-**	10,000
(1,235)	**(1,266)**	Repayment of principal of lease liabilities		**(488)**	(476)
24,739	**(1,266)**	**Net cash (used in)/generated from financing activity**		**(488)**	9,524
73,855	**(54,337)**	**NET CHANGE IN CASH AND CASH EQUIVALENTS**		**(20,922)**	28,434
33,172	**107,027**	Cash and cash equivalents at 1 January		**41,205**	12,771
107,027	**52,690**	**CASH AND CASH EQUIVALENTS AT 31 DECEMBER (Refer below)**		**20,283**	41,205

2021 US$ 000	2022 US$ 000			2022 RO '000	2021 RO '000
105,263	**49,708**	Cash and current balances with Central Bank of Oman	6	**19,135**	40,526
1,764	**2,982**	Due from banks	7	**1,148**	679
107,027	**52,690**	**Cash and cash equivalents**		**20,283**	41,205

The accompanying notes form an integral part of these financial statements

STATEMENT OF SOURCES AND USES OF CHARITY FUND

FOR THE YEAR ENDED 31 DECEMBER 2022

2021	**2022**			**2022**	2021
US$ '000	**US$ '000**		**Note**	**RO '000**	RO '000
		Sources of charity fund			
3	**3**	Fund at the beginning of the year		**1**	1
13	**10**	Penalties to customer for late payment		**4**	5
-	**5**	Sharia Non-campliant income		**2**	-
16	**18**			**7**	6
		Uses of charity fund			
		Distributed to charity organizations			
3	**-**	Association for Early Intervention for children with disabilities		**-**	1
3	**-**	Oman Down Syndrome Association		**-**	1
3	**-**	Omani Association for Quran Preservation		**-**	1
4	**-**	Omani Society for Diabetes		**-**	2
-	**3**	Al Rahma Association		**1**	-
-	**3**	Child Welfare Center		**1**	-
-	**2**	Al Rustaq Social House		**1**	-
-	**3**	Al Wafa Center For The Rehabilitation person with Disabilities In Bahla		**1**	-
-	**3**	Al Noor Association for the Blind		**1**	-
13	**14**	Total uses of charity fund during the year		**5**	5
3	**4**	**Undistributed charity fund at the end of the year**	19	**2**	1

The accompanying notes form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

ahli islamic (The Islamic Window) was licensed by Central Bank of Oman (CBO) to operate as an Islamic Banking Window of ahlibank SAOG (The Bank). The Islamic Window offers a full range of Islamic banking services and products. The principal activities of the Islamic Window include accepting Sharia compliant customer deposits, providing Sharia compliant financing based on Murabaha, Wakala, Musharaka, Ijarah, and undertaking investment activities and providing commercial banking services and other investment activities permitted under the Islamic Banking Regulatory Framework (IBRF) issued by the CBO. The Islamic Window was operating through a network of nineteen branches as at year end (31 December 2021: fifteen branches).

The Islamic Window employed 177 employees as at 31 December 2022 (31 December 2021: 136 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 38 Wa'ad, Khiyar and Tahawwut

This standard was issued in 2020. The objective of this standard is to prescribe the accounting and reporting principles for the recognition, measurement and disclosure concerning Shari'ah-compliant Wa'ad (promise), Khiyar (option) and Tahawwut (hedging) arrangements for Islamic financial institutions. The Islamic Window has adopted this standard and the adoption did not result in any material impact on financial statements.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

3 STANDARDS, AMENDMENTS AND INTERPRETATIONS (continued)

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

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

This standard was issued in 2021. This standard supersedes the earlier FAS 1 "General Presentation and Disclosures in the Financial Statments of Islamic Banks and Financial Institutions". The standard introduces the concepts of quasi-equity, off balance -sheet assets under management and other comprehensive income to enhance the information provided to the users of the financial statements. This standard shall be effective for the financial periods beginning on or after 1st January 2023, 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 39 Financial Reporting for Zakah

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

3.2.3 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.

3.2.4 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 statementsthat 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 aoolicable to Takaful Institutions, the Islamic Window will not be impacted by these amendments.

3.2.5 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 anciliary transactions with the objective of faithfully representing the information related to these arrangements to the relevent 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 aoolicable to Takaful Institutions, the Islamic Window will not be impacted by these amendments.

4 SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Foreign currency translation

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6 Ijarah assets – Ijarah Muntahia Bittamleek (contined)

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 income statement 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 income statement. Transaction costs relating to investments at fair value through income statement are charged to the income statement 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 income statement. 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 income statement 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 income statement.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.7 Investments (continued)

Subsequent measurement (continued)

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 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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.10 Customers' current accounts

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

4.11 Equity of investment account holders

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

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

4.12 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 accountholders.

4.13 Investment risk reserve

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

4.14 Revenue recognition

4.14.1 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.

4.14.2 Musharaka

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

4.14.3 Ijarah

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

4.14.4 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.

4.14.5 Income from investments

Income from investments is recognised when earned.

4.14.6 Dividend

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.14 Revenue recognition (continued)

4.14.7 Fee and commissions

Fee and commission income recognised when earned.

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

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

4.14.8 Islamic Window share as a Mudarib

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

4.14.9 Profit suspension

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

4.15 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.

4.16 Taxation

Taxation is calculated and paid by the Bank on an overall basis. Taxation expense in these financial statements represents allocation of such taxation to the Islamic Window. The notional tax expense on the Islamic Window result for the year at the statutory effective tax rate would amount to RO 0.221 Mn (2021: (0.710 Mn)).

4.17 Impairment of Financial Contracts

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

Impairment assessment- ECL

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

Measurement of ECL

The measurement of ECL reflects:

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

- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Islamic Window approach leveraged the existing regulatory capital models and processes for financing portfolios that use the existing Internal Rating based and behavioral credit models. FAS 30 considers the calculation of ECL by multiplying the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

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

- debt investment securities that are determined to have low credit risk at the reporting date; and

- other financial instruments on which credit risk has not increased significantly since their initial recognition.

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.17 Impairment of Financial Contracts (continued)

Measurement of ECL (continued)

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.17 Impairment of Financial Contracts (continued)

Write off

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

4.18 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.

4.19 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.

4.20 Employee terminal benefits

4.20.1 Terminal benefits

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

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

4.20.2 Short term benefits

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

4.21 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.

4.22 Zakah

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.23 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.

4.24 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.

4.25 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".

4.26 Commingling of funds

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

4.27 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.

4.28 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 behaviour (e.g the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 32.1, which also sets out key sensitivities of the ECL to changes in these elements.

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

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

Detailed information about the judgements and estimates is provided in note 4.17

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

6 CASH AND BALANCES WITH CENTRAL BANK OF OMAN

2021 US$ '000	2022 US$ '000		2022 RO '000	2021 RO '000
10,354	12,252	Cash	4,717	3,986
94,908	37,457	Clearing account with Central Bank of Oman	14,421	36,540
105,262	49,709		19,138	40,526

7 DUE FROM BANKS

2021 US$ '000	2022 US$ '000		2022 RO '000	2021 RO '000
1,764	2,982	Nostro account balances	1,148	679
1,764	2,982		1,148	679

8 MURABAHA RECEIVABLES

2021 US$ '000	2022 US$ '000		2022 RO '000	2021 RO '000
26,416	33,325	Vehicles	12,830	10,170
68,094	62,504	Personal financing	24,064	26,216
15,940	25,800	Corporate	9,933	6,137
110,450	121,629	Gross receivables	46,827	42,523
(12,987)	(13,114)	Deferred profits	(5,049)	(5,000)
97,463	108,515		41,778	37,523
		Less: Impairment loss allowance		
(992)	(216)	Stage 1 and 2 (Note 32)	(83)	(382)
(2,930)	(5,655)	Stage 3 (Note 32)	(2,177)	(1,128)
93,541	102,644		39,518	36,013

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

8.1 DEFERRED PROFIT

2021 US$ '000	2022 US$ '000		2022 RO '000	2021 RO '000
(15,613)	(12,988)	Deferred profit at the beginning of the year	(5,000)	(6,011)
(9,177)	(32,112)	Murabaha sales during the year	(12,363)	(3,533)
6,137	27,252	Murabaha cost of sales	10,492	2,363
(3,040)	(4,860)	Deferred profit on sales	(1,871)	(1,170)
5,665	4,734	Murabaha income recognised during the period	1,823	2,181
(12,988)	(13,114)	Deferred profit at the end of the year	(5,049)	(5,000)

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

9 WAKALA BIL ISTITHMAR

2021	2022		2022	2021
US$ '000	**US$ '000**		**RO '000**	RO '000
75,268	**75,325**	Gross receivables	**29,000**	28,978
(3)	**(70)**	Less: Stage 1 Impairment loss allowance (Note 32)	**(27)**	(1)
75,265	**75,255**		**28,973**	28,977

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

10 MUSHARAKA RECEIVABLES

2021	2022		2022	2021
US$ '000	**US$ '000**		**RO '000**	RO '000
544,826	**855,135**	Musharaka receivables	**329,227**	209,758
		Less: Impairment loss allowance		
(2,803)	**(12,083)**	Stage 1 and 2 (Note 32)	**(4,652)**	(1,079)
(7,283)	**(7,268)**	Stage 3 (Note 32)	**(2,798)**	(2,804)
534,740	**835,784**		**321,777**	205,875

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

11 INVESTMENT SECURITIES

2021	2022		2022	2021
US$ '000	**US$ '000**		**RO '000**	RO '000
		Debt type instrument at fair value through equity		
76,945	**117,500**	Sukuks	**45,237**	29,624
		Equity type instrument at fair value through equity		
700	**708**	Open end mutual fund and equity	**273**	269
12,987	**12,987**	Additional Tier 1 perpetual security	**5,000**	5,000
90,632	**131,195**		**50,510**	34,893

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

12 IJARAH ASSETS - IJARAH MUNTAHIA BITTAMLEEK

2021	2022		2022	2021
US$ '000	**US$ '000**		**RO '000**	RO '000
405,644	**338,327**	Cost	**130,256**	156,173
(100,756)	**(105,070)**	Accumulated depreciation	**(40,452)**	(38,791)
304,888	**233,257**	Book value	**89,804**	117,382
		Less: Impairment loss allowance		
(2,255)	**(2,857)**	Stage 1 and 2 (Note 32)	**(1,100)**	(868)
(856)	**(1,021)**	Stage 3 (Note 32)	**(393)**	(330)
301,777	**229,379**	Net book value	**88,311**	116,184

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

13 CREDIT CARD RECEIVABLES

2021	2022		2022	2021
US$ '000	**US$ '000**		**RO '000**	RO '000
1,545	**2,122**	Islamic Credit Card	**817**	595
		Less: Impairment loss allowance		
(5)	**(5)**	Stage 1,2 & 3 (Note 32)	**(2)**	(2)
1,540	**2,117**	Net book value	**815**	593

14 SERVICE IJARAH

2021	2022		2022	2021
US$ '000	**US$ '000**		**RO '000**	RO '000
1,732	**3,912**	Service Ijarah	**1,506**	667

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

15. FINANCING ACTIVITIES

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

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

Disclosure requirements for the year ended 31 December 2022, containing the risk classification-wise gross and net amount outstanding, provision required as per CBO norms, allowance made as per IFRS 9, profit recognised as per IFRS 9 and suspended profit required as per CBO are given below based on CBO circular BM 1149.

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Profit recognised in P&L as per IFRS 9	Suspended profit as per CBO norms
		RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
	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	-	-
Standard	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**459,627**	**4,764**	**4,879**	**(115)**	**454,863**	**454,748**	**-**	**-**
	Stage 1	-	-	-	-	-	-	-	-
Special Mention	Stage 2	15,101	156	987	(831)	14,945	14,114	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		15,101	156	987	(831)	14,945	14,114	-	-
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
Substandard	Stage 3	324	113	133	(20)	211	191	-	31
Subtotal		**324**	**113**	**133**	**(20)**	**211**	**191**	**-**	**31**
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
Doubtful	Stage 3	367	121	105	16	246	262	-	5
Subtotal		**367**	**121**	**105**	**16**	**246**	**262**	**-**	**5**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

15. FINANCING ACTIVITIES (Continued)

15.2 Restructured Loans **

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Profit recognised in P&L as per IFRS 9	Suspended profit as per CBO norms
		RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
Loss	Stage 3	16,713	14,331	7,359	6,972	2,382	9,354	-	2,195
Subtotal		**16,713**	**14,331**	**7,359**	**6,972**	**2,382**	**9,354**	**-**	**2,195**
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**	**-**	**-**
	Stage 1	**485,538**	**4,253**	**1,683**	**2,570**	**481,285**	**483,855**	**-**	**-**
	Stage 2	**76,401**	**667**	**4,995**	**(4,328)**	**75,734**	**71,406**	**-**	**-**
	Stage 3	**17,488**	**14,565**	**7,681**	**6,884**	**2,923**	**9,807**	**-**	**2,231**
Total	**Total**	**579,427**	**19,485**	**14,359**	**5,126**	**559,942**	**565,068**	**-**	**2,231**

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

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Carrying Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Carrying Amount as per CBO norms*	Net Carrying Amount as per IFRS 9	Profit recognised in P&L as per IFRS 9	Suspended profit as per CBO norms
		RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
	Stage 1	60,429	302	855	(553)	60,127	59,574	-	-
Classified as performing	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**	**-**	**-**
	Stage 1	-	-	-	-	-	-	-	-
Classified as non-performing	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	8,371	5,397	2,114	3,283	2,974	6,257	-	1,630
Sub total		**8,371**	**5,397**	**2,114**	**3,283**	**2,974**	**6,257**	**-**	**1,630**
	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	5,397	2,114	3,283	2,974	6,257	-	1,630
Total	**Total**	**130,239**	**6,006**	**7,899**	**(1,893)**	**124,233**	**122,340**	**-**	**1,630**

*Net of provisions and suspended profit as per CBO norms

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

15. FINANCING ACTIVITIES (Continued)

15.3 Impairment charge and provisions held

	As per CBO Norms	As per IFRS 9	Difference
Impairment loss charged to profit and loss account	5,466	5,466	-
Provisions required as per CBO norms/ held as per IFRS 9	19,485	14,359	5,126
Gross NPL ratio (percentage)	3.54%	3.54%	-
Net NPL ratio (percentage)	0.12%	1.98%	-1.85%

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.

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

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

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

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Profit recognised in P&L as per IFRS 9	Suspended profit as per CBO norms
		RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
	Stage 1	314,054	3,283	975	2,976	310,103	313,079	-	-
	Stage 2	46,207	483	680	(680)	46,207	45,527	-	-
Standard	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**360,261**	**3,766**	**1,655**	**2,296**	**356,310**	**358,606**	**-**	**-**
	Stage 1	-	-	-	-	-	-	-	-
Special Mention	Stage 2	17,705	185	676	(676)	17,705	17,029	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**17,705**	**185**	**676**	**(676)**	**17,705**	**17,029**	**-**	**-**
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
Substandard	Stage 3	105	27	49	(22)	78	56	-	1
Subtotal		**105**	**27**	**49**	**(22)**	**78**	**56**	**-**	**1**
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
Doubtful	Stage 3	287	91	105	(14)	196	182	-	3
Subtotal		**287**	**91**	**105**	**(14)**	**196**	**182**	**-**	**3**
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
Loss	Stage 3	16,545	13,611	5,785	7,826	2,934	10,760	-	1,672
Subtotal		**16,545**	**13,611**	**5,785**	**7,826**	**2,934**	**10,760**	**-**	**1,672**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

15. FINANCING ACTIVITIES (Continued)

15.4 Comparison of provision held as per IFRS 9 and required as per CBO norms as at 31 December 2021: (Continued)

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Profit recognised in P&L as per IFRS 9	Suspended profit as per CBO norms
		RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	58,223	-	17	(17)	58,223	58,206	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	51	-	51	(51)	51	-	-	-
Subtotal		**58,274**	**-**	**68**	**(68)**	**58,274**	**58,206**	**-**	**-**
	Stage 1	**372,277**	**3,283**	**992**	**2,959**	**368,326**	**371,285**	**-**	**-**
	Stage 2	**63,912**	**668**	**1,356**	**(1,356)**	**63,912**	**62,556**	**-**	**-**
	Stage 3	**16,988**	**13,729**	**5,990**	**7,739**	**3,259**	**10,998**	**-**	**1,676**
Total	**Total**	**453,177**	**17,680**	**8,338**	**9,342**	**435,497**	**444,839**	**-**	**1,676**

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

15.5 Restructured Loans

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Carrying Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Carrying Amount as per CBO norms*	Net Carrying Amount as per IFRS 9	Profit recognised in P&L as per IFRS 9	Suspended profit as per CBO norms
		RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Classified as performing	Stage 1	27,214	136	408	(408)	27,214	26,806	-	-
	Stage 2	15,056	75	485	(485)	15,056	14,571	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**42,270**	**211**	**893**	**(893)**	**42,270**	**41,377**	**-**	**-**
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	9,546	4,938	2,138	2,800	4,607	7,407	-	1,176
Sub total		**9,546**	**4,938**	**2,138**	**2,800**	**4,607**	**7,407**	**-**	**1,176**
	Stage 1	**27,214**	**136**	**408**	**(408)**	**27,214**	**26,806**	**-**	**-**
	Stage 2	**15,056**	**75**	**485**	**(485)**	**15,056**	**14,571**	**-**	**-**
	Stage 3	**9,546**	**4,938**	**2,138**	**2,800**	**4,607**	**7,407**	**-**	**1,176**
Total	**Total**	**51,816**	**5,149**	**3,032**	**1,907**	**46,877**	**48,784**	**-**	**1,176**

*Net of provisions and suspended profit as per CBO norms

15.6 Impairment charge and provisions held

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

appropriation from the retained earnings.

16 Property, equipment and Intangibles

	Building	Leasehold improve-ments	Computer and other equipment	Intangibles	Furniture	ROU Assets	Capital work in progress	Total
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Cost:								
At 1 January 2022	477	1,122	673	1,025	174	1,717	2	5,190
Additions	-	316	172	50	37	1,470	-	2,045
Disposals / scrapped	-	-	-	-	-	-	-	-
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
Net book value as at								
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

	Building	Leasehold improve-ments	Computer and other equipment	Intangibles	Furniture	ROU Assets	Capital work in progress	Total
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Cost:								
At 1 January 2021	477	696	463	985	119	1,079	2	3,821
Additions	-	481	221	40	72	638	-	1,452
Disposals / scrapped	-	(55)	(11)	-	(17)		-	(83)
At 31 December 2021	477	1,122	673	1,025	174	1,717	2	5,190
Accumulated depreciation:								
At 1 January 2021	135	467	373	714	94	373	-	2,156
Depreciation	19	111	32	53	11	339	-	565
Disposals / scrapped	-	(55)	(11)	-	(17)	-	-	(83)
At 31 December 2021	154	523	394	767	88	712	-	2,638
Net book value as at								
At 31 December 2021	323	599	279	258	86	1,005	2	2,552
At 31 December 2021 (US$ '000)	839	1,556	725	670	223	2,610	5	6,628

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

17 OTHER ASSETS

2021	2022		2022	2021
US$ '000	**US$ '000**		**RO '000**	RO '000
20,732	**10,177**	Profit receivable on financing	**3,918**	7,982
465	**475**	Profit receivable on sukuks	**183**	179
470	**481**	Prepayments	**185**	181
302	**488**	Others	**188**	116
(132)	**(218)**	Impairment loss allowance	**(84)**	(51)
21,837	**11,403**		**4,390**	8,407

18 DUE TO BANKS

2021	2022		2022	2021
US$ '000	**US$ '000**		**RO '000**	RO '000
197	**2,262**	Vostro account balances	**871**	76
197	**2,262**		**871**	76

19 OTHER LIABILITIES

2021	2022		2022	2021
US$ '000	**US$ '000**		**RO '000**	RO '000
4,855	**6,421**	Profit payable	**2,472**	1,869
7,383	**6,873**	Accrued expenses and payable	**2,646**	2,843
-	**779**	Unearned fee income	**300**	52
551	**1,063**	Others	**409**	159
1,952	**4,743**	Lease liability	**1,826**	752
3	**5**	Charity payable	**2**	1
19	**2,081**	Impairment loss allowance	**801**	7
14,761	**21,965**		**8,456**	5,683

20 EQUITY OF INVESTMENT ACCOUNT HOLDERS

2021	2022		2022	2021
US$ '000	**US$ '000**		**RO '000**	RO '000
398,171	**341,002**	Saving and call accounts	**131,286**	153,296
38,961	**25,974**	Wakala acceptances	**10,000**	15,000
12,166	**3,361**	Wakala Deposits - Financial institutions	**1,294**	4,684
565,414	**816,138**	Wakala Deposits - Others	**314,213**	217,684
1,014,712	**1,186,475**	Equity of investment account holders	**456,793**	390,664
-	**(57)**	Less: Profit Equalisation Reserve	**(22)**	-
1,014,712	**1,186,418**		**456,771**	390,664

The average profit rate for the investment accountholders during the year was 3.01% (2021: 3.03%). Profit sharing ratio of mudarib as at 31 December 2022 was 25% (2021: 30%)

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

21 SHARE CAPITAL

The allocated share capital of the Islamic Window is RO 35 million equivalent to US$ 90.909 million (2021: RO 35 million equivalent to US$ 90.909 million).

22 CONTINGENT LIABILITIES AND COMMITMENTS

2021	2022		2022	2021
US$ '000	**US$ '000**		**RO '000**	RO '000
16,172	**48,584**	Guarantees	**18,705**	6,226
42,823	**7,013**	Financing Commitment	**2,700**	16,487
58,995	**55,597**		**21,405**	22,713

23 INCOME FROM FINANCING ACTIVITIES

2021	2022		2022	2021
US$ '000	**US$ '000**		**RO '000**	RO '000
27,940	**36,673**	Musharaka	**14,119**	10,757
17,906	**13,099**	Rental income on ijarah assets	**5,043**	6,894
5,665	**4,734**	Murabaha	**1,823**	2,181
268	**4,317**	Wakala bil Istithmar	**1,662**	103
51,779	**58,823**		**22,647**	19,935

24 INCOME FROM INVESTING ACTIVITIES

2021	2022		2022	2021
US$ '000	**US$ '000**		**RO '000**	RO '000
4,030	**5,127**	Income from investments	**1,974**	1,552
30	**96**	Income from wakala placements	**37**	11
4,060	**5,223**		**2,011**	1,563

25 OTHER OPERATING INCOME

2021	2022		2022	2021
US$ '000	**US$ '000**		**RO '000**	RO '000
4,076	**5,613**	Fee and commission income	**2,161**	1,569
(174)	**(288)**	Fee and commission expense	**(111)**	(67)
-	**878**	Dividend income	**338**	-
132	**322**	Foreign exchange gain, net	**124**	51
244	**369**	Service charges and other	**142**	94
-	**75**	Gain on sale of investment	**29**	-
4,278	**6,969**		**2,683**	1,647

26 RETURN TO INVESTMENT ACCOUNT HOLDERS

2021	2022		2022	2021
US$ '000	**US$ '000**		**RO '000**	RO '000
4,309	**4,848**	Return on investment account holders under Mudaraba - before Mudarib's share	**1,866**	1,659
23,283	**30,261**	Return on customer Wakala deposits	**11,651**	8,964
1,779	**956**	Return on inter bank Wakala deposit	**368**	685
29,371	**36,065**		**13,885**	11,308

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

27 STAFF EXPENSES

2021	2022		2022	2021
US$ '000	**US$ '000**		**RO '000**	RO '000
4,258	**5,616**	Salaries and wages	**2,162**	1,639
3,869	**5,785**	Allowances and other staff cost	**2,227**	1,490
8,127	**11,401**		**4,389**	3,129

28 OTHER OPERATING EXPENSES

2021	2022		2022	2021
US$ '000	**US$ '000**		**RO '000**	RO '000
4,132	**2,890**	Operating and administration costs	**1,113**	1,591
299	**501**	Occupancy costs	**193**	115
639	**997**	Advertisement costs	**384**	246
75	**91**	Shariah Supervisory Board related expenses	**35**	29
5,145	**4,479**		**1,725**	1,981

29 ZAKAH

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

30 RELATED PARTY TRANSACTIONS

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

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

2021	2022		2022	2021
US$ '000	**US$ '000**		**RO '000**	RO '000
		Directors, Shariah Supervisory Board and senior management		
99	**73**	Financing assets	**28**	38
1,469	**332**	Customers' deposits	**128**	566
		Major shareholders and its subsidiaries		
28	**52**	Nostro account balances	**20**	11
350	**399**	Investment securities	**154**	135
38,961	**25,974**	Due to banks - Wakala acceptances	**10,000**	15,000

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

2021	2022		2022	2021
US$ '000	**US$ '000**		**RO '000**	RO '000
		Directors, Shariah Supervisory Board and senior management		
8	**4**	Profit earned	**2**	3
60	**60**	Shariah Supervisory Board remuneration	**23**	23
(60)	**31**	Shariah Supervisory Board sitting fee	**5**	5

The Islamic Window has not rented any branch premises from a Director during the year 2022 and 2021

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

31 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The fair value of investments classified as fair value through equity as at 31 December 2022 is RO 50.510 million equivalent to US$ 131.19 million (31 December 2021 is RO 34.893 million equivalent to US$ 90.63 million) with cost amounts to RO 51.229 million equivalent to US$ 133.06 million (31 December 2021: 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:

	2022	2022	2021	2021
	RO '000	RO '000	RO '000	RO '000
	Level 1	Total	Level 1	Total
Financial assets				
Investment - debt type instruments at fair value through equity	**45,237**	**45,237**	29,624	29,624
Investment - equity type instrument at fair value through equity	**5,273**	**5,273**	5,269	5,269
	50,510	**50,510**	34,893	34,893
	US$ '000	**US$ '000**	US$ '000	US$ '000
Financial assets				
Investment - debt type instruments at fair value through equity	**117,500**	**117,500**	76,945	76,945
Investment - equity type instrument at fair value through equity	**13,695**	**13,695**	13,687	13,687
	131,195	**131,195**	90,632	90,632

No financial instruments are carried at level 2 and level 3 fair values as on 31 December 2022 (31 December 2021: NIL)

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

32 RISK MANAGEMENT

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

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

32.1 CREDIT RISK

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

32.1.1 TYPE OF CREDIT RISK

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

32.1.1.1 MURABAHA RECEIVABLE

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

32.1.1.2 MUSHARAKA

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

32.1.1.3 IJARAH - IJARAH MUNTAHIA BITTAMLEEK

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

32.1.1.4 SERVICE IJARAH

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

32.1.1.5 CREDIT CARD RECIEVABLES

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

32.1.1.6 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 Campliant activites. 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.

32.1.2 Credit risk measurement

(a) Financings (including Loan commitments and guarantees)

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

32 RISK MANAGEMENT (continued)

32.1 CREDIT RISK (continued)

32.1.2 Credit risk measurement (continued)

(b) Credit risk grading

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

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

32.1.3 Exposure to credit risk

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

	2022				2021
	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	14,421	-	-	14,421	36,540
Due from banks	1,148	-	-	1,148	679
Financing to customers - Gross	410,110	64,618	17,404	492,132	394,903
Investment securities	50,237	-	-	50,237	34,624
Financing Commitments and financial guarantees	9,622	11,783	-	21,405	22,713
Other assets			84	84	51
Gross carrying amount	485,538	76,401	17,488	579,427	489,510
Impairment loss allowance	1,683	4,995	7,681	14,359	8,338
Carrying amount	483,855	71,406	9,807	565,068	481,172

	2022				2021
	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	37,457	-	-	37,457	94,909
Due from banks	2,982	-	-	2,982	1,764
Financing to customers - Gross	1,065,221	167,839	45,205	1,278,265	1,025,722
Investment securities	130,486	-	-	130,486	89,932
Financing Commitments and financial guarantees	24,992	30,605	-	55,597	58,995
Other assets			218	218	132
Gross carrying amount	1,261,138	198,444	45,423	1,505,005	1,271,454
Impairment loss allowance	4,371	12,974	19,951	37,296	21,658
Carrying amount	1,256,767	185,470	25,472	1,467,709	1,249,796

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

32 RISK MANAGEMENT (continued)

32.1 CREDIT RISK (continued)

32.1. 3 Exposure to credit risk (continued)

IMPAIRED FINANCING

The collateral held against impaired financing is RO 27.429 million equivalent to US$ 71.244 million (31 December 2021 RO 27.727 million equivalent to US$ 72.018 million).

32.1.4 Expected credit loss measurement

Overview of ECL principles

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

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 Isalmic Window records an allowance for lifetime ECLs.

Measurement of ECL

The key inputs into the measurement of ECL are given in note 4.17.

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

ECL Exposure of financial assets and off-balance sheet

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

32 RISK MANAGEMENT (continued)

32.1 CREDIT RISK (continued)

32.1.4 Expected credit loss measurement (continued)

Movement in Impairment allowance and provision

	Stage 1	Stage 2	Stage 3	Total
	RO '000	RO '000	RO '000	RO '000
Opening balance as at 1 January 2022				
Financings	975	1,356	5,939	8,270
Investment Securities & Due from Banks	11	-	-	11
Financing commitments and financial guarantees	6	-	-	6
Other assets	-	-	51	51
Net transfer between stages				
Financings	108	(112)	4	-
Investment Securities & Due from Banks	-	-	-	-
Financing commitments and financial guarantees	-	-	-	-
Other assets	-	-	-	-
Charge for the Year (net)				
Financings	575	2,964	1,654	5,193
Investment Securities & Due from Banks	-	-	-	-
Financing commitments and financial guarantees	8	787	-	795
Other assets	-	-	33	33
Closing balance as at 31 December 2022				
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

32.1.5 Significant increase in credit risk (SICR)

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

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

1. An account will migrate to stage 2 if any of the changes in rating below are met;

- For risk ratings 1 – 4: >= 3 notch downgrade

- For risk rating 5: 2 notch downgrade

- For risk rating 6 : 1 notch downgrade

2. An account will also migrate to stage 2 if it is more than 30 days past due

3. An account will also be considered stage 2 if has been placed under special mention

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

32 RISK MANAGEMENT (continued)

32.1 CREDIT RISK (continued)

32.1.6 Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Islamic Window in full, without recourse by the Islamic Window to actions such as realising security (if any is held); or

- the borrower is past due more than 90 days on any material credit obligation of the Islamic Window.

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

- qualitative - e.g. breaches of covenant

- quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Islamic Window; and

- based on data developed internally and obtained from external sources.

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

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

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

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

Impact on SICR

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

Covid 19 Impact on ECL allowance

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

32 RISK MANAGEMENT (continued)

32.1 CREDIT RISK (continued)

32.1.6 Definition of default

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%.

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

2021			2021	
Impact on ECL	ECL		ECL	Impact on ECL
US$'000	'US$'000		RO'000	RO'000
	6,099	ECL on non impaired financial contracts	2,348	
(2,103)	3,996	Good scenario - 100% weighted	1,539	(809)
25	6,124	Base scenario - 100% weighted	2,358	10
2,072	8,170	Bad scenario - 100% weighted	3,146	798

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 2022 and 2021.

32.2 LIQUIDITY RISK

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

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

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

Adequate liquidity is ensured by Treasury, which receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, placements with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Islamic Window as a whole. In this process due care is taken to ensure that the Islamic Window complies with all the Central Bank of Oman regulations and the liquidity ratios were in compliance with regulatory requirements as of year ended 31 December 2022.

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

32 RISK MANAGEMENT (continued)

32.2 LIQUIDITY RISK (continued)

31 December 2022	Upto three months RO '000	Above three months to twelve months RO '000	Above one year to five years RO '000	More than five years 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	41,219	8,842	64,062	366,777	480,900
Investment securities	33,764	16,746	-	-	50,510
Property, equipment and Intangibles	-	-	-	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)	-	-

31 December 2022	Upto three months US$ '000	Above three months to twelve months US$ '000	Above one year to five years US$ '000	More than five years US$ '000	Total US$ '000
Assets					
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
Liabilities, equity of investment account holders and owners' equity					
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
Net liquidity gap	(41,085)	(244,360)	(189,355)	474,800	-
Cummulative liquidity gap	(41,085)	(285,445)	(474,800)	-	-

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

32 RISK MANAGEMENT (continued)

32.2 LIQUIDITY RISK (continued)

31 December 2021	Upto three months RO '000	Above three months to twelve months RO '000	Above one year to five years RO '000	More than five years RO '000	Total RO '000
Assets					
Cash and balances with Central Bank of Oman	40,526	-	-	-	40,526
Due from banks	679	-	-	-	679
Financing assets	38,255	12,108	63,746	274,200	388,309
Investment securities	23,352	11,541	-	-	34,893
Property and equipment	-	-	-	2,552	2,552
Other assets	-	-	-	-	8,407
Total assets	102,812	23,649	63,746	276,752	475,366
Liabilities, equity of investment account holders and owners' equity					
Due to banks	76	-	-	-	76
Customers' deposits	65,127	147,169	106,222	90,339	408,857
Other liabilities	4,019	1,080	155	429	5,683
Shareholder's fund	-	-	-	60,750	60,750
Total liabilities, equity of investment account holders and owners' equity	69,222	148,249	106,377	151,518	475,366
Net liquidity gap	41,997	(124,600)	(42,631)	125,234	-
Cummulative liquidity gap	41,997	(82,603)	(125,234)	-	-

31 December 2021	Upto three months US$ '000	Above three months to twelve months US$ '000	Above one year to five years US$ '000	More than five years US$ '000	Total US$ '000
Assets					
Cash and balances with Central Bank of Oman	105,262	-	-	-	105,262
Due from banks	1,764	-	-	-	1,764
Financing assets	99,364	31,449	165,574	712,208	1,008,595
Investment securities	60,655	29,977	-	-	90,632
Property and equipment	-	-	-	6,628	6,628
Other assets	21,837	-	-	-	21,837
Total assets	288,882	61,426	165,574	718,836	1,234,718
Liabilities, equity of investment account holders and owners' equity					
Due to banks	197	-	-	-	197
Customers' deposits	169,161	382,257	275,901	234,648	1,061,967
Other liabilities	10,439	2,805	403	1,114	14,761
Shareholder's fund	-	-	-	157,793	157,793
Total liabilities, equity of investment account holders and owners' equity	179,797	385,062	276,304	393,555	1,234,718
Net liquidity gap	109,085	(323,636)	(110,730)	325,281	-
Cummulative liquidity gap	109,085	(214,551)	(325,281)	-	-

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

32 RISK MANAGEMENT (continued)

32.3 MARKET RISK

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

32.3.1 PROFIT RATE RISK

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

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

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

	2022	**2022**	2021	2021
	RO '000	**US$ '000**	RO '000	US$ '000
Net profit earned	**11,128**	**28,904**	10,741	27,899
Impact of +200 bps profit rate increase	**(1,372)**	**(3,564)**	(3,768)	(9,787)
Impact of -200 bps profit rate decrease	**1,372**	**3,564**	3,768	9,787

32.3.2 FOREIGN EXCHANGE RISK

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

2021	**2022**		**2022**	2021
US$ '000	**US$ '000**		**RO '000**	RO '000
13,692	**4,674**	US Dollar	**1,799**	5,271
35	**426**	Euro	**164**	13
168	**1,060**	UAE Dirham	**408**	65
37	**44**	GBP Sterling	**17**	14
106	**69**	Others	**26**	41

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 2022.

Changes in the non-parity foreign currency prices as at 31 December 2022 on net assets is considered negligible.

32.3.3 EQUITY PRICE RISK

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

2021	**2022**		Change	**2022**	2021
US$ '000	**US$ '000**		(+/-)	**RO '000**	RO '000
2,410	**11,751**	Sukuks	10%	**4,524**	928
70	**1,368**	Open end mutual fund and equity	10%	**527**	27

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

32 RISK MANAGEMENT (continued)

32.4 OPERATIONAL RISK

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

32.5 CONCENTRATION RISK

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

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

	2022						
	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	**-**	**-**	**-**	**-**	**-**	**-**	**43,624**
Corporate	**9,713**	**29,000**	**276,287**	**24,384**	**-**	**-**	**6,886**
Personal	**32,065**	**-**	**52,940**	**65,420**	**2,323**	**-**	**-**
Banks	**-**	**-**	**-**	**-**	**-**	**1,148**	**-**
	US$ '000		**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**
Sovereign	**-**	**-**	**-**	**-**	**-**	**-**	**113,308**
Corporate	**25,229**	**75,325**	**717,629**	**63,335**	**-**	**-**	**17,886**
Personal	**83,286**	**-**	**137,506**	**169,922**	**6,034**	**-**	**-**
Banks	**-**	**-**	**-**	**-**	**-**	**2,982**	**-**
	2021						
Concentration by industry	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Sovereign	-	-	-	-	-	-	33,886
Corporate	5,912	28,978	169,497	46,616	-	-	1,007
Personal	31,611	-	40,261	70,766	1,262	-	-
Banks	-	-	-	-	-	679	-
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Sovereign	-	-	-	-	-	-	88,018
Corporate	15,356	75,268	440,252	121,080	-	-	2,615
Personal	82,107	-	104,574	183,808	3,278	-	-
Banks	-	-	-	-	-	1,764	-

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

32 RISK MANAGEMENT (continued)

32.5 CONCENTRATION RISK (continued)

	2022						
	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	**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	**-**	**-**	**-**	**-**	**-**	**-**	**-**

	2021						
	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
Concentration by location							
Oman	37,523	28,978	209,758	117,382	1,262	-	34,079
Other GCC countries	-	-	-	-	-	134	-
Unites States of America	-	-	-	-	-	515	-
OECD countries	-	-	-	-	-	30	814
Others	-	-	-	-	-	-	-
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Oman	97,462	75,268	544,826	304,888	3,278	-	88,517
Other GCC countries	-	-	-	-	-	349	-
Unites States of America	-	-	-	-	-	1,338	-
OECD countries	-	-	-	-	-	77	2,114
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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

33 CAPITAL MANAGEMENT

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

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

The risk asset ratio is calculated in accordance with the capital adequacy guidelines of the Basel Committee on Banking Supervision and CBO Circulars BM 1009 'Guidelines on Basel II' and BM 1114 'Regulatory Capital and Composition of Capital Disclosure requirements under Basel III' effective from 31 December 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.

2021	**2022**		**2022**	2021
US$ '000	**US$ '000**		**RO '000**	RO '000
144,380	**146,432**	Common Equity Tier 1 (CET1)	**56,376**	55,586
144,380	**146,432**	Tier 1	**56,376**	55,586
3,802	**9,795**	Tier 2	**3,771**	1,464
148,182	**156,227**	**Total regulatory capital**	**60,147**	57,050
		Risk weighted assets		
989,751	**1,129,249**	Credit risk	**434,761**	381,054
14,434	**7,629**	Market risk	**2,937**	5,557
39,426	**47,722**	Operational risk	**18,373**	15,179
1,043,611	**1,184,600**	**Total risk weighted assets**	**456,071**	401,790
		Capital adequacy ratio		
13.83%	**12.36%**	CET1 capital expressed as a percentage of total risk weighted assets	**12.36%**	13.83%
13.83%	**12.36%**	Total tier I capital expressed as a percentage of total risk weighted assets	**12.36%**	13.83%
0.37%	**0.84%**	Tier II capital expressed as a percentage of total risk weighted assets	**0.84%**	0.37%
14.20%	**13.19%**	Total regulatory capital expressed as a percentage of total risk weighted assets	**13.19%**	14.20%

Covid 19 impact on Capital adequacy:

Besides, the Islamic Window has also applied in its capital adequacy calculations the "Prudential filter" under interim adjustment arrangement for Stage-1 and Stage-2 ECL, as mentioned above. The impact of above filter on the bank's regulatory capital is 22 bps.

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

34 SOCIAL RESPONSIBILITY

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

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BASEL II PILLAR III AND BASEL III Report

For the year ended 31 December 2022

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The Board of Directors
Ahli Bank SAOG
P.O Box 545
Mina Al Fahal
Postal Code 116
Sultanate of Oman

Dear Sirs

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

Purpose of this Agreed-upon procedures report

This report is produced in accordance with the terms of our agreement dated 25 December 2022. The procedures, as set out in Islamic Banking Regulatory Framework (IBRF) with respect to the Basel II - Pillar III Disclosures and Circular No. BM 1114 dated 17 November 2013 with respect to the Basel III were performed solely to assist the directors of Ahli Bank SAOG ("the Bank") in evaluating the Bank's compliance with the disclosure related requirements of the IBRF issued by CBO and Circular No. BM 1114 dated 17 November 2013 and letter BSD/CB/2020/005 dated 3 June 2020 and may not be suitable for another purpose.

Your responsibilities

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

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

Our responsibilities

We have performed the procedures agreed with you as set out as prescribed in the Central Bank of Oman (CBO) Islamic Banking Regulatory Framework (IBRF) with respect to the Basel II - Pillar III Disclosures and Circular No. BM 1114 dated 17 November 2013 with respect to the Basel III Disclosures of Ahli Islamic (the Islamic window). The procedures, as set out in Article 10.1.2 of title 5 'Capital Adequacy' of the IBRF, were performed solely to assist you in evaluating the Islamic window of the Bank's compliance with the disclosure requirements set out in the IBRF issued by the CBO and Circular No. BM 1114 dated 17 November 2013 and letter BSD/CB/2020/005 dated 3 June 2020. Our work was performed in accordance with the International Standard on Related Services (ISRS) 4400 (Revised) 'Agreed-Upon procedures Engagements.'

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

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

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

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

Professional Ethics and Quality Management

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

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

Procedures and findings

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman (CBO) Islamic Banking Regulatory Framework (IBRF) with respect to the Basel II - Pillar III Disclosures and Circular No. BM 1114 dated 17 November 2013 with respect to the Basel III Disclosures (the disclosures) of Ahli Islamic - Window (the Islamic window) of the Bank, set out on pages 1 to 36 as at and for the year ended 31 December 2022.

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

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

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

Restriction on distribution and use

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

Yours faithfully,

PricewaterhouseCoopers

Muscat, Sultanate of Oman
06 March 2023

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

31 December 2022

1. INTRODUCTION

ahli islamic (the Islamic window) was licensed by Central Bank of Oman (CBO) to operate as an Islamic Banking Window of ahlibank SAOG (the Bank) 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 2022.

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 2022, based on the CBO guidelines is as follows:

Elements of Capital – RO '000	2022	2021
Tier I Capital		
Assigned capital/ Share capital	35,000	35,000
Retained earnings	22,524	21,263
Less: cumulative unrealized losses and intangibles recognized directly in equity	(1,148)	(677)
Tier I capital	**56,376**	**55,586**
Tier II Capital		
Revaluation reserves / cumulative fair value gains on FVOCI Instruments	81	154
Stage 1 & Stage 2 expected credit losses	3,690	1,310
Total Tier II Capital	**3,771**	**1,464**
Total Regulatory Capital	**60,147**	**57,050**
Total equity of investment account holders	**456,771**	**390,664**

CAPITAL ADEQUACY

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

31 December 2022

3. CAPITAL STRUCTURE (continued)

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 13.19% and Tier 1 capital adequacy ratios is 12.36% as against the CBO requirement of 11% and 9%, respectively, as at 31st December 2022.

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

Particulars	Risk weighted assets 31 December 2022 – RO 000's	Risk weighted assets 31 December 2021 – RO 000's
On-balances sheet items	425,305	377,426
Off-balance sheet items	9,456	3,628
Total Credit Risk	**434,761**	**381,054**
Market risk	2,937	5,557
Operational Risk	18,373	15,179
Total risk weighted assets	**456,071**	**401,790**
CET1 capital	56,376	55,586
Tier 1 capital	56,376	55,586
Tier 2 capital	3,771	1,464
Total Regulatory Capital	**60,147**	**57,050**
Capital requirement for credit risk	47,824	41,916
Capital requirement for market risk	323	611
Capital requirement for operational risk	2,021	1,670
Total required capital	**50,168**	**44,197**
CET 1 ratio	**12.36%**	**13.83%**
Tier 1 ratio	**12.36%**	**13.83%**
Total capital ratio	**13.19%**	**14.20%**

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

31 December 2022

3. CAPITAL STRUCTURE (continued)

i. Computation of Capital adequacy ratio – RO '000

S.No	Simple Approach	2022	2021
1	Tier I capital (after supervisory deductions)	56,376	55,586
2	Tier II capital (after supervisory deductions and up to eligible limits)	3,771	1,464
3	Risk weighted assets – banking book	434,761	381,054
4	Risk weighted assets – operational risk	18,373	15,179
5	**Total Risk Weighted Assets – Banking Book + Operational Risk**	**453,134**	**396,233**
6	**Minimum required capital to support RWAs of banking book and operational risk**	**49,845**	**43,586**
6.1	i) Minimum required Tier I capital for banking book and operational risk	40,782	35,661
6.2	ii) Tier II capital required for banking book and operational risk	9,063	7,925
7	Tier I capital available for supporting trading book	10,301	13,463
8	Tier II capital available for supporting trading book	-	-
9	**Risk Weighted Assets – trading book**	**2,937**	**5,557**
10	Total capital required to support trading book	323	611
11	Minimum Tier I capital required for supporting trading book	92	174
12	**Total Regulatory Capital**	**60,147**	**57,050**
13	**Total Risk Weighted Assets – Whole bank**	**456,071**	**401,790**
14	**BIS Capital Adequacy Ratio**	**13.19%**	**14.20%**

ii. Capital adequacy ratio (RO '000)

Particulars	2022	2021
Total risk weighted assets	456,071	401,790
Total eligible capital	60,147	57,050
Capital adequacy ratio	**13.19%**	**14.20%**

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

Particulars	2022	2021
Total capital	60,147	57,050
Total assets	559,934	475,366
Total capital to total assets	**10.74%**	**12.00%**

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

	2022	2021
Balances with Central bank of Oman	-	-
Sovereign	89	90
Due from Banks	25	22
Murabaha receivables	4,557	4,067
Musharaka receivables	32,216	21,994
Ijarah assets – Ijarah Muntahia Bittamleek	8,860	12,707
Service Ijarah	165	73
Credit card receivables	90	65
Other Assets & off balance sheet items	1,822	2,898
Total	**47,824**	**41,916**

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

31 December 2022

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.

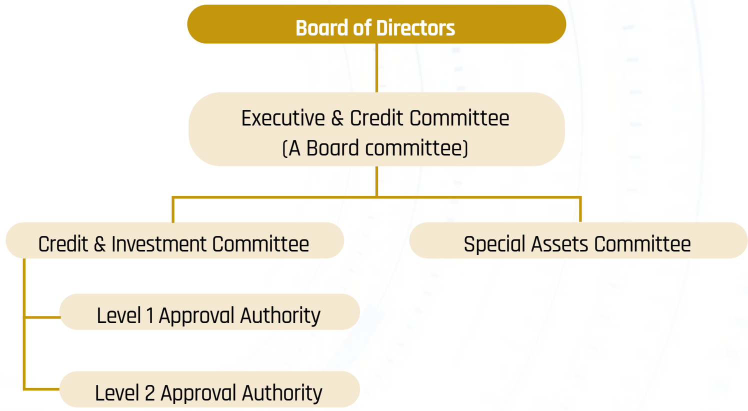
The Bank also has a robust system of borrowers' risk ratings that assesses the default risk of corporate borrowers and monitors ratings changes periodically. Ratings by the major credit rating agencies are also used whenever available.

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

31 December 2022

5. CREDIT RISK (continued)

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



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

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

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

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

31 December 2022

5. CREDIT RISK (continued)

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

Stage 1

When financing 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: (RO '000)

Type of credit exposure	Average Gross Exposure			Total Gross Exposure		
	31-Dec-22	31-Dec-21	**% of total exposure**	**31-Dec-22**	31-Dec-21	**% of total exposure**
Balances with Central bank of Oman	**25,480**	20,710	**5%**	**14,421**	36,540	**3%**
Sovereign	**34,024**	26,039	**6%**	**41,997**	26,051	**7%**
Banks	**1,062**	2,396	**0%**	**1,148**	976	**0%**
Musharaka	**269,493**	193,037	**51%**	**329,227**	209,758	**57%**
Ijarah	**103,593**	123,278	**20%**	**89,804**	117,382	**16%**
Murabaha	**39,651**	40,444	**7%**	**41,778**	37,523	**7%**
Credit Card Receivable	**706**	579	**0%**	**817**	595	**0%**
Service Ijarah	**1,087**	582	**0%**	**1506**	667	**0%**
Other assets & off balance sheet items	**26,249**	23,031	**5%**	**26,106**	26,391	**5%**
Wakala bil istithmar	**28,989**	14,489	**5%**	**29,000**	28,978	**5%**
Total	**530,332**	444,585	**100%**	**575,804**	484,861	**100%**

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

31 December 2022

5. CREDIT RISK (continued)

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

As of 31 December 2022;

Type of credit exposure	Gross Balance	Risk Weighted Assets
Balances with Central bank of Oman	14,421	-
Sovereign	41,997	808
Banks	1,148	231
Musharaka	329,227	292,872
Ijarah	89,804	80,542
Murabaha	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 items	26,106	16,562
Total	**575,804**	**434,761**

As of 31 December 2021;

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

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

31 December 2022

5. CREDIT RISK (continued)

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

As of December 2022;

Credit exposure	Business Unit	Gross Balance	Risk Weighted Assets
Balances with Central bank of Oman		14,421	-
Sovereign		41,997	808
Banks		1,148	231
	SME	24,985	18,742
	Corporate	251,302	251,302
Musharaka	Retail	52,940	22,828
	SME	1,724	1,371
Murabaha receivables	Corporate	8,019	8,019
	Retail	32,035	32,034
	SME	5,717	4,317
	Corporate	18,671	18,671
Ijarah assets – Ijarah Muntahia Bittamleek	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**

As of 31 December 2021;

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

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

31 December 2022

5. CREDIT RISK (continued)

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

As of 31 December 2022

Type of Credit Exposure	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
Murabaha receivables	41,778	-	-	-	-	-	41,7778
Musharaka receivables	329,227	-	-	-	-	-	329,227
Ijarah assets - Ijarah Muntahia Bittamleek	89,804	-	-	-	-	-	89,804
Service ijarah	1,506	-	-	-	-	-	1,506
Credit card receivables	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**

As of 31 December 2021;

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

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

31 December 2022

5. CREDIT RISK (continued)

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

As of 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**

As of 31 December 2021;

Economic Sector	Musharaka receivables	Ijarah assets – Ijarah Muntahia Bittamleek	Murabaha receivables	Credit card	Service Ijarah	Wakala	Total	Off Balance Sheet Exposure
Wholesale & Retail Trade	3,248	3,860	179	-	-	-	7,287	-
Mining & Quarrying	322	-	15	-	-	-	337	-
Construction	57,737	23,860	385	1	-	-	81,983	6,080
Manufacturing	5,890	104	4,066	-	-	-	10,060	-
Transport & Communication	17,564	10	1,174	1	-	28,978	47,727	-
Services	84,736	18,818	111	-	-	-	103,665	13
Personal Financings	40,261	70,730	31,593	593	667	-	143,844	-
Total	**209,758**	**117,382**	**37,523**	**595**	**667**	**28,978**	**394,903**	**6,226**

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

As of 31 December 2022;

Time Band	Musharaka receivables	Ijarah assets – Ijarah Muntahia Bittamleek	Murabaha receivables	Credit card receivables	Service Ijarah	Wakala Bil Istithmar	Total	Off Balance Sheet Exposure
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**

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

31 December 2022

5. CREDIT RISK (continued)

As of 31 December 2021;

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

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

As of December 2022;

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
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 Mn

As of 31 December 2021;

Economic Sector	Gross financings	Of Which NPLs	ECL stage 1 & 2	ECL stage 3*	Impairment charge during the Year	Financings written off during the year
Wholesale & Retail Trade	7,287	17	48	11	11	-
Mining & Quarrying	337	-	22	-	(103)	
Construction	81,983	74	1,012	44	(18)	-
Manufacturing	10,060	9,984	4	3,862	1,746	-
Transport & Communication	47,727	28	129	18	61	-
Services	103,665	6,006	999	1,581	934	-
Personal Financings	143,844	828	117	423	(9)	-
Total	**394,903**	**16,937**	**2,331**	**5,939**	**2,622**	-

* Stage 3 ECL include suspended profit of RO 1.676 mn
* above ECL includes additional overlays of 1.222 mn

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

31 December 2022

5. CREDIT RISK (continued)

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

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 mn,

As of 31 December 2021;

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

* Stage 3 ECL include suspended profit of RO 1.676 mn

* above ECL includes additional overlays of 1.222 mn

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

As of 31 December 2022;

Details	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**

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

31 December 2022

5. CREDIT RISK (continued)

As of 31 December 2021;

Details	Stage 1	Stage 2	Stage 3	Total
Opening Balance	267,666	65,225	17,022	**349,913**
Migration / changes (+ / -)	(202)	104	98	**-**
New financings	83,999	57	-	**84,056**
Recovery of financings	(37,409)	(1474)	(183)	**(39,066)**
Financing Written Off	-	-	-	-
Closing Balance	**314,054**	**63,912**	**16,937**	**394,903**

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

As of 31 December 2022;

	Murabaha receivables	Musharaka receivables	Ijarah assets - Ijarah Muntahia Bittamleek	Service Ijarah	Credit Card Receivable	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	-
Past due and impaired	4,509	11,890	988	-	5	-	17,391	-
Impaired but not past due	14	-	-	1	1	-	15	-
Total	**41,778**	**329,227**	**89,804**	**1,506**	**817**	**29,000**	**492,132**	**18,705**

As of 31 December 2021;

	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	183,270	98,676	31,446	523	667	28,978	343,560	6,226
Past due but not impaired	14,591	17,946	1,801	68	-	-	34,406	-
Impaired but not past due	-	109	49	2	-	-	160	-
Past due and impaired	11,897	651	4,227	2	-	-	16,777	-
Total	**209,758**	**117,382**	**37,523**	**595**	**667**	**28,978**	**394,903**	**6,226**

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

31 December 2022

5. CREDIT RISK (continued)

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

Qualitative disclosure

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

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

Financing receivables are principally divided into following Islamic products:

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

Credit Risk Mitigation (CRM)

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

The Islamic window normally accepts the following types of collateral:

- Hamish 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

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.

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

31 December 2022

5. CREDIT RISK (continued)

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 0.251 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 2022.

Particulars	**RO'000**
Gross Exposure - banking book	575,804
Credit risk mitigation	(7,871)
Risk weight impact - for banking book	(133,172)
Risk weighted assets - banking book	434,761
Capital charge for credit risk	**47,824**

Quantitative Disclosures:

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	
7	987	-	Special mention	**Stage 1 & 2**
8 – 10	7,597	-	Non-performing	**Stage 3**
Total	**13,463**	-		

As of 31 December 2021;

Rating	**Impairment allowance as at year end**	**Financings written off during the year**	**CBO Classification**	**IFRS 9 Classification**
1 – 6	1,655	-	Standard	Stage 1 & 2
7	676	-	Special mention	
8 – 10	5,939	-	Non-performing	Stage 3
Total	**8,270**	-		

6. MARKET RISK

Qualitative disclosure

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

Rate of Return risk in banking book (RRRBB)

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

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

31 December 2022

6. MARKET RISK (continued)

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

As of 31 December 2022;

Particular RO'000	Effective profit rate	within 3 months	4 to 12 months	1 to 5 years	More than 5 years	Non-sensitive to profit rate	Total
ASSETS		**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
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	68,100	487,692
Shareholders fund		-	-	-	-	61,371	61,371
Total		**95,673**	**101,483**	**233,217**	**90**	**129,471**	**559,934**
Net gap		**(50,926)**	**(86,762)**	**(100,003)**	**339,513**	**(101,822)**	**-**
Cumulative net gap		**(50,926)**	**(137,688)**	**(237,691)**	**101,822**	**-**	**-**

As of 31 December 2021;

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

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

31 December 2022

6. MARKET RISK (continued)

Foreign Exchange Risk

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

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

The Net open position in all foreign currencies stands at OMR 2.415 mn (OMR 5.404 mn position is in effectively pegged currencies) as on 31 December 2022.

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 2022.

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 2022 is RO 5.272mn with cost amounts to RO 5.334 mn. The Islamic window also has invested in sukuks carried at fair value through equity. The fair value of investments as of 31 December 2022 is RO 45.237 Mn with a cost amounts to RO 45.896 Mn.

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

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

a) Trading and retailing

b) Real Estate development, management and rental income

c) Construction / contracting and building materials

d) Travel / tourism, hotels, restaurants, entertainment, health services and education

e) Warehousing / storage, logistics, supply management and transportation, utilities and Telecom

f) Oil and Gas

g) Banking and Financial Services

h) Conglomerates or Holding Companies investing in any of the above business lines

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 2022 is given below:

Type of risk (RO '000)	2022	2021
Profit rate risk	-	-
Equity position risk	-	-
Foreign exchange risk	235	445
Percentage of NOP to regulatory capital	4.01%	10.29%
Regulatory ceiling (% to total net worth)	40%	40%

Total risk weighted assets for trading book is RO 2.937 Mn.

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

31 December 2022

6. MARKET RISK (continued)

Price Risk

Impact of 10% change in price

Investment type	Change in price	Effect on equity ('000)
		2022
Regional listed Sukuk	10%	+/- 4,443
Foreign listed Sukuk	10%	+/- 81
Listed equities	10%	+/- 527

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.

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

31 December 2022

7. LIQUIDITY RISK (continued)

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

The CBO also restricts the limits on lending by the commercial banks. The maximum lending ratio permissible as at 31 December 2022 was 92.5%.

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

Ratios	**2022**	**2021**
Financing ratio	**%**	**%**
Year end	87.4	82.8
Maximum for the year	91.7	90.2
Minimum for the year	79.7	78.1
Average for the year	85.2	86.0
Other Ratios		
Financing to customers to total assets	85.9	81.7
Equity to total assets	11.0	12.8
Liquid assets to total assets	10.1	8.3
Liquid assets to short term liabilities	19.9	17.9
Prime assets to volatile liabilities	40.17	29.7
Liquidity Coverage Ratio	159.6	241.1
Net Stable Funding Ratio	119.1	115.0

Stock of Liquid Assets

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

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.

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

31 December 2022

7. LIQUIDITY RISK (continued)

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

Limit Breaches

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

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

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

Liquidity Contingency Plan:

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

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

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

8. OPERATIONAL RISK

Operational Risk Framework

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'.

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

31 December 2022

8. OPERATIONAL RISK (continued)

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 2022, 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 (-)

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

31 December 2022

8. OPERATIONAL RISK (continued)

Item (RO '000)	2022	2021	2020
Net Income from financing and investing activities	24,687	21,498	18,654
Other income – net	2654	1,647	747
Gross Income	**27,341**	**23,145**	**19,401**
Return to investment account holders	(13,530)	(10,757)	(11,883)
Net Operating Income	**13,811**	**12,388**	**7,518**
Average Income			11,239
Gross Income times of Alpha (15%)			1,686
Operational risk based on Basic Indicator Approach			**21,073**

Capital Charge for Operational Risk under Basic Indicator Approach as per Basel II is RO 1,470 million as of 31 December 2022. The Risk weighted assets for operational risk as per Basel II is RO 18.373 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:

	2022	2021	2020	2019	2018
Total Profits available for distribution	10,752	9,321	7,596	6,538	5,948
Profit Sharing:					
- Profit to Shareholders	8,531	7,498	5,501	4,554	3,773
- Share of IAH	1,866	1,272	1,377	1,181	1,312
- Mudarib Share	355	551	718	803	863

During the year ended 31 December 2022, Islamic Window has appropriated RO 0.022 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 accountholders 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 accountholder's share of income is total investment income less shareholders' income. In case of Wakala contracts, the Islamic Window does not act as both an investment agent and Mudarib of the same fund at one time. Therefore, in case of comingling of Wakala investment funds with the Mudaraba pool, the investment agent will only charge Wakala Fee and will not share profits from the Mudaraba investment pool in the capacity of Mudarib.

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

31 December 2022

10. INVESTMENT ACCOUNT HOLDERS (continued)

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:

	2022	2021
Unrestricted Investment Accounts Share	75%	70%
Mudarib Share	25%	30%

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

Mudaraba fee

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

Investment Risk Reserve (IRR)

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

Transfer to or from Profit Equalization reserve (PER)

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

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 2022.

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.

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

31 December 2022

10. INVESTMENT ACCOUNT HOLDERS (continued)

No assignment of shareholder profit to depositors has been made during the year ended December 2022.

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

	Equity of IAH	
Type (Mudaraba Contracts)	**2022**	**2021**
Saving & Call accounts	131,286	153,296

II. Equity of Investment Accountholders – Ratios

RO in '000	**2022**	**2021**	**2020**	**2019**	**2018**
Ratios and Returns					
Amount of total net income	2,773	5,293	2,841	4,748	6,975
Average amount of assets	517,650	435,155	400,150	380,456	328,640
ROA (Net income before IA's distribution / total assets)	0.54%	1.22%	0.71%	1.25%	2.12%
Amount of total net income	1,261	4,021	1,463	3,556	5,663
Average amount of shareholder's equity	61,060	53,673	45,954	43,307	38,580
ROE (Net income after IA's distribution / Shareholders equity)	2.07%	7.49%	3.19%	8.23%	14.68%
PSR - Average Profit Paid					
Profit sharing ratio (Mudarib: Investment Accountholders)	25:75	30:70	30:70	40:60	40:60
Average Profit paid to investment accountholders	1.06%	2.86%	1.42%	2.27%	2.60%
Average Profit distributed per type of IAH					
Savings (RO 100 – RO 999.999)	0.15%	0.23%	0.26%	0.25%	0.26%
Savings (RO 1,000 – RO 9,999.999)	0.39%	0.43%	0.44%	0.41%	0.42%
Savings (above RO 10,000)	0.53%	0.57%	0.58%	0.57%	0.59%
Call Account (RO 100 - RO 999.999)	0.00%	0.16%	0.03%	0.25%	0.26%
Call Account (RO 1,000 - RO 9,999.999)	0.04%	-	-	0.43%	0.43%
Al Nama Smart Saving (RO 100 – RO 2,499.99)	-	0.48%	0.58%	0.57%	0.59%
Al Nama Smart Saving (RO 2,500 – RO 49,999.99)	-	1.99%	2.08%	2.04%	2.10%
Al Nama Smart Saving (RO 50,000 – RO 499,999.99)	-	2.59%	2.64%	2.59%	2.67%
Al Nama Smart Saving (500,000 - 999,999.999)	-	2.89%	3.19%	3.13%	3.22%
Al Nama (Above 1,000,000)	-	3.52%	3.57%	3.51%	3.60%
URIA Saving Awqaf	0.17%	0.41%	0.43%	0.43%	-
Qitaf Saving Account	0.39%	0.16%	0.25%	0.25%	-
Al Nama (0 - 999)	0.15%	-	-	-	-
Al Nama (1,000 - 4,999)	0.04%	-	-	-	-
Al Nama (5,000 - 9,999)	0.16%	-	-	-	-
Al Nama (10,000-19,999)	0.71%	-	-	-	-
Al Nama (20,000 - 34,999)	1.14%	-	-	-	-
Al Nama (35,000 - 49,999)	1.42%	-	-	-	-
Al Nama (50,000-99,999)	1.57%	-	-	-	-
Al Nama (100,000 - 149,999)	1.71%	-	-	-	-
Al Nama (150,000 - 249,999)	2.26%	-	-	-	-
Al Nama (250,000 - 349,999)	2.54%	-	-	-	-
Al Nama (350,000 - 499,999)	2.75%	-	-	-	-
Al Nama (500,000 - 749,999)	2.43%	-	-	-	-
Al Nama (750,000 - 999,999)	2.20%	-	-	-	-
Al Nama (1,000,000+)	3.41%	-	-	-	-

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

31 December 2022

10. INVESTMENT ACCOUNT HOLDERS (continued)

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 2022 (RO '000)

Income generated	**2022**	**2021**
Income from financing	22,647	19,935
Income from placements	2011	1,563
Total	**24,658**	**21,498**

Distribution of Income (Mudaraba Deposits)	**2022**	**2021**
Profit equalization reserve	22	-
Mudarib share	355	551
Investment risk reserve	-	-
Distributable Profit	10,375	8,770
Share of Profit for IAH and shareholders	**10,752**	**9,321**

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

	2022	**2021**
Average Wakala deposits	265,938	213,666
Average Profit paid to investment accountholders %	4.33	4.22

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 2022

Type of Credit Exposure		**RWAs**
	2022	**2021**
Sovereign	808	814
Banks	231	197
Musharaka receivables	292,872	199,943
Ijarah assets – Ijarah Muntahia Bittamleek	80,542	115,523
Murabaha receivables	41,424	36,973
Credit card receivables	817	595
Service Ijarah	1505	667
Other Assets & off balance sheet items	16,652	26,342
Total	**434,761**	**381,054**

12. ZAKAH

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

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

31 December 2022

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 2022, income amounting to RO 0.002 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 2022, Islamic window has taken approval from SSB for deferment of disbursement to next year.

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

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

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

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

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

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

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

15. GENERAL DISCLOSURES

Shari'a governance

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

i. Shari'a Supervisory Board (SSB)

ii. Head Shari'a Audit and Compliance/Internal Shari'a Reviewer (Head SAC)

iii. Shari'a Audit Unit (SAU)

iv. Shari'a Compliance Unit (SCU)

v. Shari'a Risk Control Unit (SRCU)

Shari'a audit and compliance department

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

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

Trainings

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

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

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

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

31 December 2022

15. GENERAL DISCLOSURES (continued)

Complaints

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

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

Awareness

The Bank has trained customer services representatives in all the branches and call center staff who provide appropriate guidance to customers with regard to Islamic Banking. Furthermore, product brochures are available at all the branches. Product feature and related SSB Fatwa and glossary of Islamic banking are also available on the website for public information. Additionally, during 2022 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 2022 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 2022.

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)

		2022	2021
Common Equity Tier 1 capital: instruments and reserves			
1	Directly issued qualifying common share capital plus related stock surplus	35,000	35,000
2	Retained earnings	22,524	21,263
6	Common Equity Tier 1 capital before regulatory adjustments	57,524	56,263
Common Equity Tier 1 capital: regulatory adjustments			
7	Prudential valuation adjustments	(1,148)	(677)
28	Total regulatory adjustments to Common equity Tier 1	(1,148)	(677)
29	Common Equity Tier 1 capital (CET1)	56,376	55,586
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)	56,376	55,586
Tier 2 capital: instruments and provisions			
50	Provisions *(provision and fair value reserve)*	3,771	1,464
51	Tier 2 capital before regulatory adjustments	3,771	1,464

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

31 December 2022

17. BASEL III REGULATORY CAPITAL DISCLOSURES (continued)

	Tier 2 capital: regulatory adjustments		
57	Total regulatory adjustments to Tier 2 capital	-	-
58	Tier 2 capital (T2)	3,771	1,464
59	Total capital (TC = T1 + T2)	60,147	57,050
60	Total risk weighted assets	456,071	401,790
60a	Of which: Credit risk weighted assets	434,761	381,054
60b	Of which: Market risk weighted assets	2,937	5,557
60c	Of which: Operational risk weighted assets	18,373	15,179
	Capital Ratios		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	12.36%	13.83%
62	Tier 1 (as a percentage of risk weighted assets)	12.36%	13.83%
63	Total capital (as a percentage of risk weighted assets)	13.19%	14.20%
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement expressed as a percentage of risk weighted assets)	7.000%	7.000%
65	of which: capital conservation buffer requirement	-	-
66	of which: bank specific countercyclical buffer requirement	-	-
67	of which: G-SIB buffer requirement	-	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets	2.20%	3.20%
	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	135
	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)	3,690	1,310
77	Cap on inclusion of provisions in Tier 2 under standardized approach	5,071	5,022

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

31 December 2022

17. BASEL III REGULATORY CAPITAL DISCLOSURES (continued)

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 2022	31 DEC 2022
Assets		
Cash and balances with Central Bank of Oman	19,138	19,138
Due from banks	1,148	1,148
Loans and advances	480,900	480,900
Investments in securities	50,510	50,510
Loans and advances to banks	-	-
Property and equipment	3,848	3,848
Deferred tax assets	-	-
Other assets	4,390	4,390
Total assets	**559,934**	**559,934**
Liabilities		
Due to banks	10,871	10,871
Customer deposits	479,236	479,236
Current and deferred tax liabilities	-	-
Other liabilities	8,456	8,456
Subordinated bonds	-	-
Total liabilities	**498,563**	**498,563**
Shareholders' Equity		
Paid-up share capital	35,000	35,000
Share premium	-	-
Legal reserve	-	-
General reserve	-	-
Retained earnings	22,524	22,524
Cumulative changes in fair value of investments	(706)	(706)
Subordinated debt reserve	-	-
Other Reserves	4,553	4,553
Total shareholders' equity	**61,371**	**61,371**
Total liability and shareholders' funds	**559,934**	**559,934**

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

31 December 2022

17. BASEL III REGULATORY CAPITAL DISCLOSURES (continued)

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

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

Year ended 31 December 2022	31-Dec-22	Under Regulatory scope of consolidation	Reference
Assets			
Cash and balances with CBO	**19,138**	**19,138**	
Due from banks	**1,148**	**1,148**	
Financings - Net, of which:	**480,900**	**480,900**	
- Financings to domestic customers		**492,132**	
- Provision against financings, of which:		**(11,232)**	
- Stage 3 Impairment allowance		(5,366)	
- Stage 1 / 2 impairment allowance, of which		**(5,866)**	
- Amount eligible for T2		3,690	a
- Amount ineligible for T2		2,176	
Investments, of which:	**50,510**	**50,510**	
- fair value through other comprehensive income		50,510	
- Stage 1 / 2 impairment allowance, of which		-	
- amount eligible for T2		-	
- amount ineligible for T2		-	
Fixed assets	**3,848**	**3,848**	
- Intangibles (CET1 adjustment)		(248)	e
- Other fixed Asset		3,600	
Other assets	**4,390**	**4,390**	
Total Assets	**559,934**	**559,934**	
Capital & Liabilities			
Paid-up Capital, of which:	**35,000**	**35,000**	
- Amount eligible for CET1		35,000	b
Reserves & Surplus; of which	**26,371**	**26,371**	
- Amount eligible for CET1		22,524	c
- Amount eligible for T2 (Investments Fair value gains)		81	d
- AFS investments fair value loss (CET1 adjustment)		(900)	e
- AFS investments fair value gain unutilized & impairment		113	
- Reserves (impairment reserve - not eligible for CET1)		4,553	
Total Capital	**61,371**	**61,371**	
Deposits	**479,236**	**479,236**	
Due to banks	**10,871**	**10,871**	
Other liabilities and provisions	**8,456**	**8,456**	
Other liabilities & provisions, of which			
'- Stage 1 / 2 impairment allowance, of which		801	
- amount eligible for T2		-	
- amount ineligible for T2		801	
TOTAL	**559,934**	**559,934**	

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

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17. BASEL III REGULATORY CAPITAL DISCLOSURES (continued)

Step 3: Step Reconciliation of Regulatory Capital:

	Common Equity Tier 1 capital: instruments and reserves (RO' 000)		
	Year ended 31 December 2022	**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	35,000	b
2	Retained earnings	22,524	c
3	**Common Equity Tier 1 capital before regulatory adjustments**	**57,524**	
4	Prudential valuation adjustments	**(1,148)**	e
5	**Total regulatory adjustments to Common equity Tier 1**	**(1,148)**	
6	**Common Equity Tier 1 capital (CET1)**	**56,376**	
	Additional Tier 1 capital: instruments		
7	Additional Tier 1 capital (AT1)	-	-
	Tier 1 capital (T1 = CET1 + AT1)	**56,376**	
	Tier 2 capital: instruments and provisions		
8	Provisions	3,690	a
9	Fair value reserve of AFS investments	81	d
	Tier 2 capital before regulatory adjustments	**3,771**	
	Tier 2 capital: regulatory adjustments	**-**	-
	Tier 2 capital (T2)	**3,771**	
	Total capital (TC = T1 + T2)	**60,147**	

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

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17. BASEL III REGULATORY CAPITAL DISCLOSURES (continued)

17.1 MAIN FEATURES OF REGULATORY CAPITAL

		Year ended 31 December 2022
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)	35 million
9	Par value of instrument	-
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	RO 25 Million allocated in 2013 and RO 10 Million allocated in 2021.
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	Statutory approach
32	If write-down, full or partial	Write down fully
33	If write-down, permanent or temporary	Permanent
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	NA

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

31 December 2022

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.

(RO '000)

	Year ended 31 December 2022	Total Unweighted Value (average)	Total Weighted Value (average)
High Quality Liquid Assets			
1	Total High-Quality Liquid Assets (HQLA)	62,761	62,761
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	197,610	19,402
3	Stable deposits	5,134	154
4	Less stable deposits	192,476	19,248
5	Unsecured wholesale funding, of which:	93,438	35,100
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	92,565	34,227
8	Unsecured debt	873	873
9	Secured wholesale funding	-	-
10	Additional requirements, of which		
11	Outflows related to derivative exposures and other collateral requirements	-	-
12	Outflows related to loss of funding on debt products		
13	Credit and liquidity facilities	-	-
14	Other contractual funding obligations		
15	Other contingent funding obligations	131	7
16	TOTAL CASH OUTFLOWS	451,973	54,508
Cash Inflows			
17	Secured lending (e.g. reverse repos)		
18	Inflows from fully performing exposures	30,383	15,192
19	Other cash inflows	56,148	-
20	TOTAL CASH INFLOWS	86,531	15,192
21	TOTAL HQLA		62,761
22	TOTAL NET CASH OUTFLOWS		39,317
23	LIQUIDITY COVERAGE RATIO (%)		159.63%

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

31 December 2022

19. NET STABLE FUNDING RATIO (NSFR): COMMON DISCLOSURE TEMPLATE

The below Net Stable Funding Ratio (NSFR) disclosure is presented for year ended 31 December 2022 and prepared in accordance with the requirements of the CBO letter vide circular reference 1147 issued on October 26, 2016.

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Sr No.	Particulars	No Maturity	<6 Months	6 Months to < 1 Year	>= 1 Year	Weighted Value
ASF ITEM						
1	Capital	60,147	-	-	-	60,147
2	Regulatory Capital	60,147				60,147
3	Retail Deposits and Deposits from small Business Customers	195,372	40,231	49,577	81,053	339,442
4	Stable Deposit	34,542			81,053	113,868
5	Less Stable Deposit	160,830	40,231	49,577		225,574
6	Wholesale Funding	88,853	7,471	4,175	14,692	64,942
7	Operational	-				-
7	Other Wholesale Funding	88,853	7,471	4,175	14,692	64,942
8	All other liabilities and equities not included in above categories	18,363	-	-	-	-
9	**Total ASF**					**464,531**
RSF ITEMS						
10	Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	2,181
11	Deposits held at other financial institutions for operational purposes	1,148	-	-	-	574
12	Performing loans to financial institutions secured by non- Level 1 HQLA and unsecured performing loans to financial institutions	-	-	-	-	-
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	779	33,826	5,249	375,392	339,010
13	With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk	-	-	-	-	-
	Performing residential mortgages, of which:					
14	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	-	-	58,420	37,973
15	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	6,887	5,854
16	All other assets not included in the above categories	-	-	-	3,434	3,434
17	Off-balance sheet items	-	8,858	710	11,837	1,070
18	**Total RSF**					**390,096**
19	**NET STABLE FUNDING RATIO**					**119.08%**

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

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

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19. NET STABLE FUNDING RATIO (NSFR): COMMON DISCLOSURE TEMPLATE (continued)

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

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

For ahli islamic

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Hamdan Ali Nasser Al Hinai

Chairman

Date: 25 January 2023