

ANNUAL
REPORT
2021
EXCELLENCE
THROUGH
INNOVATION



His Majesty Sultan Haitham bin Tarik

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2021 At a glance



Established as a full-fledged commercial Bank in 2007, ahlibank is committed to enhance customer satisfaction with a comprehensive suite of services, use of modern technology and innovative solutions across its 22 branches in Oman.

ahlibank's mission is to exceed customer expectations and deliver outstanding shareholder value. In line with its vision of being vibrant and an innovative centre of banking, the Bank offers top-class retail, commercial, investment banking solutions and is well-known for its customer-centricity. The Bank provides customers with convenient access to high-quality products and services through its presence at strategic locations throughout the Sultanate. The Bank will continue to grow the branch network of ahlibank and ahli islamic across Oman while keeping pace with the changing market demands to meet the lifestyle needs of the Bank's burgeoning customer base. Additionally, the digitalization of procedures and the highly focused team offers a range of advisors and specialist services, which makes it one of the preferred Banks in the Sultanate.



With its operations launched in January 2013, ahli islamic is committed to its vision to be a leading provider of Islamic banking and finance services in the Sultanate. As of December 2021, ahli islamic has 15 dedicated branches across the Sultanate. In addition, . has a dedicated Treasury, SME, Trade, Corporate Banking and Shari'a Audit and Compliance departments.

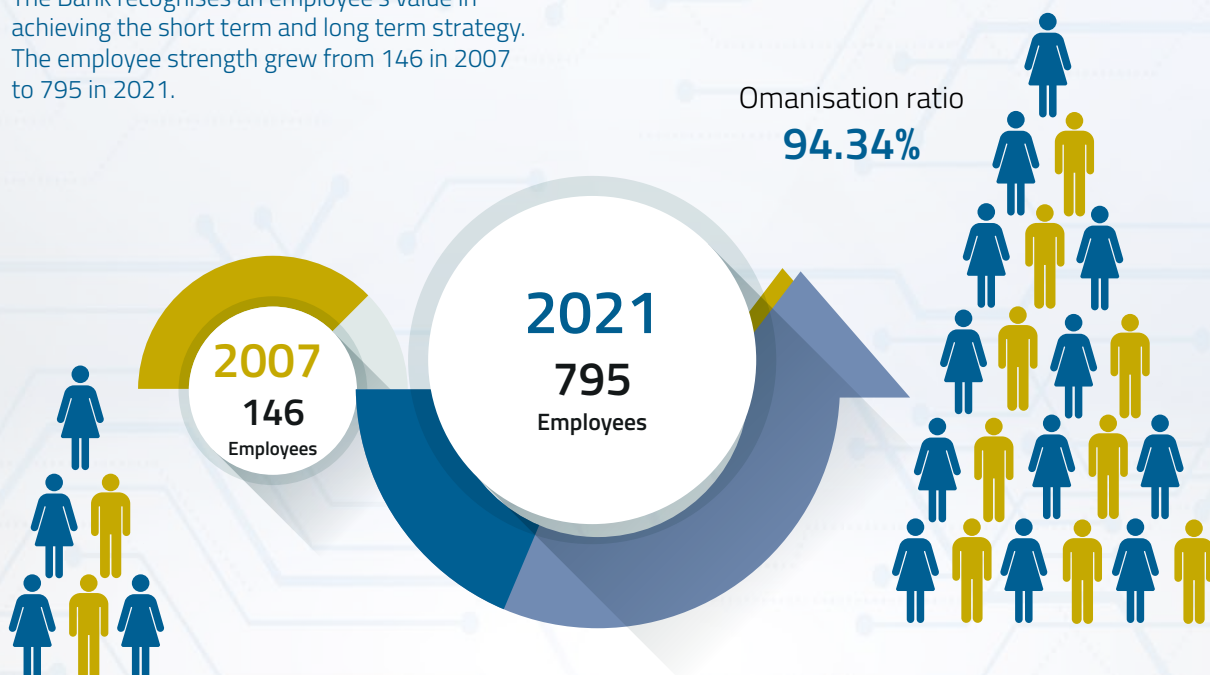
It is worth noting that ahli islamic objective is to abide by the ethics and values of Islamic finance, and help customers, communities and people to prosper and grow. ahli islamic facilitates customers to operate their business under Shari'a Principles by way of providing wide array of Shari'a-based financial products and also ensures highest level of service standards with focus on "Partnering" instead of financing with customer. ahli islamic continues to focus on innovative products and services, in order to increase its foothold and market presence, where customers show a keen interest towards sharia-compliant products.

OUR PEOPLE

ahlibank, through job creation and skill development of the local population, especially the young national workforce, has always believed in effectively contributing to the national agenda as outlined in Oman Vision 2040 of meeting the needs of the labor market. The focus of the Bank has always been on training and developing its human resource, promoting and providing a platform to grow in their careers. Offering a nurturing and a motivating work culture for developing a strong human capital, the very premise behind the Bank's human resource development strategy has been the manifestation of endless possibilities for career growth and immense opportunities to learn. From resourcing to retention and employee competition to employee engagement, ahlibank has always recognized an employee's value in achieving the Bank's short and long-term vision. Being an ahlibanker means consistently striving for excellence by challenging oneself, being a part of an inspiring environment where innovation thrives, and delivering customer experience as the ultimate goal of meeting the strategy.

EMPLOYEES

The Bank recognises an employee's value in achieving the short term and long term strategy. The employee strength grew from 146 in 2007 to 795 in 2021.



2021 At a glance

2021 KEY ACHIEVEMENTS AND MILESTONES

ahlibank has always considered innovation as a key function in its operations and offered customers high quality products and services. Here's a look at the key achievements of the Bank in 2021.

Instant Account Opening

To meet the growing demand for 'instant' banking, ahlibank has introduced a new mobile app-based account opening service where all new-to-bank customers can open an account just within one minute and access all the services and facilities embedded in the app. ahli Islamic is the first islamic bank to introduce this service in Oman.



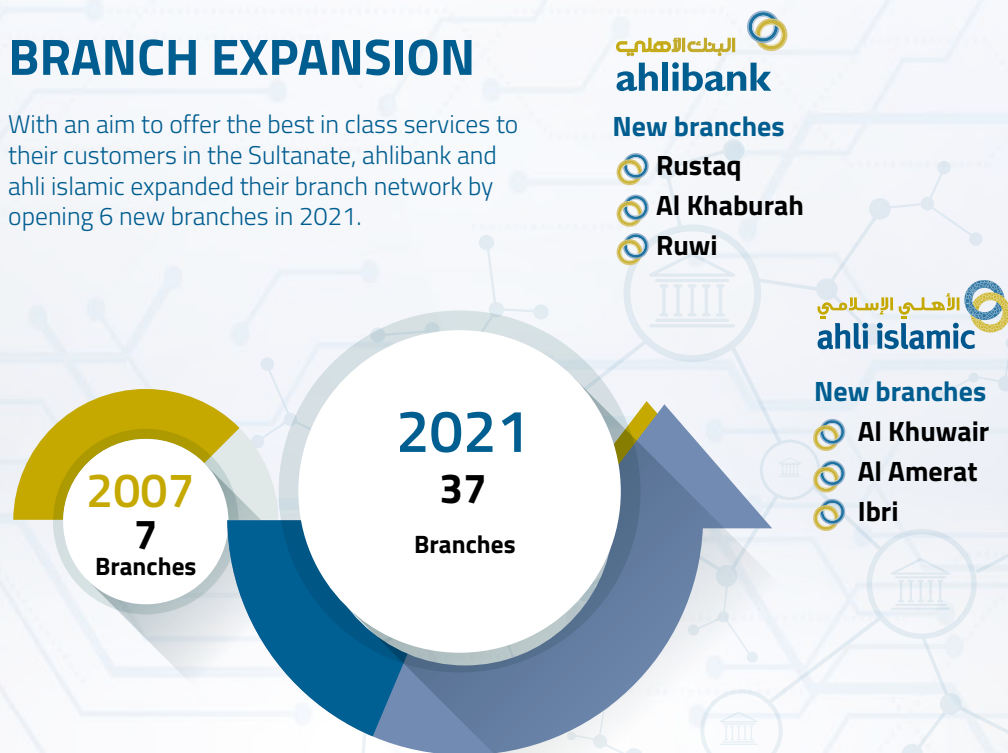
AWARDS

The efforts and commitment to provide quality customer service has culminated in a roster of recognitions for the bank.



BRANCH EXPANSION

With an aim to offer the best in class services to their customers in the Sultanate, ahlibank and ahli islamic expanded their branch network by opening 6 new branches in 2021.



Our Locations

MUSCAT

Ruwi
+968 24834148
+968 24834402
Al Wattaya
+968 24577000
Al Seeb
+968 24577253
Avenues Mall
+968 24577222
Al Khoudh
+968 24577233
Al Khuwair
+968 24577211
Ghubra
+968 24657164
Mall of Muscat
+968 24653373
Mabella
+968 24653071

BARKA

+968 24573384

SUWAIQ

+968 24653243

AL BURAIMI

+968 24653266

SOHAR

+968 24577236

IBRI

+968 24653082

NIZWA

+968 24577263

IBRA

+968 24577225

SUR

+968 24577299

MUSSANAH

+968 24653428

RUSTAQ

+968 26878660

AL KHABURAH

+968 26802664

HEAD OFFICE:

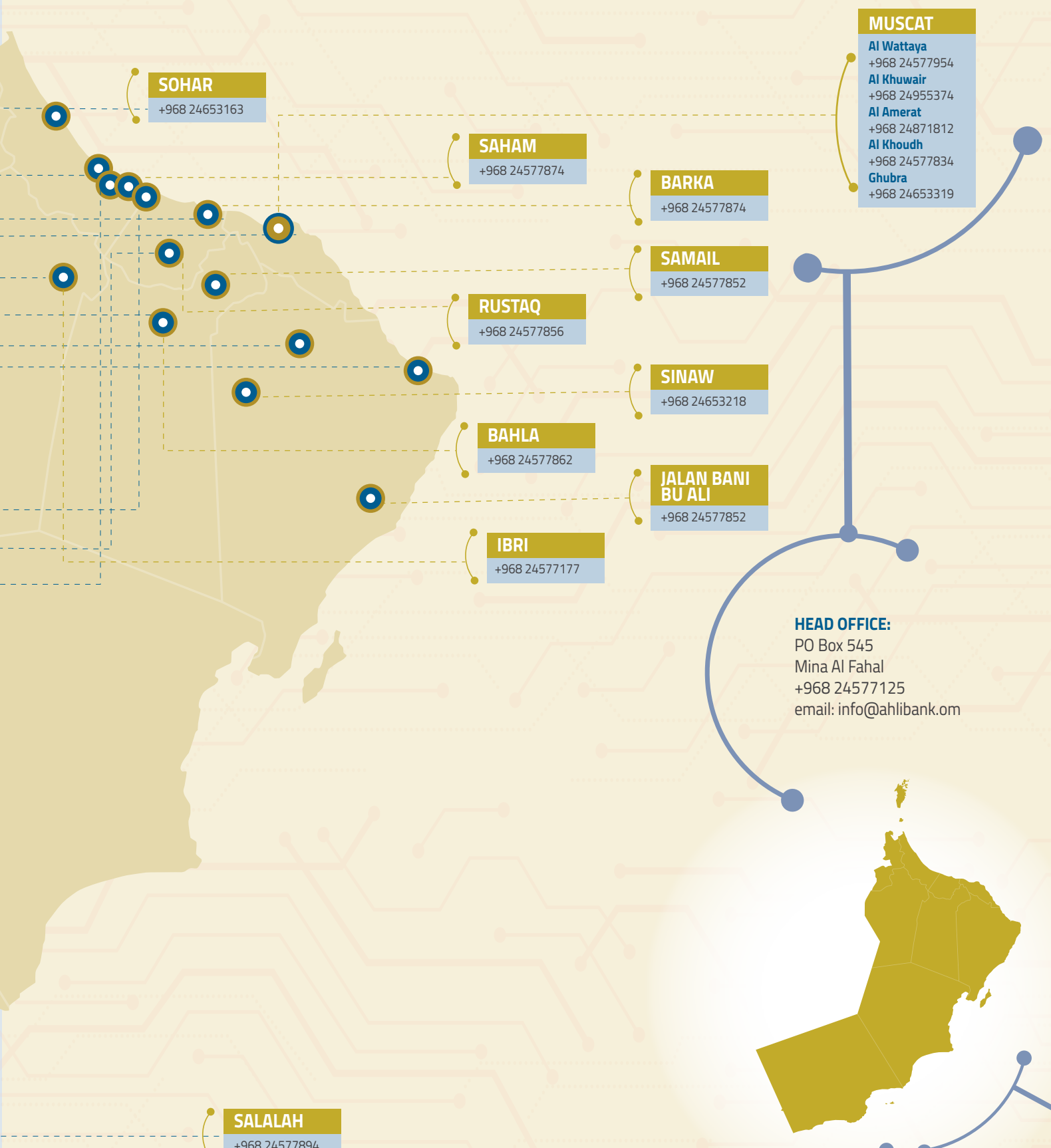
PO Box 545
Mina Al Fahal
+968 24577125
email: info@ahlibank.om

SAADA

+968 24653293

SALALAH

+968 24577288



This map is not an authority on international boundaries.

البنك الأهلي



ahlibank

To be the trusted and preferred banking partner dedicated to create unique value for our employees, customers, shareholders and community



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Board of Directors



Hamdan Ali Nasser Al Hinai

Chairman

Holds Master in Development and project management, Bachelors in Business Management & Economics and Diploma in international Development Management; Former Director General, Purchasing and Contracts, Ministry of Defense.



Anwar Hilal Hamdoon Al Jabri

First Deputy Chairman

Certified Public Accountant (CPA), USA, Masters of Business Administration (MBA), University of Hull, UK and Bachelors of Science in Accounting (BS.A), University of Akron, Ohio, USA; Chief Executive Officer of Jabreen Capital; Chairman, Ubhar Capital SAOC; Previous experience as Investment Director of Oman Investment Fund (A Sovereign Wealth Fund) and CEO of OIF's subsidiary National Pioneer Investment & Development Company. Having more than 22 years of industry experience and various leadership positions.



Sanjeev Bajjal

Second Deputy Chairman

Chartered Global Management Accountant under Association of International Certified Professional Accountants; Member of the American Institute of Certified Public Accountants (AICPA), and Associate Member of the Institute of Chartered Accountants of India (ACA); Deputy Group CEO: Finance and Strategic Development, Ahli United Bank BSC, Bahrain; Chairman of Al Hilal Life B.S.C.(c) & Al Hilal Takaful B.S.C. (c), Bahrain; Director of Ahli United Bank K.S.C.P., Kuwait; Previous experience as Group Head of Finance, Ahli United Bank B.S.C, Bahrain; Financial Controller, Al-Ahli Commercial Bank, Bahrain. Held various positions earlier at Ernst & Young, Bahrain and Price Waterhouse in India. (Total years of experience: 38 years).



Keith Henry Gale

Director

Holds a Bachelor's degree in Accounting and Finance from the University of Lancaster, UK; Associate Member of the Institute of Chartered Accountants England & Wales (ACA); Deputy Group CEO: Risk, Legal and Compliance, Ahli United Bank BSC, Bahrain; Director, Ahli United Bank K.S.C.P. Kuwait; Ahli United Bank SAE, Egypt; Ahli United Bank (UK) PLC; Previously Group Head of Risk Management, Ahli United Bank, Bahrain (20 years of experience at Ahli United Bank); Former Head of Credit and Risk at ABC International Bank PLC; Former Assistant Vice President, Internal Audit Department, Arab Banking Corporation, Bahrain. Held various positions in the UK with KPMG and Ernst & Young.



Abdul Hameed Ahmed Mohamed Al Bulushi

Director

Hold High Diploma in Development, United Kingdom; Bachelor degree in Law, Egypt; Legal Expert in Civil Service Employees Pension Fund. Director, Oman Hospitality Company and Director, Al Nama Poultry Company. Having more than 30 years of experience in Ministry of Civil Service & Civil Service Employees Pension Fund in different senior positions.



Ibrahim Said Badar Al Eisri

Director

Member of the Association of Chartered Certified Accountants (ACCA), Masters in Finance, Oxford Brookes University, UK and Bachelor's Degree in Commerce Major Accounting & Finance, Curtin University of Technology, Perth, Australia; Director Private Equity in Oman Investment Authority (OIA); Chairman, Rakiza Infrastructure Fund; board member at Al Hosn Investment Company and Omantel. Having over 18 years of experience in different sectors including, Telecommunication, Oil & Gas and Financial & Investments; Held different leadership roles in Finance & Investment Operations.



Juma Rashid Saif Al Jahwari

Director

Holds MSc in Financial Management, the University of Greenwich, London, UK and BSc in Economics, Beirut Arab University, Muscat, Oman. Chief of Finance & Administration - The Royal Office Pension Fund. Founding member of the IIA Oman Chapter and member of Board of governors – Institute of Internal Auditors (Oman Chapter IIA-Oman). Former Counselor, Ministry of Foreign Affairs, Embassy of The Sultanate of Oman, Washington DC. He also held different positions previously in The Royal Office.



Salim Ali Hamed Al Hasni

Director

Holds Master of Science in Commercial Project Management from the University of Manchester – College of Mechanical, Aerospace & Civil Engineering and Bachelor of Science (Commerce & Economics) from Sultan Qaboos University. Director of Contracts - Ministry of Defense. Chairman of the Board of Directors of Reem Batteries & Power Appliances SAOC; Vice Chairman of Sohar Power Company SAOG. Having more than 16 years of experience in Ministry of Defense in different positions.



Wajid Ali Khan

Director

Holds M.P.A (Finance) from Quaid-e-Azam University, Islamabad. Group Head of Corporate Banking, Ahli United Bank, Bahrain. Board Member of Ahli Real Estate Co, Member of Islamic Banking Committee of Bahrain Association of Banks and Board of trustee of the Waqf Fund (for 12 years till 2021). Has diversified 28 years experience in banking.

Executive Management



Said Abdullah Al Hatmi
Chief Executive Officer



Bilal Anwar
Deputy CEO
Business Group



Abdullah Salim Al Jabri
Deputy CEO
Support & Services



Ghada AbdulLatif Al Balushi
General Manager
Head of Risk Management



Hanaa Mohammed Al Kharusi
General Manager
Head of Corporate Banking

- **Zaliya Lal Bakhsh Al Balushi**
Deputy General Manager, Large Corporate
- **Yousuf Salim Al Rawahi**
Deputy General Manager, Head of ahli islamic
- **Taher Al Bakhsh Al Balushi**
Deputy General Manager, Strategy & Transformation
- **Sriram Balakrishnan**
Deputy General Manager, Head of Finance
- **Fahad Freish Al Shuaili**
Deputy General Manager, Head of Internal Audit
- **Ibrahim Abdullah Al Mamaari**
Assistant General Manager, Head of Compliance
- **Azzan Abdul Amir Al Saleh**
Assistant General Manager,
Head of Remedial & Collection Department
- **Muneer Ahmed Al Balushi**
Assistant General Manager, Retail Distribution

- **Mohammed Mohsin Al Mufargi**
Assistant General Manager, Head of Human Resources
- **Said Ahmed Al Mahrooqi**
Assistant General Manager
Head of Information Security
- **Farid Mohammed Al Bahri**
Assistant General Manager, Head of Credit Risk
- **Najla Murtadha Al Lawati**
Assistant General Manager
Head of Private Banking & Wealth Management
- **Mohammed Abdul Qadir Al Balushi**
Assistant General Manager, Head of Treasury
- **Hassan Maqbool Al Lawati**
Assistant General Manager
Special Assist Management & Corporate Remedial
- **Abdullah Nasser Al Hinai**
Assistant General Manager, Head of IT

Chairman's Report



“ahlibank has made significant progress in building its retail and corporate business, diversifying its portfolio to cater to the demands of the corporate in the Sultanate, differentiating the needs of the premium and private banking segments as well as the SME segments, in order to support key economic growth projects.”

Hamdan Ali Nasser Al Hinai

Dear Shareholders,

On behalf of the Board of Directors, it is my pleasure to present the financial statements of ahlibank for the year ended 31 December 2021.

Since the beginning of 2021, we have seen the positive effects of the government's continuous efforts to mitigate the pandemic's economic impact, which has resulted in volatile markets and disrupted businesses at the onset. We are now amidst a shifting and optimistic global environment and experiencing the effects of gradual economic recovery.

Oman's banking & finance sector is undergoing a paradigm shift, achieving operational excellence and capitalizing on new opportunities to offer more efficient, secure and real-time alternative delivery and service channels while enhancing its digital capacities and capabilities to support economic recovery.

ahlibank's reported profit and asset growth in the current year is a positive indicator of this recovery. Its stability during this period is resulting from the government measures and initiatives that ensured sufficient liquidity support for the banking system. Moreover, the Bank's swift execution of its business plan, its consistent compliance with regulatory requirements, along with the strengthening of its traditional and digital banking products and services, as well as leveraging on its digital potential contributed to its growth.

The start of the year has seen the Bank's rollout of several products and services for the conventional and Islamic banking segments alongside the development and enhancement of its existing products, services and infrastructure. A key focus is the Bank's digital transformation project, which will significantly improve its services, strengthen its offerings and reinforce its current position in the market in the long term.

Moving forward, ahlibank continues to align its business activities, operations and initiatives with the goals of Oman Vision 2040 under the wise leadership of His Majesty the Sultan and is committed to support and contribute to the social and economic development of the Sultanate.

Chairman's Report

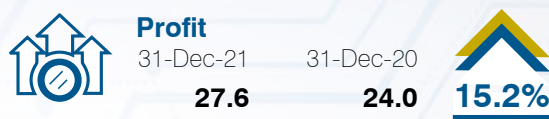
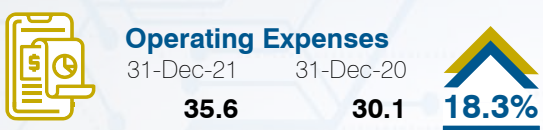
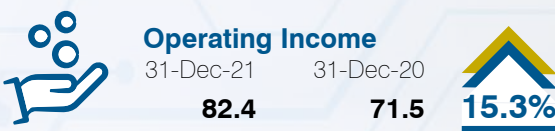
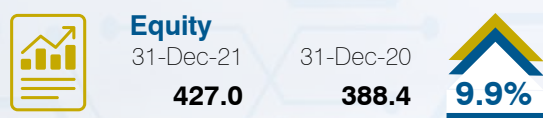
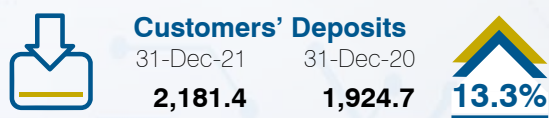
Financial Performance

ahlibank continues to grow steadily in terms of its asset portfolio and most of its key financial indicators:

	31-Dec-21	31-Dec-20	Growth %
	RO Million		
Net Loans, Advances & Financing	2,402.0	2,218.9	8.3%
Total Assets	3,052.6	2,702.5	13.0%
Customers' Deposits	2,181.4	1,924.7	13.3%
Equity	427.0	388.4	9.9%
Operating Income	82.4	71.5	15.3%
Operating Expenses	35.6	30.1	18.3%
Profit for the Period	27.6	24.0	15.2%

Amid the exceptional circumstances, the Bank's total assets grew by 13.0 per cent in 2021, reaching RO 3.05 billion, compared to RO 2.70 billion in 2020. Customer deposits went up by a 13.3 per cent to reach RO 2.18 billion compared to RO1.92 billion. The Bank's net loans, advances, and financing grew by 8.3 per cent reaching

RO2.40 billion. The Bank's operating income increased by 15.3 per cent, reaching RO 82.4 million in 2021. The Operating expenses increased by 18.3%, while the profit for the period grew by 15.2 per cent, to reach RO 27.6 million.



Highlights and Key Milestones

In March 2021, the Bank raised share capital of RO 30 million through a rights issue, strengthening the Tier I capital of the Bank and meeting the Bank’s capital requirement to support business growth.

ahlibank has made significant progress in building its retail and corporate business, diversifying its portfolio to cater to the demands of the corporate in the Sultanate, differentiating the needs of the premium and private banking segments as well as the SME segments, in order to support key economic growth projects.

The Bank has also launched a wide range of products and services that cater to niche segments in the society. The Bank has proven its keenness to provide more innovative, value-added conventional, and Islamic banking services to its customers.

Furthermore, the ahli Global Equity Fund was launched to cater to investors seeking avenues, at their discretion for long-term capital appreciation by investing in a diversified portfolio of high-quality businesses that offer growth-at-a-reasonable-price. The Fund provides an attractive platform for clients to invest in global markets. The Bank has also launched Mutual Funds, opening up lucrative avenues for customers to invest and seek a ‘better tomorrow’. The investment vehicle will provide access to



Chairman's Report

a host of global mutual funds to invest as per each customer's preference.

ahlibank has stepped up its digital roadmap, adding services such as the introduction of a new mobile app-based account opening service wherein, all new-to-bank customers can now open an account just within a minute. The ahli islamic mobile banking and Internet application, has been strengthened to include new features as well as account opening service for customers.

Apart from these digital channels, the Bank widened its current branch network with the opening of three conventional branches and three Islamic branches during the year.

ahlibank's Investment Banking division also announced the successful completion of a bond issuance as an issue manager and financial advisor. The issue has generated a positive response and widespread interest from investors.

The efforts and commitment to consistently provide quality customer service culminates in a roster of achievement awards for the year. The Bank received two awards at the prestigious OER Oman Banking & Finance Awards 2021: "Excellence in Private Banking in Oman" for ahlibank, "Excellence in Islamic Retail Banking" for ahli islamic. It also received the JP Morgan Chase "Elite Quality Recognition Award 2021" for maintaining an outstanding 99.9% modification-free rate for the Bank's remittance in USD.

Corporate Social Responsibility

ahlibank's real success is reflected in its commitment to adhere to sustainable business practices, balance business growth with its moral and social responsibilities, and to drive value through active involvement and participation in community and national initiatives. The Bank demonstrated its CSR commitment by participating in the nationwide COVID-19 vaccination campaign and the cyclone "Shaheen" relief drive.

ahlibank also remains committed to developing the skills and capabilities of the youth by providing a platform to prepare them for suitable career opportunities in the banking sector. The relaunched Graduate Development Program (GDP) "Himam" and the Bank's support to the National Leadership Program "Etimad," are proofs of this commitment.

Looking Ahead

As ahlibank marches ahead on its remarkable growth path and looks forward to a new year, it is committed to support the continuous development of Oman's banking sector and play a pivotal role in the country's progress. It will strive to sustain its growth and innovation momentum –expanding its branch network, building and diversifying its retail and corporate portfolio, and strengthening its digital capabilities and infrastructure. The Bank has also embarked on the ambitious project of expanding its head office building as a smart and innovative infrastructure, which will continue to contribute towards creating a suitable, stimulating and performance-driven work environment.

With its financial strength, human capital and consistent achievements, ahlibank looks towards establishing itself as a benchmark for professional customer service and transform itself into a leading financial institution in the Sultanate.

Acknowledgments

On behalf of the Board of Directors, I would like to thank ahlibank's stakeholders for their unwavering trust and faith in us. Their support has been instrumental in leading us to where we are now.

We share the national agenda for growth and remain fully supportive and committed to the economic development initiatives and plans of His Majesty Sultan Haitham bin Tarik under the Oman Vision 2040.

I would also wish to acknowledge the notable efforts of the Bank's Executive Management team and our employees for their dedication and contribution to the continued success and growth of the Bank. Lastly, and most importantly, I would like to thank our customers for their loyalty and trust in our services and I look forward to their patronage and support in the coming year and the years to come.

Hamdan Ali Nasser Al Hinai
Chairman

Management Discussion and Analysis

Economic Review



Since the beginning of 2021, positive effects of Government's efforts to revive the economic activity to pre-pandemic levels gained considerable economic steam in sequential terms in second half of 2021, as the non-oil sector benefited from the easing of Covid-19-related restrictions, while a stimulus package introduced in late November also supported domestic demand. Meanwhile, crude oil production and natural gas output growth accelerated from the first half average in July–November, pointing to a stronger hydrocarbon sector. Furthermore, progress on structural reforms and higher oil and gas revenues continued to support the economy. Consequently, preliminary estimates suggest that the fiscal deficit narrowed by over 70% by the end of 2021 relative to 2020. Meanwhile, authorities recently released an outline of the general budget for 2022, which aims to maintain fiscal prudence, encourage private investment and increase non-oil revenues—largely sticking to initiatives under the medium-term fiscal plan.

The 2022 budget was the second budget for the Tenth Five-Year Plan (2021-2025), paving the way for implementing Oman "Vision 2040." It incorporates the objectives of the Medium-Term Fiscal Plan (2020-2024) - MTFP. Through the MTFP, the government aims to implement a number of measures and initiatives with the goal of saving the credit rating from deteriorating and reducing the deficit. The Budget 2022 sets a prudent and measured tone in both revenue and expenditure projections based on the assumed average price of \$50 per barrel. The budget is based on guaranteeing the sustainability of basic social services such as health, housing, education and social security.

The government will continue building the infrastructure required to spur economic growth, and continue giving priority to highly needed projects that serve economic and social objectives. This is in addition to expanding the participation of the private sector by fortifying its role in implementing and managing critical projects and services.

Financial Sector

The financial information for the banking sector issued by the Central Bank of Oman (CBO) showed a rise in foreign exchange reserves by 28 per cent, reaching RO 6.9 billion by the end of 2021 as compared to RO 5.4 billion during the same period in 2020. Loans and advances increased by 5.3 percent, reaching RO 27.8 billion and deposits increased by 5.0 percent reaching RO 25.2 billion by the end of October 2021 as compared with the same period of 2020. The banking sector continued to support the economy by providing relief to borrowers in the form of deferment of loans apart from granting

them additional credit. Despite the considerable deterioration in the global and domestic conditions, e.g., massive contraction in economic activities, loss of employment, and a significant rise in bankruptcies, the financial outlook remains positive.

The MSM Index closed at the end of this year 2021, which stood at 4,129 points, recording an annual growth of 470 points, representing an increase of 12.87 per cent compared to last year's numbers. The value of traded securities during this year reached RO 818 million with an increase of 85.49 per cent as compared to last year, which recorded RO 441 million. The market capitalization increased this year by 9.1 per cent and reached approximately RO 22.09 billion, compared to last year, which reached approximately RO 20.2 billion.

The Bank's Performance

The Bank has completed 14 successful years since its conversion to a full-fledged commercial bank and has continued to deepen its commitment to provide beneficial financial services that go beyond the conventional mode and espouse sustainable business practices going forward. ahlibank's total assets grew by 13.0 per cent in 2021, reaching RO 3.05 billion, compared to RO 2.70 billion in 2020. Customer deposits went up by 13.3 per cent to reach RO 2.18 billion compared to RO 1.92 billion. Loans & advances and financing grew by 8.3 per cent, reaching RO 2.40 billion. The Bank's operating income increased by 15.3 per cent, reaching RO 82.4 million in 2021. The operating expenses increased by 18.3 per cent, while the profit for the period grew by 15.2 per cent.

Capital and Reserves:

The capital and reserves of the Bank as of 31 December 2021 stood at RO 427.0 million compared to RO 388.3 million as of 31 December 2020. The Bank maintained sufficient capital buffers and remained highly capitalized. The capital adequacy ratio of the bank stood at 16.71 per cent, comfortably above the regulatory requirement of 12.25 per cent (including capital conversion buffer).

Loans and Financing:

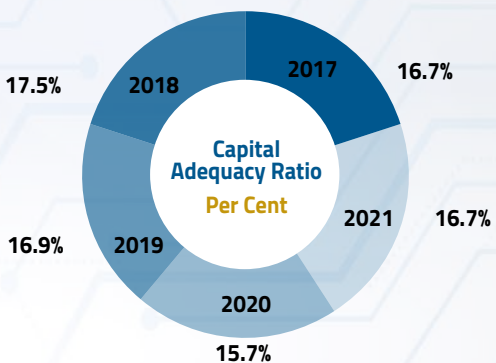
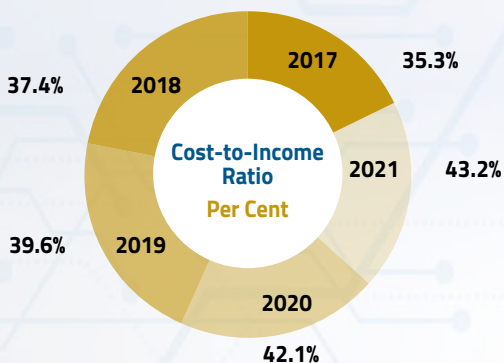
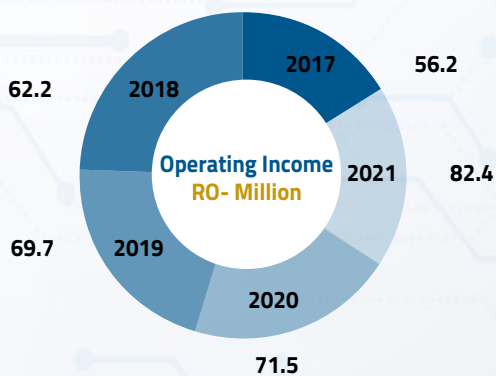
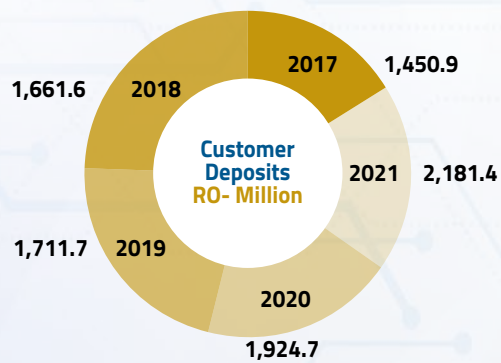
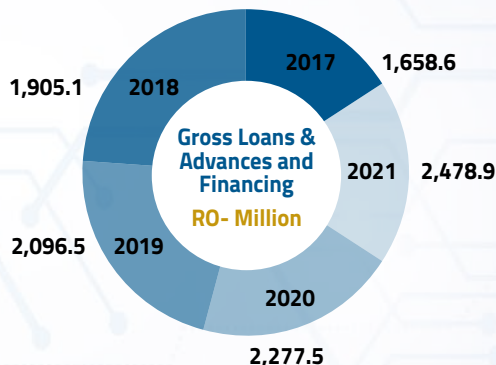
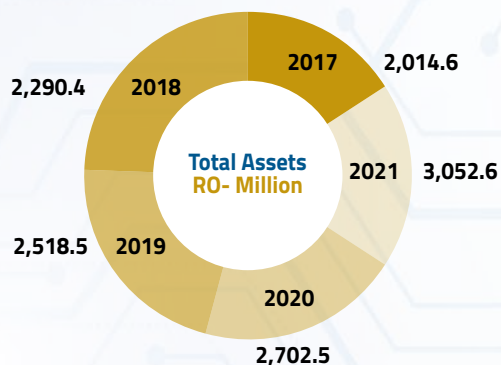
The increase in gross loans and financing in 2021 reflects the Bank's strategy of active balance sheet management, to position the Bank for sustainable profitable growth in the coming years. The Bank's gross loan and financing increased by RO 201.358 million to RO 2.479 billion as of 31 December 2021 from RO 2.277 billion as of 31 December 2020. The focus in 2021 was to maintain high-asset quality, which reflected in the low non-performing loans to gross loans ratio of 3.16 per cent, comparably the lowest amongst its industry peers.

Customer Deposits:

Customer deposits of RO 2.181 billion at year-end 2021 reflected an increase of 13.3 per cent compared to 2020, which is mainly on account of the increase in low-cost deposits. The Bank maintains its strategy to focus on expanding a lower cost-funding base through new product launches and retail branch expansions.

Profitability:

The net profit after tax increased by 15.2 per cent to RO 27.61 million as compared to 2020, mainly due to the increase net fees and commission income and other operating income in 2021 as compared to 2020. The Bank was able to maintain the cost-to-income ratio at 43.2 per cent, notably one of the best amongst its industry peers.



Business Units

The Bank is focused to constantly augment its effective governance policies, prudent risk assessment procedures, cost-efficiency strategy and the introduction of new products and services to promote the interests of its stakeholders and ensure its long-term sustainability. Its employees are encouraged to aim high, enabled with a sense of empowerment to achieve their tasks. Coupled with continued training and development, the management aims to continuously build a talent pool that is able to achieve high-quality performance and innovation. Furthermore, the Bank strives to provide its customers with optimal banking propositions through convenient channels in a timely manner with the highest levels of accuracy and reliability. In line with the latest trends in digital banking, it is continuously investing in new and secure technologies in order to provide world-class customer service and experience through a multiple choice of platforms.

Corporate Banking

ahlibank's corporate banking brand continues to grow in stature. Its industry-specific teams boast a deep understanding of their respective local and regional market segments, working to ensure the delivery of insightful relationship management with fast turnaround times across its product spectrum. These divisions comprise:



Food and General Trading



Real estate and Contracting



Manufacturing, Energy and Utilities



Financial Services, Travel, Tourism and Transport



Sharia-compliant Islamic banking services through ahli Islamic counters

The Bank has aligned the teams in way that will allow them to focus on the sectors that form part of the Sultanate's diversification strategy and Vision 2040, thereby creating wealth through economic diversification and private sector partnerships. It continues to contribute towards the economic development of these sectors through the funding of various projects and providing a comprehensive range of competitively priced funded and non-funded financial products and advisory services. ahlibank is fully committed towards the Sultanate's vision towards diversification of energy sources through green energy financing and other sustainable biofuels. As part of our long-term strategy, the bank plans to strengthen its procedures to help fund sustainable projects.

SME Banking

SMEs continue to play a vital role in the economic development of Oman. The development of the sector contributes towards employment generation, exports, facilitation of equitable distribution of income as well as reducing the dependency on oil and contribution to the country's GDP. With Oman reviving and refocusing its interest and energy in small and medium enterprises, the country has developed various programs to set up new units that will be given support, while counting on the banks to continue to play an imperative role in the development of this sector.

Corporate Liabilities

A dedicated team is tasked to focus on increasing the liabilities of the Bank, offering its corporate clients a range of liability products from operative accounts, call accounts, fixed as well as structured deposits. Its customer-centric team recognizes the importance of relationship building, ensuring that a comprehensive range of products is provided to the client as well as to their employees. With a focus on low-cost deposit to diversify the funding base of the Bank, the team continues to grow to complement the Corporate Banking lending and retail banking team.

Government Banking

The Government Banking unit was established to cater to the needs of government bodies and institutions. This includes Ministries and other offices under the purview of the government, including pension funds. The unit ensures customized products and services that will cater to the needs of the government's diverse banking requirements. The Unit collaborates with other departments within the Bank, such as Corporate Banking, to cater to the funding needs of the government; Retail, Premium and Private Banking to address the needs of their employees and are able to provide attractive customized packages that align with their requirements.

Corporate E-Channels

To complement the business, the Bank continues to invest and advance its technological and digital infrastructure through its e-channels, a significant move necessitated by the pandemic. The business-to-business platform and corporate internet banking continue to be enhanced with state-of-the-art features to further streamline services for its corporate clients, SMEs and government institutions, focusing on driving efficiencies, enabling clients to focus on their core businesses while ensuring safe cybersecurity measures to guarantee utmost confidentiality.

Retail Banking

ahlibank continues to focus on designing and offering innovative products and services for its customers in order to increase its foothold and market presence, apart from offering seamless engagements and enriching customer experience. As part of its retail branch expansion strategy, it has opened six new branches (three conventional and three Islamic) in 2021, with new branches in the

pipeline for 2022. This expansion aims to increase touch points with customers, provide convenient services, on a larger scale, contribute to the development of local communities and widen geographical coverage along with strategic sales plans that will maximize stakeholders' equity in an efficient manner over the medium term.

Al Nukhba Premium Banking:

The Bank's clients benefit from the extensive service and financial and non-financial privilege range designed by its pool of experienced experts. Its dedicated relationship managers offer personalized services to clients through its various branches and Premium service centres.



- **Free credit card and debit card**
- **Preferential pricing on deposits and loans**
- **Special discounted tariffs on bank charges**
- **Discounts and offers from selected premium merchants**
- **Personalized concierge service, free travel insurance, purchase protection and extended warranty**

Private Banking "Exclusiv"

ahlibank aims to help its clients manage their wealth effectively in order to maximize returns and minimize risk. It provides personalized services through a dedicated relationship manager to its clients by understanding their financial requirements and providing world-class, tailor-made investment solutions. It is able to provide its clients with financial solutions that benefit from continuing on-going research in investment opportunities with one-to-one personalized service that promises complete confidentiality in its service centres and lounges.



- **Free Infinite credit card and Signature debit card**
- **Unlimited complimentary lounge access to over 750 international airports**
- **Preferential pricing on deposits and loans**
- **Special discounted tariffs on bank charges**
- **Discounts and offers from selected exclusive merchants**
- **Personalized concierge service, free travel insurance, purchase protection and extended warranty**
- **Wealth Management Services**

Imtiyaz:

ahlibank customers can now join ahlibank's banking services dedicated to the Imtiyaz segment where they have the opportunity to enjoy a seamless banking experience in line with the demands of their modern lifestyle, with a minimum salary transfer requirement of OMR 1,000 or a deposit of OMR 10,000 and above.

MyChoice:

ahlibank presents an opportunity to its youth customers to start their steps towards being financially independent, managing their own budget and start saving with MyChoice youth account. Youth customers enjoy the perks and offers specially designed for them such as a welcome gift, free mobile data, special offers and discounts with ahliwards app and VOX cinema, and many more.

Istqrar:

Is a special bank account with attractive facilities specially designed for retiree customers. The Istqrar account is designed to meet all the basic banking needs, while enjoying higher returns on fixed deposits, low interest rates on personal, mortgage and auto loans and many more benefits.

Cards:

ahlibank offers a range of credit and debit cards, across various customer segments: Classic, Gold, Platinum, Signature and Infinite under the credit card category and Platinum and Signature under the debit card category. The credit cards are equipped with exciting features that include redemption against travel miles, travel protection insurance, extended warranty on appliances, airport lounge access, purchase protection, concierge services, etc. The Bank has in also offers 'ahliwards', a card-rewarding system for its customers.

Personal Loans:

ahlibank's personal loan facility branded as "MyLoan" offers ready cash with high loan amounts, easy and suitable repayment options, along with competitive interest rates. With simple documentation requirements coupled with a hassle-free experience, MyLoan fulfils all dreams in one go; cash for expanding a business, providing children with the best education, taking dream vacations with loved ones, and much more.

Home Loans:

With the most experienced and highly trained staff in home loans, ahlibank offers this service under the brand "MyHome," offering convenient plans to suit everyone's needs. With a host of attractive features including long tenor, standard documentation and attractive interest rates, owning a home is no longer a distant dream. Customers can now build or purchase their dream home, financed by ahlibank's MyHome facility.

Car Loans:

ahlibank offers car loans to customers for purchasing new and used cars, with competitive interest rates, long repayment tenors up to ten years, and high loan amounts.

MySmart:

MySmart from ahlibank is a unique interest bearing savings account that offers a high interest along with the flexibility of a transactional account. The account calculates interest based on monthly average balances and pays out on a monthly basis. This is coupled with the use of a chequebook to transact freely. Customers are free to use their funds anytime without any notice period, while enjoying high interest rates on the balance available in their account.

Wafra:

The Wafra prize draw saving scheme from ahlibank is a savings product that offers cash prizes to lucky customers based on an automated draw system. Customers keeping high balances with the bank are entitled to higher chances to win prizes. With Wafra, customers can simply open an account today and win tomorrow. Cash prizes as high as RO 250,000 could be won in the "Salary for Life" draw, RO 1000 of which is paid monthly for 250 months. In 2021, there were four draws for "Salary for Life" at the end of each quarter. As per the regulatory guidelines, prize scheme has been discontinued with effect from 1st January 2022. In order to provide value addition and cater the needs of Wafra customers, the Bank will be coming up with innovative products and services in the year 2022 and beyond.

MySaver:

With MySaver Plan, customers can invest small amounts on a monthly basis, which multiplies with regular bonuses over a period. An interest rate of 2% p.a. is paid monthly to the account based on the daily available balance. Free life insurance coverage up to RO 50,000 is bundled with the account.

Exclusive Plus Account:

is an interest bearing saving account that offers customers high interest rates on their deposits along with the flexibility of a transactional account. Interest is calculated on the quarterly average balances of each calendar quarter. Interest is paid to customers on quarterly basis after the end of each calendar quarter.

Bancassurance:

ahlibank offers a wide range of insurance products to protect its customer's assets and property. The insurance products cover unexpected events, protecting customers from collateral damage that could otherwise erode savings or investments.

Alternative Channels:

In order to meet the growing demand for efficient ATM and online services, ahlibank continues to enhance customer experience by providing convenient and seamless banking services and offering secure and reliable banking technologies.

The bank has structured the instant account opening app to project its ideals of digitization and enhance avenues for customers who are looking to conduct their banking transactions from the comfort of their individual space. The new facility upholds the value it places on providing round-the-clock service to its customers. New to bank customers need only to download the ahlibank mobile app from respective stores to instantly open their savings account.

ahlibank's e-channel service offers 24-hour access to banking services that provides a welcome alternative to visiting a branch. With its conventional and Islamic branches network across the Sultanate, coupled with a host of e-channel services including Internet banking, mobile banking, SMS banking, 24x7 call center, ATMs, CDMs, service centers and kiosks, the Bank remains accessible to customers whenever and wherever they require.

By subscribing to ahlibank's Internet banking service, customers can enjoy easy access to services such as viewing transactions of accounts and credit cards, making fund transfers locally and internationally, bill payments and issuance of cheque books without having to visit a branch. All these services come with the assurance of the highest standards of online security. For further convenience, all these services are also accessible on smartphones through ahlibank's mobile banking and SMS banking services. Additionally, ahlibank's e-statement service allows customers to receive bank account statements and view the summary of every transaction via e-mail. Statements can be received on a daily, weekly or monthly basis.

Apart from its wide range of innovative product and services, ahlibank also has an accessible network of ATMs, CDMs and kiosks across Oman that offer cash deposits, cheque deposits, utility bill payments, credit card payments, mobile top ups, among other services.

Treasury

ahlibank's professional and experienced Treasury team provides a comprehensive package of services in both treasury and investment products to individuals, corporate, commercial and government institutions. The Treasury prides itself on being one of the most proficient dealing rooms in Oman, providing corporate and individual clients with a wide selection of foreign exchange, money market and derivative products ranging from the traditional to the customized.

The Treasury and Investment division is able to offer best-in-class service with unparalleled access to the local and regional markets.

Delivering everyday banking needs effectively and efficiently is critical to the Bank's success. With a Treasury team that understands business needs and ambitions, with its award-winning service and solutions, it is committed to helping clients succeed.

Financial Institutions

Financial Institutions Group (FIG) covers global relationships with other financial institutions and acts as an international arm of ahlibank. Leveraging ahlibank's regional knowledge and banking expertise, the Financial Institutions Group seeks to build strategic and long-term relationships with other financial institutions in order to deliver seamless customer experience to its corporate and retail clients. This is achieved through dedicated and experienced relationship managers who work closely with internal stakeholders to ensure its clients' needs are met in most efficient manner. In doing so, Financial Institutions Group ensures ahlibank's Brand recognition is enhanced not only in existing but also in new geographical markets and regions.

The Bank also provides "Nostro service" in major currencies and "Vostro service" for Omani Rial accounts. Through Nostro Accounts in different currencies, ahlibank facilitates Funds Transfer/Trade/Treasury/Foreign Currency Drafts, Import/Export Letters of Credit, Collection of Documents and issuance of Local and Overseas Guarantees for its clients such as Bid/ Tender Guarantee, Advance Payment Guarantee, Performance Guarantee & Financial Guarantee.

Vostro accounts, allow ahlibank to make efficient settlements via book transfers for other financial institutions.

The Financial Institutions Group actively explores opportunities to arrange local and cross-border funding requirements of ahlibank in order to meet regulatory and liquidity requirements at the most competitive terms.

Trade Finance

The Trade Finance Department is a full-fledged specialized department of ahlibank, handling all trade finance requirements of corporate and consumer banking customers. The department is aligned with the Bank's Wholesale & Retail Banking in providing various fund-based credit facilities such as export finance, bill discounting, receivables/invoice finance, loans against Imports and non-fund based credit facilities such as the issuance of letters of credit, standby letters of credit, guarantees, export and import

bills for collection, avalization of import bills for collection, advising and handling of documents under export letters of credit and risk participation for local and overseas transactions covering both conventional and Islamic products. The Bank's Trade Finance team is well experienced, trained and updated with the requisite skill set, latest developments in the local and international markets, the rules governing international trade with a focus on customer service.

Asset Management:

ahlibank continues to grow its Asset Management capabilities and build track record to realize its strategic vision to be one of the leading investment management firms in the Oman. It offers a diverse range of investment solutions for our institutional and high net worth clients including mutual funds and investment advisory services, which cater to specific needs to each of our customers.

During the year, ahlibank launched the AhliGlobal Equity Fund, the first fund of its kind regulated by the Capital Market Authority, in Oman, in response to clients' need for international diversification. Several discretionary portfolio management mandates were also signed to cater to customized needs of our clients. A few popular strategies that generated high interest include thematic, balanced income and growth and high yield portfolios. The investment team at ahlibank has significant experience across markets and asset classes. At ahlibank, we adhere to a proven investment process based on in-depth fundamentals to ensure superior risk-adjusted returns for all our clients. We also have a disciplined Risk Management Framework in place to manage volatility.

Corporate Finance Advisory:

The Corporate Finance Advisory division is a full-service financial advisory and fundraising platform with proven track record across products including Equity/Debt capital markets, debt syndications, refinancing/restructurings, M&A, private equity, Islamic finance and structured finance. It continues to build its reputation as an advisor of choice and has executed quality equity and debt transactions in FY 2021 across marquee corporate and GRE clients. During FY 2021, the division closed the private placement of unsecured non-convertible subordinated bonds of Taageer Finance Co. SAOG which was oversubscribed. It also completed the financial advisory transaction for a GRE, the rights issue for Ahlibank, rights issue of Dhofar International Development & Investment Holding SAOG (DIDIHC) among others.

The division continues to have rich pipeline, and is constantly engaging on a wide cross-section of mandated transactions

across capital markets and advisory. It is mandated for financial advisory and fundraising transactions for over US\$ 700mn across sectors covering manufacturing, logistics, Oil & Gas, telecommunications, financial services, hospitality and Real Estate, among others. It follows an expertise-led approach focusing on specific segments of strength, where it has relationships and track record. The division also established transactional partnerships with local, regional and international banks thereby actively generating ideas and opportunities for its clients. The division has ambitious plans in the coming years to expand and grow into a leading and trusted 'Go to' advisory practice in Oman, offering bespoke, relevant and timely financial solutions to its clients

Brokerage:

Brokerage services covers both Oman and other GCC regions by providing differentiated and focused services through dedicated professional brokers.

ahli islamic

ahli islamic has shown robust growth since its launch in 2013. The Sharia-compliant products and services offered by ahli islamic cater to all customer segments including institutional, corporate, SME and retail, through fifteen dedicated branches located in Al Khoudh, Wattaya, Al Ghubra, Al Khuwair, Al Amerat, Saham, Rustaq, Barka, Sohar, Samail, Bahla, Sinaw, Jalaan Bani Bu Ali, Salalah & Ibri. In addition to the branches in strategic places, customers are served through ATMs, CDMs, e-banking and mobile banking services across the Sultanate. With the launch of revamped E-banking and mobile banking services, ahli islamic has achieved yet another milestone in offering seamless, round-the-clock banking services to its customers. With this state-of-the-art system, customers can now view their balances and statements, transfer funds between bank accounts, to other banks in Oman, and internationally, open linked accounts and term deposits, get cheque books issued anytime at their convenience.

Deposit Products

1. **Current Account** - Non-profit paying, transactional account for individuals, corporates and institutions
2. **Savings Account** - Profit paying account for regular savers who want to get the benefit of receiving Sharia-compliant profit on their savings
3. **Al Namaa Islamic Savings Account** - High profit paying, transactional account for individuals who want high profit earning based on their balances, without binding the funds for any tenor
4. **Term Investment Account** - Term deposits under Wakala mode for customers who want to earn higher profit, at easy terms of 12 months, 24 months, 36 months, etc.
5. **Qitaf Savings Account** – Profit paying account, transaction account for individuals receiving Sharia-compliant profit on their savings
6. **AlQimmah Wakala Account** – Profit paying, non-transactional account based on Wakala mode allowing customers to earn high profit on monthly basis.



ahli islamic 15 Branches

Al Khoudh | Wattaya | Al Ghubra | Al Khuwair
Al Amerat | Saham | Rustaq | Barka | Sohar | Samail
Bahla | Sinaw | Jalaan Bani Bu Ali | Salalah | Ibri

In addition to the aforementioned services, ahli islamic Banking also offers customized products to corporate and SME entities:

Financing Products

1. **Personal (Goods) Finance** - High financing amount with a repayment period of 10 years at a very competitive profit rate in order to meet personal financing requirements of Islamic Banking customers.
2. **Auto Finance** - Easy repayment tenors at very affordable profit rates with higher amount limit for new and used car buyers, with the option of salary and non-salary transfer, Ahli Islamic's Auto Financing is the most attractive product in the market. ahli islamic offers
3. **Home Finance** - Up to 80 per cent of the property value for both, ready property buying and for construction for a period of up to 25 years for people who are looking to buy or construct their houses.
4. **Service Ijarah Personal Finance** - Service agreements with various service providers (Education Financing, Membership Financing, Travel Financing, Hajj) and Umrah Services Transportation, Medical Expenses Financing, Marriage Expenses Financing, Construction /Developer Expenses Financing), where ahli islamic purchases the customers' desired services and extends the service through Ijara.
5. **Retail Commercial Finance** - As part of our comprehensive customer experience offering and in order to tap the segment of customers that request financing of commercial assets under Retail banking, ahli islamic extends the existing approved set of Retail financing products to finance retail customers for commercial purposes.
6. **Credit Cards** - Visa Platinum and Signature, socially responsible Islamic credit cards, bundled with the benefits of global airport lounge access, Takaful insurance protection, travel and lifestyle deals. Many discounts and offers are available for credit card customers.



Working capital finance



Term and fixed asset financing



Project financing



Trade services -import murabaha



Vehicle and machinery leasing

ahli islamic, with thorough expertise in Islamic Banking, can also design customized products for its clients.

Risk Management

The Risk Management Division closely monitors the core risk areas and reports to the Board Risk Committee. The primary goal of risk management is to ensure that the Bank's asset and liability profile, its trading positions and its credit and operational activities are not exposed to losses that could threaten its survival. Risk Management assists in ensuring that risk exposures do not become excessive, nor concentrated, relative to the Bank's capital and financial standing.

The Bank manages the risks effectively and efficiently by monitoring and approving all retail and commercial credit applications. This emphasizes a clear understanding of business requirements in terms of products, clients, delivery capabilities, competition, regulatory environment, shareholder values and the global economic environment leading to identifying the various associated risks. The Bank complies with Basel III Norms as well as other international standards and guidelines issued by the Central Bank of Oman. The Bank has implemented systems for calculating liquidity ratios, capital adequacy ratio, expected credit losses and for determining credit ratings of counterparties.

The Risk Management Division formulates policies and procedures, taking into account regulatory requirements and best international practices, to monitor and control exposures within pre-determined acceptable limits.

The following Board and Management Committees manage and control material risks to the Bank:

Board Committees

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

Executive Management Committees:

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

The Bank has set up policies and measures to assess capital adequacy in terms of CBO regulations, which have been approved by the Board of Directors. Under these, the Bank assesses its capital against its risk profile, to ensure its capital is sufficient to support all material risks to which it is exposed.

Policies and Procedures

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

1. Anti-Money Laundering Manual
2. Personal Account Dealing Policy
3. New Product Policy and Procedures
4. Voice Recording Policy
5. Compliance Policy
6. Corporate Communication, Marketing and CSR policy
7. Corporate Governance Policy
8. Corporate Social Responsibility Policy
9. Dividend Policy
10. Expenses Policy
11. Capital Management Policy
12. Disclosure Policy
13. Board Remuneration Policy
14. Financial Institutions Policy
15. Human Resources Policy
16. Outsourcing Policy
17. Code of Business Conduct
18. Information Security Policy
19. Business Continuity Management Policy
20. Credit and Investment Policy
21. Operational Risk Management Framework
22. Operational Risk Management Policy
23. Fraud Risk Management Policy
24. Fraud Risk Management Framework

25. Liquidity and Funding Policy
26. Market Risk Policy
27. Risk Management-Approach & Framework
28. Social and Environment Management System Policy
29. Security and Safety Policy and Plan
30. Asset Management Policy
31. Brokerage Policy
32. FATCA Policy
33. Customer Complaints Redressal Policy
34. Social Media Policy
35. Electronic Banking Policy
36. Classification and Measurement Financial Assets and Liabilities
37. Sanctions Policy
38. Wealth Management Policy

Islamic Banking Related Policies

- ▶ Profit Distribution Policy
- ▶ Charity Policy
- ▶ Zakah Policy
- ▶ Cost-Sharing Policy
- ▶ Segregation of Funds Policy
- ▶ Shari'a Governance Manual

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

Response to COVID-19

The Bank continues to take various counter measures in response to the persisting situation posed by the current pandemic to ensure that people, systems, processes and businesses continues to be safeguarded at all times, along with management of credit, liquidity and operational risk.

These counter measures included the following:

- ▶ Intensified and continuous credit monitoring, especially in relation to most affected sectors;
- ▶ Continue to estimate and account for expected credit losses;
- ▶ Development of internal IFRS 9 staging guidelines to ensure credit risk is monitored and reflected in the estimate of expected credit losses;
- ▶ Continued to carry out various stress testing/ scenario analysis to ensure estimates of expected credit losses are adequate;
- ▶ Deferrals were provided to all eligible customers up to 31 December 2021;
- ▶ Restructuring facilities of affected borrowers to align repayments with revised cash flows of the borrowers;
- ▶ Rigorous monitoring of key liquidity metrics and forecasts;
- ▶ Working from home and splitting teams amongst many other measures were unrelentingly applied to ensure business continuity;
- ▶ Taken various preventive measures to mitigate cyber security risk;
- ▶ Keeping employees and customers aware of potential fraud risk and cyber threats resulting from the current pandemic situation;
- ▶ Ensured that the Bank continues to be adequately covered against any unforeseen cyber-related frauds; and
- ▶ Continuous monitoring of the impacts of the pandemic on the financial position and capital of the Bank.

Internal Audit

The Internal Audit function reviews and provides an independent assurance to the Board of Directors and Executive Management on the effectiveness of the Bank's internal control, risk management and governance systems and processes. The Internal Audit function at ahlibank has adopted an audit methodology and standard, which is in line with globally accepted methodology and standards propounded by the Institute of Internal Auditors (IIA), USA. It is an integral part of the control environment of the Bank and provides independent assessment and reviews through the audits based on a risk-based annual plan. It shares the findings with the senior management and submits the same to the Audit & Compliance Committee. All issues are followed up for timely corrective actions and their logical conclusions.

Information Technology (IT)

In line with 2040 vision, ahlibank is fully committed to support countrywide initiatives carried out by the Central Bank of Oman (CBO) and Telecommunication Regulatory Authority (TRA) to push the digital transformation journey in the financial industry. In this respect, IT has successfully implemented FCRM (AML), RTGS, SWIFT upgrade and Value-Added Tax (VAT) application. IT has successfully implemented IPv6 to cater the future needs by ensuring Scalability, Performance, and Security.

IT has started the focus on self-sufficient programs by recognizing in-house technical talent to develop applications on a low-code platform and successfully completed the upgrade of Outsystems E-Channels Platform. Additionally, as part of the bank digital transformation strategy, IT has successfully completed the development of Internet and mobile application for Islamic Banking, New To Bank (NTB) for Conventional and Islamic and upgrade of Corporate Internet Banking for Conventional. The focus on self-sufficiency will continue to address the Bank's future requirements.

Knowing current cyber security threat, ahlibank has upgraded IT Security infrastructure to the latest platform which will protect banks Customer Data. To minimize other security threats, ahlibank has upgraded ATM and PCs to latest technology. ahlibank invested and implemented Password Management System (PAM) for control access of IT environment.

Keeping the business continuity as one of the key focus, ahlibank

has provided secure remote access to employees during the pandemic to ensure smooth operations to customers.

ahlibank has enhanced the connectivity between the Head Office (HO) and Branch Office (BO) to serve the customer with better service levels. Upgraded the Call Centre functionalities to provide faster service to VIP customers. Other IT transformation achievements, IT has successfully upgraded conventional core banking and successfully implemented Branch Teller System across the branches.

IT is exploring emerging technology trends, along with several other aspects of delivery methodologies, to ensure time to market products and services. .

Digital Transformation

Digital transformation marks a radical rethinking of how an organization uses technology, people and processes to fundamentally change the business performance. Such sweeping changes are typically undertaken in pursuit of adopting new business models, enhancing additional revenue streams, driven by changes in customer expectations around products and services. In particular, Digital transformation in the banking sector has fundamentally changed how banks operate and how they service their customers, including active collaboration with Fintechs to introduce innovative products and services.

ahlibank continually strives to improve its product offerings and services to differentiate itself from rest of the market players. To this effect, the Bank has in the last few years introduced sustainable alternative delivery channels like internet banking, mobile banking, SMS banking, phone banking and B2B solutions to satisfy the needs of its customers. With more than 48% of Oman's population being less than 24 years and further, customer preference shifting towards digital channels post Covid pandemic, bank will continue to enhance and invests in its digital channels by adopting a mobile first strategy.

Apart from offering innovative digital products and channels, the bank aims to maximise straight through processing by increasing adoption of digital and robotic process automation in most of its key processes to offer instant customer servicing and thereby reducing the turnaround time. Bank's recent introduction of digital on boarding of new to bank customers

both on Islamic and conventional banking is just one of many such digital initiatives planned by the bank.

Like any progressive organization, the bank is keen to capitalize and adopt the 4th industrial revolution driven by digital transformation to further strength its market position and enhance its overall market share by providing best-in-class digital offerings leading to improved TAT, enhanced customer experience & improved customer stickiness.

Human Resources

Ever since its inception, ahlibank has put concerted focus on training and developing human resources as one of the key elements of its operational strategies, and as an important pillar of its growth. It has always emphasized on a nurturing and a motivating work culture for developing a strong human capital. The very premise behind the bank's human resource development strategy has been the manifestation of endless possibilities for career growth, alongside a much needed flexibility to change and offer opportunities to learn.

Employees are constantly supported and encouraged by the management's unique approach and the focus has always been on ensuring that they attract creative, responsible and entrepreneurial employees who take pride in being a part of the organization. This has led to better employee retention rate as well as a growth sphere that is marked with constant training and upgrades to stay on par with the market trends.

The Bank believes in effectively contributing to the national agenda as outlined in Oman Vision 2040, of meeting the needs of the labor market, through job creation and skill development of the local population, especially the young national workforce. In line with the same, the Graduate Development Program 'Himam', an annual initiative, is designed to accelerate the participant's career growth and prepares them to take up leadership roles at the Bank. Since its launch in 2015, the program has trained and employed 64 candidates in different departments at the Bank. ahlibank is at the forefront of enhancing the capabilities and competencies of Oman's youth and its commitment to the 'Himam' program ensures the preparation of a generation of young people who will continue to build a brighter and more prosperous future for the Sultanate and support the government's economic development vision.

ahlibank also participates in the Etimad program for preparing qualified national human resources who are capable of assuming leadership positions in key divisions in the private sector. A National Leadership Program, Etimad aims to create qualified Omani leaders in middle and senior management positions in the private sector. It includes specialized curriculums which were designed in partnership with international and local institutions and centers which have experience in honing management skills and leadership training, in order to raise the level of leadership and supervisory skills of participants. The program consists of three main themes, which are, leadership from within, leadership by position, leadership through change and cooperation.

In 2021, ahlibank has created 115 jobs consistently exceeding its Omanization targets (as of December 2021 reached 94.34%). Apart from exceeding the Omanization targets, it has successfully inducted management trainees into its workforce through local and international programs. The bank continues its commitment to promote young talent and provide them a platform to embark on a career in the banking sector.

Corporate Social Responsibility

ahlibank is committed to social responsibility as an important part of its overall operation, and strives to provide a framework that helps create added value to the community it operates in. Under its 'Ahli Cares' CSR initiative, it continues to support the great charitable and voluntary efforts of associations and charitable groups in the Sultanate, which play a leading role in the development of various sections of the society and its members through philanthropic activities and initiatives.

The Bank's CSR efforts support Oman's Vision 2040, which is aimed at the socio-economic development of the country's people and communities. CSR is at the heart of ahlibank's overall strategy, demonstrated through the implementation of programs aimed at enriching the lives of many across the Sultanate. The Bank's support to diverse social, educational, cultural, health, and sporting activities in Oman is ongoing and fundamental to its corporate values. This is of utmost importance to both the Bank's staff and leadership. Through its various CSR activities, it demonstrates its dedication to people's welfare at multiple levels.

Investing in Local Communities:

Over the last few years, ahlibank has been able to implement and launch several initiatives that have benefited broad and diverse segments of society. This included supporting the national efforts in minimizing the impact of cyclone “Shaheen” through several initiatives: allocating OMR 10 million in interest-free loans to affected customers residing in the North and South Al Batinah regions. Furthermore, the bank offered assistance by way of 3-month deferment on personal and housing loans especially to those who severely impacted in areas affected by the cyclone, as well as donating OMR 116 thousand for disaster relief through the Oman Charitable Organization.

Through its CSR initiative ‘Ahli Cares’, the Bank also organized a voluntary campaign where more than 100 employees participated to assist in the distribution of basic necessities to the people in the affected wilayats by the cyclone, and help them clean their houses and surrounding areas.

Furthermore, the Bank has taken the initiative to support the insolvent through charities and charitable teams and pioneer initiatives for their benefit. As part of Ahli Cares®, the bank supported Dar Al Atta’s “Back to School” campaign for the academic year 2021, which reflects the bank’s keenness to support various community initiatives in the Sultanate that contribute to enhancing the values of charitable, voluntary and social work, throughout the year.

Besides, ahlibank provides support to a number of charity associations during the holy month of Ramadan.

Partnership to Support other Sectors:

ahlibank’s social responsibility policy is particularly important and receives special attention and care from Bank officials as a result of the impact it has on various segments of society.

Looking Forward

The year 2022 has started on a positive note for the Omani economy with high oil prices and renewed confidence in the markets. The Bank is keen to support Oman Vision 2040’s objectives through implementing the Nationalisation strategy, and contributing to the joint efforts of the government in empowering the national workforce. In order to build competencies of individuals and prepare them to meet the requirements of the work environment, ahlibank will continue to provide learning and skill enhancement opportunities for existing employees, through its development programs. The Bank also will continue to invest in its leadership and training Business Graduate Program aiming at building a robust pipeline of future leaders in the Banking sector.

ahlibank will continue to implement its medium and long-term prospects and plan, emphasizing its key objective of maintaining its steady growth, which is further supported by its ambitious project of expanding its headquarters and promoting it as a smart and innovative hub. With its outstanding achievements and a proven track-record of consistent growth, the Bank is on its way to become the leading banking institution in Oman.



Sustainable Results

An Overview

FIVE YEARS SUMMARY

RO' Million

	Dec 21	Dec 20	Dec 19	Dec 18	Dec 17
Net profit	27.6	24.0	31.0	28.8	26.7
Total assets	3,052.6	2,702.5	2,518.5	2,290.4	2,014.6
Loans & advances and financings, net	2,402.0	2,218.9	2,055.0	1,870.7	1,634.5
Total Deposits	2,181.4	1,924.7	1,711.7	1,661.6	1,450.9
Total liabilities	2,625.6	2,314.1	2,129.3	1,931.4	1,709.8
Total Equity	427.0	388.3	389.2	359.0	304.8
Return on average assets (ROAA)	1.0%	0.9%	1.3%	1.3%	1.4%
Return on average equity (ROAE)	9.7%	9.1%	11.9%	11.3%	10.7%
Cost to income ratio	43.2%	42.1%	39.6%	37.4%	35.3%
Capital Adequacy Ratio	16.7%	15.7%	16.9%	17.5%	16.7%
Net Interest Margin	2.2%	2.1%	2.0%	2.2%	1.9%
Earnings per share (Baiza)	9.7	8.9	13.6	15.2	16.1
Total Number of branches	37	31	25	22	20
- Conventional	22	19	16	14	13
- Islamic	15	12	9	8	7
ATMs	55	41	36	33	30
Number of Staff	795	730	656	598	542



SECTION III GOVERNANCE & FINANCIAL STATEMENTS

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Report of Factual Findings to the Shareholders of Ahli Bank SAOG

1. We have performed the procedures agreed with you pursuant to the Capital Market Authority (CMA) circular no. E/4/2015, dated 22 July 2015, with respect to the Board of Directors' corporate governance report of Ahli Bank SAOG (the Bank) as at and for the year ended 31 December 2021 and application of the corporate governance practices in accordance with amendments to CMA Code of Corporate Governance issued under circular no. E/10/2016 dated 1 December 2016 (collectively the 'Code').
2. Our engagement was undertaken in accordance with the International Standard on Related Services 4400 applicable to agreed-upon procedures engagements. The procedures were performed solely to assist the Board of Directors of the Bank in complying with the requirement of the Code issued by the CMA.
3. We have performed the following procedures:
 - a) We have checked that the corporate governance report issued by the Board of Directors includes as a minimum, all items suggested by CMA to be covered by the report as detailed in the Annexure 3 of the Code by comparing the report with such suggested content in the Annexure 3; and
 - b) We have obtained the details of the Bank's compliance with the Code, including any non-compliances, identified by the Bank's Board of Directors, included in the report together with the reasons for such non-compliance and agreed these to the discussions in the Board minutes or/and a checklist prepared by the Board of Directors to identify any non-compliance.
4. As a result of performing the above procedures, we have no exceptions to report.
5. Because the above procedures do not constitute either an audit performed in accordance with International Standards on Auditing or a review in accordance with International Standards on Review Engagements, we do not express any assurance on the accompanying corporate governance report.
6. Had we performed additional procedures or had we performed an audit in accordance with International Standards on Auditing or a review in accordance with International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.
7. Our report is solely for the purpose set forth in paragraph 2 above and for your information and is not to be used for any other purpose. This report relates only to the Board of Directors' corporate governance report to be included in its annual report for the year ended 31 December 2021 and does not extend to any financial statements of Ahli Bank SAOG taken as a whole.

Muscat, Sultanate of Oman
06 March 2022



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

CORPORATE GOVERNANCE REPORT-2021

INTRODUCTION

Sound and effective corporate governance is the foundation on which any organization or institution rests and operates. The execution of good and best practices-accountability, fairness, responsibility and transparency are crucial in creating and sustaining shareholder value, and enhancing and retaining investor trust.

The Bank's Corporate Governance Policy provides the framework for the principles of effective Corporate Governance standards across the Bank. The Capital Market Authority (CMA) directives, including the Code of Corporate Governance and the Central Bank of Oman (CBO) circular BM 932 on Corporate Governance in Banks, are the principal codes and drivers of the corporate governance practices in the sultanate. ahlibank SAOG fully complies with all of their provisions.

The timely and accurate disclosure of information regarding the financial situation, performance, ownership of the Bank is high on its corporate governance principles, as it improves the public understanding of the structure, activities and policies of the Bank. It also endeavors to enhance long-term shareholder value and respect minority rights

in all its business decisions.

Alongside its commitment to protect the interest of its stakeholders is the Bank's goal of respecting and upholding the duty of the Board and senior management to oversee its affairs, ensure accountability, inculcate integrity and promote long-term growth and profitability. Serving as the core of the corporate governance practice, the independent Board ensures that the Management is aligned with the long-term interests of all its stakeholders with the objective of maintaining the highest standards of corporate governance.

ahlibank's corporate governance philosophy is based on the following principles:

1. Satisfy the spirit of the law and not just the letter of the law.
2. Be transparent and maintain a high degree of disclosure levels.
3. Communicate externally, in a truthful manner, about how the Bank is run internally.
4. Implement a simple and transparent corporate structure driven solely by business needs.
5. Management is the trustee of the shareholders' capital and not the owner's.

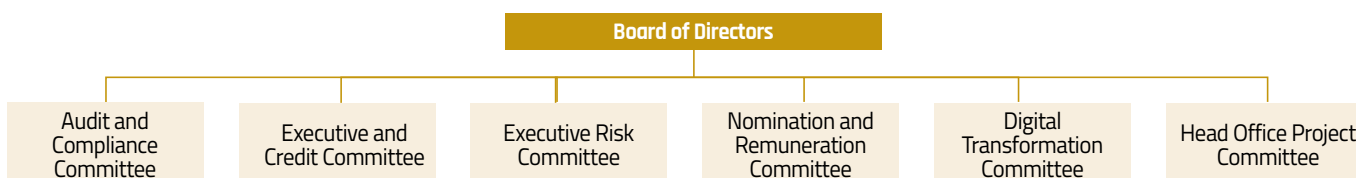
6. Practice fairness and equality to shareholders, employees and related parties.

CORPORATE GOVERNANCE IMPLEMENTATION INITIATIVES AT AHLI BANK SAOG

Good Corporate Governance is critical in supporting the delivery of our strategic objectives. Our Board Committees play an important role in working closely with the Management to ensure that our business is financially strong, and risks are immediately identified and mitigated. Over the years, the Board has developed a corporate governance culture to help fulfill our corporate responsibility to various stakeholders. This guarantees that the Board will maintain the necessary authority and practices in place to properly review and evaluate our operations periodically.

To rightfully comply with regulatory requirements and ensure implementation based on best industry practices, six Board level sub-committees have been set up to ensure effective functioning of the Board.

ahlibank SAOG's Corporate Governance Structure



Corporate Governance Report-2021 *(continued)*

BOARD OF DIRECTORS AND SUB-COMMITTEES OF AHLI BANK SAOG

Board of Directors:

Our collective principal duty is to promote the long-term success of the Bank by creating and delivering sustainable shareholder value. We do this by setting the strategy and ensuring that the Management oversees its implementation by management. We also seek to ensure that there is a balance between delivering on the short-term objectives and focusing on long-term growth.

Size and Terms of the Board

The Board of Directors consists of nine non-executive Directors. The term of office of the Board of Directors is three years, which will expire in March 2023.

Profile of Board Members

Hamdan Ali Nasser Al Hinai

Chairman

Holds Master in Development and project management, Bachelors in Business Management & Economics and Diploma in international Development Management; Former Director General, Purchasing and Contracts, Ministry of Defense.

Anwar Hilal Hamdoon Al Jabri

First Deputy Chairman

Certified Public Accountant (CPA), USA, Masters of Business Administration (MBA), University of Hull, UK and Bachelors of Science in Accounting (BS.A), University of Akron, Ohio, USA; Chief Executive Officer of Jabreen Capital; Chairman, Ubhar Capital SAOC; Previous experience as Investment Director of Oman Investment Fund (A Sovereign Wealth Fund) and CEO of OIF's subsidiary National Pioneer Investment & Development Company. Having more than 22 years of industry experience and various leadership positions.

Sanjeev Baijal

Second Deputy Chairman

Chartered Global Management Accountant under Association of International Certified Professional Accountants; Member of the American Institute of Certified Public

Accountants (AICPA), and Associate Member of the Institute of Chartered Accountants of India (ACA); Deputy Group CEO: Finance and Strategic Development, Ahli United Bank BSC, Bahrain; Chairman of Al Hilal Life B.S.C.(c) & Al Hilal Takaful B.S.C. (c), Bahrain; Director of Ahli United Bank K.S.C.P., Kuwait; Previous experience as Group Head of Finance, Ahli United Bank B.S.C, Bahrain; Financial Controller, Al-Ahli Commercial Bank, Bahrain. Held various positions earlier at Ernst & Young, Bahrain and Price Waterhouse in India. (Total years of experience: 38 years).

Keith Henry Gale

Director

Holds a Bachelor's degree in Accounting and Finance from the University of Lancaster, UK; Associate Member of the Institute of Chartered Accountants England & Wales (ACA); Deputy Group CEO: Risk, Legal and Compliance, Ahli United Bank BSC, Bahrain; Director, Ahli United Bank K.S.C.P. Kuwait; Ahli United Bank SAE, Egypt; Ahli United Bank (UK) PLC; Previously Group Head of Risk Management, Ahli United Bank, Bahrain (20 years of experience at Ahli United Bank); Former Head of Credit and Risk at ABC International Bank PLC; Former Assistant Vice President, Internal Audit Department, Arab Banking Corporation, Bahrain. Held various positions in the UK with KPMG and Ernst & Young.

Abdul Hameed Ahmed Mohamed Al Bulushi

Director

Hold High Diploma in Development, United Kingdom; Bachelor degree in Law, Egypt; Legal Expert in Civil Service Employees Pension Fund. Director, Oman Hospitality Company and Director, Al Nama Poultry Company. Having more than 30 years of experience in Ministry of Civil Service & Civil Service Employees Pension Fund in different senior positions.

Ibrahim Said Badar Al Eisri

Director

Member of the Association of Chartered Certified Accountants (ACCA), Masters in Finance, Oxford Brookes University, UK and Bachelor's Degree in Commerce Major Accounting & Finance, Curtin University of Technology, Perth, Australia; Director Private

Equity in Oman Investment Authority (OIA); Chairman, Rakiza Infrastructure Fund; board member at Al Hosn Investment Company and Omantel. Having over 18 years of experience in different sectors including, Telecommunication, Oil & Gas and Financial & Investments; Held different leadership roles in Finance & Investment Operations.

Juma Rashid Saif Al Jahwari

Director

Holds MSc in Financial Management, the University of Greenwich, London, UK and BSc in Economics, Beirut Arab University, Muscat, Oman. Chief of Finance & Administration - The Royal Office Pension Fund. Founding member of the IIA Oman Chapter and member of Board of governors - Institute of Internal Auditors (Oman Chapter IIA-Oman). Former Counselor, Ministry of Foreign Affairs, Embassy of The Sultanate of Oman, Washington DC. He also held different positions previously in The Royal Office.

Salim Ali Hamed Al Hasni

Director

Holds Master of Science in Commercial Project Management from the University of Manchester - College of Mechanical, Aerospace & Civil Engineering and Bachelor of Science (Commerce & Economics) from Sultan Qaboos University. Director of Contracts - Ministry of Defense. Chairman of the Board of Directors of Reem Batteries & Power Appliances SAOC; Vice Chairman of Sohar Power Company SAOG. Having more than 16 years of experience in Ministry of Defense in different positions.

Wajid Ali Khan

Director

Holds M.P.A (Finance) from Quaid-e-Azam University, Islamabad. Group Head of Corporate Banking, Ahli United Bank, Bahrain. Board Member of Ahli Real Estate Co, Member of Islamic Banking Committee of Bahrain Association of Banks and Board of trustee of the Waqf Fund (for 12 years till 2021). Has diversified 28 years experience in banking.

Corporate Governance Report-2021 (continued)

Executive Powers of the Board:

Approving financial objectives, business and financial policies of the Bank.

Approving internal regulations as well as specifying the powers, responsibilities and authorities of the executive management.

Reviewing and monitoring the disclosures and compliance with regulatory requirements.

Nominating the members of the sub-committees, CEO and key employees.

Details of the Number of Board meetings held during the year 2021:

Sl. No.	Board Meeting
1.	27-Jan-2021
2.	28-Apr-2021
3.	28-Jul-2021
4.	27-Oct-2021
5.	13-Dec-2021
6.	14-Dec-2021

Directors Attendance Record in the Board Meetings:

Name of Director	Position	Type of Directorship	Board Meetings Attended	# Sub-committees memberships (at year end)	Whether attended last AGM
Hamdan Ali Nasser Al Hinai	Chairman	Independent	6	NRC, HOPC	Yes
Anwar Hilal Hamdoon Al Jabri	First Deputy Chairman	Independent	6	ECC, NRC	Yes
Sanjeev Bajjal	Second Deputy Chairman	Non-Independent/ Representing Ahli United Bank	6	ACC	Yes
Keith Henry Gale	Director	Non-Independent	6	ERC, NRC, HOPC	Yes
Abdul Hameed Ahmed Mohamed Al Bulushi	Director	Independent/ Representing Civil Service Employees Pension Fund	6	ACC, ERC, DTC, HOPC	Yes
Ibrahim Said Badar Al Eisri	Director	Independent	6	ECC, DTC	Yes
Juma Rashid Saif Al Jahwari	Director	Independent	6	ACC	Yes
Salim Ali Hamed Al Hasni	Director	Independent/Representing Ministry of Defense Pension Fund	6	ERC	Yes
Wajid Ali Khan*	Director	Non-Independent	2	ECC, DTC	N/A
Rajeev Gogia**	Director	Non-Independent	4	ECC, DTC	Yes

* Appointed as Board Member on 13 Dec 2021. ** Resigned from the Board on 13 Dec 2021.

Audit and Compliance Committee - ACC, Executive and Credit Committee - ECC, Executive Risk Committee - ERC, Nomination and Remuneration Committee - NRC, Digital Transformation Committee - DTC and Head Office Project Committee - HOPC.

Independent directors are defined as per principle Eight of Code of Corporate Governance for Public Listed Companies Updated December, 2016.

SUB-COMMITTEES

ahlibank has Six Board sub-committees to ensure the smooth functioning of the Bank:



Corporate Governance Report-2021 *(continued)*

A. Audit and Compliance Committee

The role of the Audit and Compliance Committee includes:

- Reviewing the scope of external and internal audits and oversee the adequacy of the Bank's internal control systems through the reports of the internal and external auditors.
- Reviewing the quarterly and annual financial reports before submission to the Board for approval.
- Assist in discharging Board's oversight responsibilities relating to the Bank's accounting, corporate governance, risk management systems and compliance procedures.

Composition of Audit and Compliance Committee and Details of Meetings and Attendance Record of Members During the Year 2021:

Composition of Audit and Compliance Committee		Meeting Dates			
Director's Name	Position	27-Jan-21	28-Apr-21	28-Jul-21	27-Oct-21
Juma Rashid Saif Al Jahwari	Chairman	Yes	Yes	Yes	Yes
Sanjeev Bajjal	Member	Yes	Yes	Yes	Yes
Abdul Hameed Ahmed Mohamed Al Bulushi	Member	Yes	Yes	Yes	Yes
Attendance		3	3	3	3

B. Executive and Credit Committee

The role of the Executive and Credit Committee includes:

- Providing the Board with a mechanism for considering in depth, any issue that the Board considers to be that requiring detailed attention.
- Allowing the Management to obtain input for the development of proposals prior to Board submission.
- Approving matters beyond the Management's delegated authority but which do not need full Board approval.
- Focusing on strategic reviews and proposals, investments, treasury and liquidity management, business plans and other such matters.

Composition of Executive and Credit Committee and Details of Meetings and Attendance Record of Members During the Year 2021:

Composition of Executive and Credit Committee		Meeting Dates			
Director's Name	Position	26-Jan-21	27-Apr-21	27-Jul-21	26-Oct-21
Anwar Hilal Al Jabri	Chairman	Yes	Yes	Yes	Yes
Ibrahim Said Badar Al Eisri	Member	Yes	Yes	Yes	Yes
Wajid Ali Khan*	Member	N/A	N/A	N/A	N/A
Rajeev Gogia**	Member	Yes	Yes	Yes	Yes
Attendance		3	3	3	3

* Appointed as Board Member on 13 Dec 2021. ** Resigned from the Board on 13 Dec 2021.

C. Executive Risk Committee

The role of the Executive Risk Committee includes:

- An integrated approach to managing the risks inherent in various aspects of our business.
- Monitoring risk levels according to various parameters and the Management is responsible for ensuring mitigation measures.
- Focusing on reviewing all policies governing Bank's risk and funding exposure.
- Ensuring the consistent adherence and implementation of the Board-approved policies and treasury strategies in monitoring market and other risks.

Corporate Governance Report-2021 (continued)

Composition of Executive Risk Committee and Details of Meetings and Attendance Record of Members During the Year 2021:

Composition of Executive Risk Committee		Meeting Dates			
Director's Name	Position	26-Jan-21	28-Apr-21	27-Jul-21	26-Oct-21
Keith Henry Gale	Chairman	Yes	Yes	Yes	Yes
Abdul Hameed Ahmed Mohamed Al Bulushi	Member	Yes	Yes	Yes	Yes
Salim Ali Hamed Al Hasni	Member	Yes	Yes	Yes	Yes
Attendance		3	3	3	3

D. Nomination and Remuneration Committee

The role of the Nomination and Remuneration Committee includes:

- Reviewing the performance of all directors and the Management.
- Advising the Bank's Board and Chairman on the remuneration of Board Members, appointment of senior management personnel and remuneration of senior management personnel.
- Helping in the nomination of competent Board members and electing the best.
- Annual assessment of the Board's/Sub-Committees overall performance

Composition of Nomination and Remuneration Committee and Details of Meetings and Attendance Record of Members During the Year 2021:

Composition of Nomination and Remuneration Committee		Meeting Dates	
Director's Name	Position	26-Jan-21	27-Jul-21
Hamdan Ali Nasser Al Hinai	Chairman	Yes	Yes
Anwar Hilal Hamdoon Al Jabri	Member	Yes	Yes
Keith Henry Gale	Member	Yes	Yes
Attendance		3	3

E. Digital Transformation Committee

The role of the Digital Transformation Committee includes:

- Oversee the implementation of all the digital transformation initiatives and deliverables in a timely and efficient manner within Board-approved parameters.
- The creation of a dedicated committee provides a framework for an effective and detailed review, assessment, consultation, decision-making and approval process on behalf of the Board.

Composition of Digital Transformation Committee and Details of Meetings and Attendance Record of Members During the Year 2021:

Composition of Digital Transformation Committee		Meeting Dates				
Director's Name	Position	5-May-21	13-Jun-21	24-Aug-21	28-Sep-21	8-Dec-21
Ibrahim Said Al Eisri	Chairman	Yes	Yes	Yes	Yes	Yes
Abdul Hameed Ahmed Mohamed Al Bulushi	Member	Yes	Yes	Yes	Yes	Yes
Wajid Ali Khan*	Member	N/A	N/A	N/A	N/A	N/A
Rajeev Gogia**	Member	Yes	Yes	Yes	Yes	No
Attendance		3	3	3	3	2

* Appointed as Board Member on 13 Dec 2021. ** Resigned from the Board on 13 Dec 2021.

Corporate Governance Report-2021 *(continued)*

F. Head Office Project Committee

The Head office project committee is responsible for an effective and detailed review, assessment, consultation, decision-making process and oversight of the head office expansion project of the Bank and manage the timely execution of related deliverables within Board-approved parameters, until the completion of head office extension project.

Head Office Project Committee and Details of Meetings and Attendance Record of Members During the Year 2021:

Composition of Head Office Project Committee		Meeting Dates			
Director's Name	Position	9-Feb-21	19-May-21	6-Oct-21	9-Dec-21
Hamdan Ali Nasser Al Hinai	Chairman	Yes	Yes	Yes	Yes
Abdul Hameed Ahmed Mohamed Al Bulushi	Member	Yes	Yes	Yes	Yes
Keith Henry Gale	Member	Yes	Yes	Yes	Yes
Attendance		3	3	3	3

PROCEDURE FOR STANDING AS A CANDIDATE FOR THE BOARD:

Anyone who wishes to stand as a candidate for the Board and is eligible for the same as per the regulations as well as the Articles of Association, is required to submit an application form (as prescribed by the Capital Market Authority) at five days before the fixed date for the General Meeting for election of the Board members. The application shall be reviewed by the Nomination and Remuneration Committee of the Bank to ensure eligibility of the candidate and further recommendation to the Annual General Meeting. The Bank shall lodge the application form with the Capital Market Authority before the date of the General Meeting.

The director shall be elected through direct secret ballot by the shareholders. Each shareholder is entitled to the number of votes equal to that of his/her shares.

SHARIA SUPERVISORY BOARD OF AHLI ISLAMIC BANKING SERVICES-AHLI BANK SAOG

Sharia Supervisory Board:

The Sharia Supervisory Board (SSB) is an independent body of specialized jurists in fiqh al-muamalat (Islamic commercial jurisprudence), appointed with the responsibilities of giving Sharia directives, advice and approvals from the formation stage to the operations stage of the Bank, ensuring Sharia compliance of the Bank by giving decisions on Sharia Audit reports and producing a statement about Sharia compliance of the Bank. The SSB complies with the regulatory requirements of the Central Bank of Oman in respect of their supervision and advisory role of the Bank. The Fatawa and rulings of the SSB are binding on the Bank's Islamic Banking Services. The SSB of the ahli islamic is comprised of three members.

Profile of SSB Members:

Dr. Mohammed Taher Al-Ibrahim

Chairman

Dr. Mohammed Taher is a leading Shari'a scholar in the field of Islamic finance. He held several senior positions in academics and judiciary including Assistant professor at Sultan Qaboos University (SQU) and judge and lawyer at Supreme Court Oman. Sheikh Mohammed holds a doctorate degree in Constitutional Jurisprudence from Edinburgh University, U.K. He has wide experience in Sharia supervision of Islamic banking, teaching Islamic law and its application and conducting research in Shari'a.

Dr. Mustaien Ali Abdulhamid

Deputy Chairman

Dr. Mustaien worked as Sharia supervisor at AlRajhi bank and as Sharia senior adviser at Bank Albilad, Riyadh, Kingdom of Saudi Arabia, a position held continuously for approximately twenty years between summer 1995 and late spring 2016. He holds PhD in Islamic Economics from Um ul Qura University in Markka, Kingdom of Saudi Arabia. In the course of his respective duties in several Islamic financial institutions in the region, a key part of his job is to ensure compliance with Sharia requirements. In this regard, he is well known for his quite detailed knowledge and understanding of Islamic banking. He has been instrumental in clarifying

various Islamic based decisions handled down by the banks Sharia scholars in a number of professional institutions and consultancy firms in Saudi Arabia and Sudan and contributed and supervised various Sharia auditing programs.

Dr. Abdulaouf Abdullah Hamood Al-Tobi

Member

Dr. Abdulaouf has a PhD in Law from International Islamic University Malaysia, Master of Law – LLM in Law from UK and Bachelor Degree in Sharia Judicial Science. He is highly knowledgeable and experienced professional of Legal and Islamic Banking practices.

Corporate Governance Report-2021 (continued)

Composition of SSB and Details of Meetings and Attendance Records of Members During the Year 2021:

Composition of the Sharia Supervisory Board		Meeting Dates				
Member Name	Position	14-Jan-21	11-Apr-21	15-Jul-21	14-Oct-21	13-Dec-21
Dr. Mohammed Taher Al-Ibrahim	Chairman	Yes	Yes	Yes	Yes	Yes
Dr. Mustaien Ali Abdulhamid	Deputy Chairman	Yes	Yes	Yes	Yes	Yes
Dr. Abdulraouf Abdullah Hamood Al-Tobi	Member	Yes	Yes	Yes	Yes	Yes
Attendance		3	3	3	3	3

SSB Remuneration and Sitting Fee Expenses:

The shareholders of the Bank in the AGM held on 25 March 2021 have approved the remuneration and sitting fee of the SSB as below:

Designation	Amount
Chairman of SSB	RO 9,625 per annum
Member of SSB	RO 6,738 per annum
Sitting Fees Per Meeting (maximum of five meetings per year per member)	RO 385 per meeting

The table below shows the remuneration and sitting fee expenses of the SSB:

Member Name	Position	Remuneration	Sitting Fees
Dr. Mohammed Taher Al-Ibrahim	Chairman	9,625	1,925
Dr. Mustaien Ali Abdulhamid	Deputy Chairman	6,738	1,925
Dr. Abdulraouf Abdullah Hamood Al-Tobi	Member	6,738	1,925
Total		23,101	5,775

EXECUTIVE MANAGEMENT COMMITTEE MEMBERS OF AHLI BANK

Said Abdullah Al Hatmi

Chief Executive Officer

Holds a Bachelors Degree in Finance and a Master's Degree in Business Administration. He is a Certified Management Accountant from the Institute of Management Accountant, USA and has completed the Oxford Advanced Management and Leadership Program, Executive Management Programs from Harvard Business School and University of Virginia. Deputy Chairman, OQ SAOC; Board Member & Treasurer, Oman Bank Association; Member of the Advisory Board, College of Economic and Political Studies at SQU. Board member and Chairman-Audit Committee, CBFS. He has over 21 years of diverse commercial banking experience in the areas of corporate banking, retail banking, risk management, finance and banking operations. He has previously held various senior positions at HSBC Bank Middle East, Oman.

Bilal Anwar

DCEO – Business Group

Hold Bachelor of Commerce from University of Allahabad, India; Certified Associate of Indian Institute of Bankers (CAIIB) from Indian Institute of Bankers, Mumbai, India; Chartered Financial Analyst (CFA- ICFAI) from Institute of Chartered Financial Analyst of India; Post Graduate Diploma in Business Administration from ICFAI Business School, Hyderabad, India. Having more than 20 years of experience in banking with various banks including, Ahli United Bank BSC, Bahrain; IDBI Bank Limited, Mumbai, India; Abu Dhabi Commercial Bank, Mumbai, India.

Abdullah Salim Al Jabri

DCEO – Support Services

Having over 24 years of banking experience in conventional and Islamic Banking with

ahlibank. Started his career with National Training Institute and then joined Alliance Housing Bank in 1997, where held various positions including Manager Retail Banking and Head of Central Operations. Lead the operations team in centralization of operations after the conversion to full-fledged commercial bank. With the start of Islamic Banking in Oman in 2013, became General Manager of ahli islamic (erstwhile Al Hilal Islamic Banking Services) and contributed in the success of Islamic Banking. Certified Islamic Banker from General Council for Islamic Banks and Financial Institution, Bahrain. Hold National Diploma in Engineering from Business & Technology Education Council, UK. Hold Leadership and Management certificate from Darden School of Business, University of Virginia, USA. Hold advance Leadership and management certificate from University of Cambridge Judge Business School, UK.

Corporate Governance Report-2021 (continued)

Hanaa Mohammed Al Kharusi

General Manager – Corporate Banking

Holds a Bachelor's degree in Science from Indiana University, USA and has attended Executive Programs at the London Business School, UK and IMD, Switzerland as well as Said Business School, Oxford, UK. A Graduate member of the National CEO Program (NCP) sponsored by the Diwan of Royal Court. Chairperson; AhliGlobal Equity Fund, Director; Nama Holding (SAOC) and chairperson of the Board Audit Committee. Having over 21 years of banking experience in leading Omani banks and has successfully led high performing teams in Corporate banking, Corporate E-channels and liabilities, successfully leading major strategic financial transactions and advisory projects in Oman Bilaterally and on syndicated basis. Hanaa is the chairperson of the Talent Management Committee responsible for recruiting, developing and grooming high potential graduates for future leading positions within ahlibank.

Ghada Abdul Latif Al Balushi

General Manager – Chief Risk Officer

Holds Master degree in Business Administration from University of Hull; UK, Bachelor of Science degree in Economics from Sultan Qaboos University and has completed the Cambridge's flagship "Advanced Leadership Program". Having more than 21 years of Banking experience in the areas of Corporate Banking and Risk Management Departments in leading Omani Banks. Previously worked in several banks in various senior positions including National Bank of Oman and Oman Development Bank. During 2020 was awarded Al Mara'a Excellence Award for 'Leadership and Innovation in Risk Management'.

NON-COMPLIANCE

There has not been any instances of non-compliance of legal requirements nor any penalties or strictures imposed by the regulators on any matters relating to the Capital Market Authority over the last three years.

The Bank has incurred penalties of RO 70,000 by Central Bank of Oman over the last three years based on CBO examination report observations.

2021: RO 10,000 - Related to tenor and age limit of Personal loans.

2020: RO 40,000 - Related to some provisions of the Law on Combatting Money Laundering and Terrorism Financing.

2019: RO 20,000 - Related to some provisions of the Law on Combatting Money Laundering and Terrorism Financing.

REMUNERATION MATTERS

An amount of RO 300,000 is proposed as Board Remuneration in addition to the sitting fees paid to the Board members for 2021. The details of sitting fees paid are below:

Name of Director	Sitting Fees Paid (RO)
Hamdan Ali Nasser Al Hinai	6,600
Anwar Hilal Hamdoon Al Jabri	5,600
Sanjeev Bajjal	4,200
Keith Henry Gale	6,800
Abdul Hameed Ahmed Mohamed Al Bulushi	8,100
Ibrahim Said Badar Al Eisri	6,700
Juma Rashid Saif Al Jahwari	5,000
Salim Ali Hamed Al Hasni	4,200
Wajid Ali Khan*	1,000
Rajeev Gogia**	4,400
Total	52,600

* Appointed as Board Member on 13 Dec 2021.

** Resigned from the Board on 13 Dec 2021.

The total remuneration paid to the top executives (top five) of the Bank amounted to RO 1,164,405 during the year 2021, which included salary, benefits, perquisites, bonuses and gratuities.

Incentives and bonuses are based on key performance indicators towards the achievements of the Bank's long-term strategic objectives.

The duration of the standard service contract for expatriate executives is two years. The notice period for executives ranges from one

to three months, depending on the executive's contract.

No severance fees are payable to the top executive officers other than compensation for short notice of termination of services.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

ahlibank SAOG publishes quarterly accounts, which are uploaded on the Muscat Stock Exchange (MSX) website. The latest news and information about the Bank is also available on its website, www.ahlibank.om.

All annual reports include a comprehensive management report. The Management makes regular presentations to analysts, the press and investors. These briefings outline the Bank's performance, and strategy on future prospects.

The Management discussion and analysis report is part of the Annual Report.

MARKET PRICE DATA:

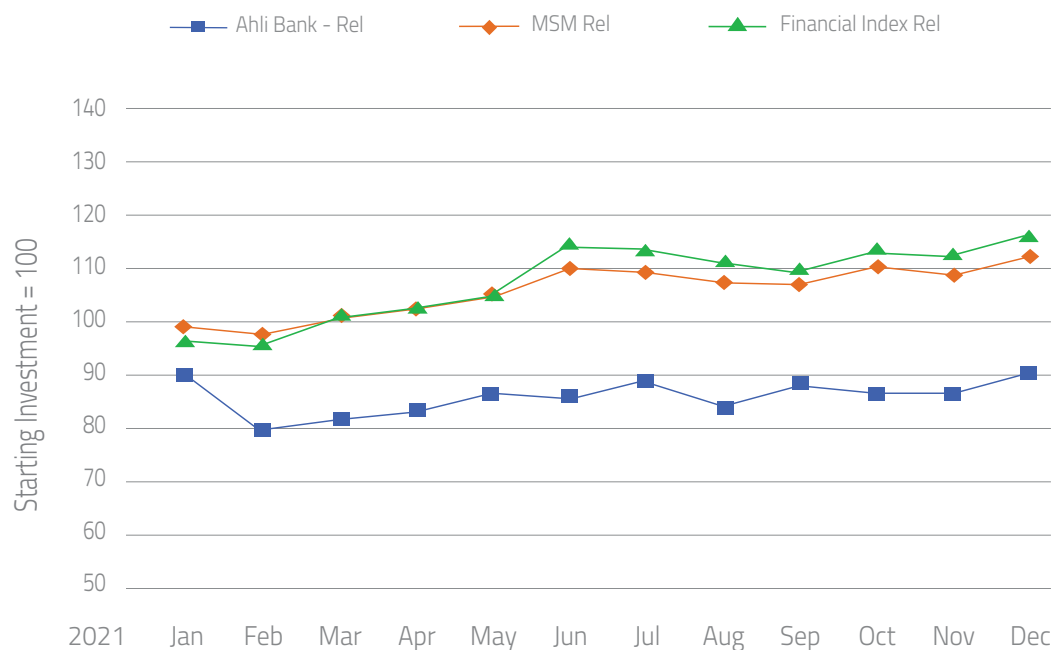
High / Low Share Prices in 2021

The table below shows the high / low prices of the Bank's shares in Rial Omani in 2021.

Month	High	Low
Jan-21	0.125	0.115
Feb-21	0.117	0.100
Mar-21	0.110	0.103
Apr-21	0.109	0.102
May-21	0.112	0.105
Jun-21	0.115	0.107
Jul-21	0.114	0.103
Aug-21	0.113	0.108
Sep-21	0.118	0.107
Oct-21	0.115	0.108
Nov-21	0.112	0.108
Dec-21	0.118	0.110

Corporate Governance Report-2021 (continued)

Performance of ahlibank SAOG Vs MSM and Banking Indices



The Bank has outstanding Tier1 perpetual subordinated bonds as follows:

Issue Date	RO	First Recall Option
11 October 2017	50 million	11 October 2022
17 December 2018	54 million	17 December 2023
13 June 2019	20 million	13 June 2024

* These bonds are listed in the Muscat Stock Exchange (MSX).

Distribution of Share Ownership Among Shareholders as of 31 December 2021:

Name	Country of incorporation	Number of shares	%
Ahli United Bank	Bahrain	682,380,099	35.00
Al Hosn Investment Company SAOC	Oman	188,551,154	9.67
Al Hosn Business Development LLC	Oman	188,551,154	9.67
Ubhar Capital SAOC - Asset Management	Oman	172,017,134	8.82
Civil Service Employees - Pension Fund	Oman	163,574,889	8.39
Ministry of Defense - Pension Fund	Oman	111,691,673	5.73
Others		442,891,363	22.72
Total		1,949,657,466	100.00

Corporate Governance Report-2021 *(continued)*

DONATIONS AND CHARITY

The Bank paid a donation/charity of RO 117,659. It donated RO 116 thousands to support the Sultanate's efforts to deal with Shaheen Cyclone.

In addition, ahli islamic paid RO 4,886 to various charitable organizations from the Charity Fund.

EXTERNAL AUDITOR'S PROFILE – PwC

With offices in 156 countries and more than 295,000 people, PwC is among the leading professional services networks globally. PwC's vision is to be the most trusted and relevant professional services business in the world – one that attracts the best talent and combines the most innovative technologies, to help organisations build trust and deliver sustained outcomes. This refreshed global strategy is termed as The New Equation, and it speaks to the two most fundamental needs clients and organisations are grappling with today.

Established in the Middle East for over 40 years,

PwC Middle East has firms in Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, the Palestinian territories, Qatar, Saudi Arabia and the United Arab Emirates, with around 7,000 people. (www.pwc.com/me).

PwC is strongly committed to Oman where it is recognised as one of the leading providers of quality business advisory services. We have had a local practice in Oman since 1971 and now have 9 partners, 1 of whom is Omani and 6 directors, 1 of whom is Omani and approximately 134 other members of staff operating from our office in the Sultanate.

PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.

PwC billed an amount of RO 74,500 towards professional services rendered to the Bank for the year 2021 (RO 70,000 for audit and RO 4,500 for tax and other services)

OTHER IMPORTANT MATTERS:

As required by the Code of Corporate Governance, the Shareholders has appointed an independent third party for appraising the performance of the Board of Directors for the financial year 2021.

ACKNOWLEDGMENT BY THE BOARD OF DIRECTORS:

- The Board is responsible for the preparation of the financial statements in accordance with the applicable standards and rules.
- The Board has reviewed the efficiency and adequacy of internal control systems of the issuer and it complies with internal rules and regulations.
- There is no material thing that affects the continuation of the Bank and its ability to continue its operations during the next financial year.

Hamdan Ali Nasser Al Hinai
Chairman
Board of Directors

Juma Rashid Saif Al Jahwari
Chairman
Audit and Compliance Committee



Financial Statements of the Bank

For the year ended 31 December 2021



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

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ahli Bank SAOG (the “Bank”) as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Bank’s financial statements comprise:

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) 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 IESBA Code.

Our audit approach

Overview

- | | |
|------------------|---|
| Key audit matter | <ul style="list-style-type: none"> • Measurement of Expected credit losses on loans, advances and financing to customers |
|------------------|---|

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

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

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



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

Our audit approach (continued)

Overview (continued)

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p>Expected credit losses on loans, advances and financing to customers</p> <p>At 31 December 2021, the Bank had net investment in loans, advances and financing to customers of RO 2,402 million net of credit impairment provision of RO 76.9 million. ECL charge for the year ended 31 December 2021 amounted to RO 14.7 Million.</p> <p>The Bank applies the requirements of International Financial Reporting Standard 9 'Financial Instruments' (IFRS 9) to determine Expected Credit Loss (ECL) on loans, advances and financing to customers. The ECL provision represents the directors best estimate of the credit losses as at the date of the statement of financial position.</p> <p>As disclosed in note 37, the COVID-19 global pandemic significantly impacted management's determination of the ECL and required the application of heightened judgement. As a result, the ECL has a higher than usual degree of uncertainty and the inputs used are inherently subject to change, which may materially change the estimate of Stage 1 and Stage 2 ECL in future periods.</p>	<p>We obtained an understanding of management's assessment of impairment of loans, advances and financing including the Bank's internal rating model, impairment allowance policy and the ECL modelling methodology.</p> <p>We assessed and tested the design and operating effectiveness of the key controls over the credit processes such as loan origination, ongoing monitoring and provisioning of loans and advances.</p> <p>We performed the following substantive procedures:</p> <ul style="list-style-type: none"> • understanding the Bank's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9; • obtaining an understanding of and tested the completeness and accuracy of the historical and current dataset used for ECL calculation; • obtaining an understanding of and tested the grouping of similar financial assets in the portfolios for the purposes of measuring ECL;



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

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p data-bbox="315 551 877 620">Expected credit losses on loans, advances and financing to customers (continued)</p> <p data-bbox="315 627 877 965">To address the uncertainties inherent in the current and future environment and to reflect all relevant risk factors not captured in the Bank’s modelled results, management applied credit judgments, quantitative and qualitative adjustments to its overall loan’s portfolio resulting from COVID-19, the temporary effects of the loan deferral schemes, which may not completely mitigate future losses, and the impacts to particularly vulnerable sectors affected by COVID-19.</p> <p data-bbox="315 972 877 1194">We focused on this area because directors make complex and subjective judgements over both timing of recognition of impairment and the estimation of the size of any impairment, and this has a material impact on the financial statements of the Bank. The key areas of judgements include:</p> <ul data-bbox="315 1209 877 1830" style="list-style-type: none"> • establishing portfolios of similar financial assets for the purposes of measuring ECL; • choosing appropriate models and assumptions for the measurement of ECL which includes estimation of Probability of default (PD), Loss Given default (LGD), and Exposure at Default (EAD); • determining criteria for significant increase in credit risk (SICR) and judgements in classification of loans into stage 2; • establishing the number and relative weightings of forward-looking scenarios for each type of product / market and the associated ECL; • judgements in calculation of management overlays and other post-model adjustments; 	<ul data-bbox="877 627 1526 1151" style="list-style-type: none"> • testing a sample of loans to determine the appropriateness and application of the staging criteria; • obtaining an understanding of the methodology to identify and calculate individual impairment allowance for stage 3 exposures and tested a sample of credit exposures against the methodology; • assessing the related financial statement disclosures to determine if they are in accordance with the requirements of International Financial Reporting Standards; and. • testing overlays to the ECL model for appropriateness. <p data-bbox="877 1166 1526 1237">We involved our specialists in areas that required specific expertise (e.g. ECL model) including:</p> <ul data-bbox="877 1252 1526 1830" style="list-style-type: none"> • testing the implementation of IFRS 9 methodology for the ECL calculation, mathematical accuracy and logical integrity of the model; • testing the reasonableness of historical macroeconomic and forward-looking information and assumptions used by the directors by agreeing to latest available macro economic information upto 31 December 2021; • assessing the appropriateness of the definition of default and testing the application of the default criteria; • assessing the appropriateness of the PD and LGD and evaluating the reasonableness of the EAD;



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

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Expected credit losses on loans, advances and financing to customers (continued)</p> <ul style="list-style-type: none"> judgement to determine when a default event has occurred (for stage 3 customers); assessing the recoverability of stage 3 financial assets; and determining disclosure requirements in accordance with accounting standards. <p>Information on the accounting policy and credit risk management is included in notes 4 and 37.1 to the financial statements respectively. Disclosures relating to the ECL provisions are included in notes 8 and 29 to the financial statements.</p>	<ul style="list-style-type: none"> assessing the appropriateness of the criteria used to determine the Significant Increase in Credit Risk (SICR) and the resultant classification of exposures into various stages including movements between stages; and testing and assessing the reasonableness of the Bank's use of scenarios, weightings and discounting.

Other information

The directors are responsible for the other information. The other information comprises the Chairman's report, Management Discussion and Analysis, , Corporate Governance Report, Basel II Pillar III and Basel III Reports of the Bank, Shari'a Compliance Report of Shari'a Supervisory Board, resolutions issued by Shari'a Supervisory Board, Fatwas issued by Shari'a Supervisory Board, Financial Statements of Ahli Islamic and Basel II Pillar III and Basel III Reports of the Bank and Ahli Islamic (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 and the Bank's Annual Report, which is expected to be made available to us after that date.

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

When we read the Bank's Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors.



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

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the relevant requirements of the Capital Market Authority of the Sultanate of Oman and the applicable provisions of the Commercial Companies Law of 2019, and for such internal control as they determine 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 directors are responsible for assessing the Bank’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 they either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 the financial statements.

As part of an audit in accordance with ISAs, 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 Bank’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.



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

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

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Further, as required by the relevant requirements of the Capital Market Authority of the Sultanate of Oman and the applicable provisions of the Commercial Companies Law of 2019, we report that the financial statements have been prepared and comply, in all material respects, with those requirements and provisions.

Kashif Kalam
Muscat, Sultanate of Oman
06 March 2022



STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

2020	2021		2021	2020
US\$ '000	US\$ '000	Note	RO '000	RO '000
ASSETS				
205,247	297,930	Cash and balances with Central Bank of Oman	5 114,703	79,020
119,932	116,088	Due from banks	6 44,694	46,174
5,763,369	6,238,907	Loans & advances and financing, net	7 2,401,979	2,218,897
795,761	1,112,668	Investment securities	9 428,377	306,368
75,724	93,906	Other assets	13 36,154	29,154
59,387	69,219	Property and equipment	10 26,649	22,864
<u>7,019,420</u>	<u>7,928,718</u>	TOTAL ASSETS	<u>3,052,556</u>	<u>2,702,477</u>
LIABILITIES AND EQUITY				
351,283	681,403	Due to banks	14 262,340	135,244
4,999,101	5,665,952	Customers' deposits	15 2,181,391	1,924,654
415,000	240,000	Borrowed funds	16 92,400	159,775
16,774	22,450	Tax liability	12 8,643	6,458
197,392	202,041	Other liabilities	17 77,785	75,996
31,169	7,792	Subordinated loans	18 3,000	12,000
<u>6,010,719</u>	<u>6,819,638</u>	TOTAL LIABILITIES	<u>2,625,559</u>	<u>2,314,127</u>
EQUITY				
428,482	506,405	Share capital	19 194,966	164,966
88,385	95,854	Legal reserve	20 36,904	34,028
29,611	7,792	Subordinated loan reserve	18 3,000	11,400
(10,561)	(6,629)	Fair value reserve	(2,552)	(4,066)
2,592	2,592	Special reserve	7 998	998
26,303	26,303	Impairment reserve	7 10,127	10,127
121,811	154,685	Retained earnings	59,554	46,897
<u>686,623</u>	<u>787,002</u>	TOTAL NET EQUITY ATTRIBUTABLE TO THE OWNERS OF THE BANK	<u>302,997</u>	<u>264,350</u>
322,078	322,078	Tier 1 Perpetual subordinated bonds	22 124,000	124,000
<u>1,008,701</u>	<u>1,109,080</u>	TOTAL EQUITY	<u>426,997</u>	<u>388,350</u>
<u>7,019,420</u>	<u>7,928,718</u>	TOTAL LIABILITIES AND NET EQUITY	<u>3,052,556</u>	<u>2,702,477</u>
42	40	Net assets value per share (US cents / baizas)	23 155	160
<u>622,696</u>	<u>552,954</u>	Contingent liabilities and commitments	24 212,887	239,738

The financial statements and notes 1 to 40 were approved by the Board of Directors on 26 January 2022 and signed on their behalf by:



Hamdan Ali Nasser Al Hinai
Chairman



Said Abdullah Al Hatmi
Chief Executive Officer

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

2020 US\$ '000	2021 US\$ '000		Note	2021 RO '000	2020 RO '000
292,478	311,418	Interest income	25	119,896	112,604
(165,595)	(170,803)	Interest expense	26	(65,759)	(63,754)
126,883	140,615	NET INTEREST INCOME		54,137	48,850
48,452	55,840	Income from Islamic financing and investments	25	21,498	18,654
(19,247)	(26,158)	Unrestricted investment account holders' share of profit and profit expense	26	(10,071)	(7,410)
29,205	29,682	NET INCOME FROM ISLAMIC FINANCING AND INVESTMENTS		11,427	11,244
21,197	30,143	Fees and commission income	28	11,605	8,161
(1,403)	(2,244)	Fees and commission expense	28	(864)	(540)
19,794	27,899	Net fees and commission income		10,741	7,621
9,821	15,929	Other operating income	27	6,133	3,781
185,703	214,125	OPERATING INCOME		82,438	71,496
(37,408)	(38,130)	Net impairment on financial assets	29	(14,680)	(14,402)
148,295	175,995	NET OPERATING INCOME		67,758	57,094
(48,288)	(56,513)	Staff expenses	30	(21,757)	(18,591)
(6,774)	(7,125)	Depreciation and amortisation	10	(2,743)	(2,608)
(23,106)	(28,825)	Other operating expenses	31	(11,098)	(8,896)
(78,168)	(92,463)	OPERATING EXPENSES		(35,598)	(30,095)
70,127	83,532	PROFIT BEFORE TAXATION		32,160	26,999
(7,873)	(11,829)	Tax expense	12	(4,554)	(3,031)
62,254	71,703	PROFIT FOR THE YEAR		27,606	23,968
		OTHER COMPREHENSIVE INCOME / (LOSS)			
		Items that will not be reclassified to profit or loss			
278	2,624	Equity investments at FVOCI - net changes in fair value		1,010	107
81	(3,996)	Realized (loss)/gain on equity investment at FVOCI		(1,539)	31
		Items that will be reclassified to profit or loss			
(4,203)	4,359	Cash flow hedge - net changes in fair value		1,678	(1,618)
4,358	3,949	Changes in fair value of FVOCI debt investments - net		1,521	1,678
514	6,936	OTHER COMPREHENSIVE INCOME FOR THE YEAR		2,670	198
62,768	78,639	TOTAL COMPREHENSIVE INCOME FOR THE YEAR		30,276	24,166
4	3	Basic and diluted earnings per share (US cents / baizas)	32	10	9

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021

	Attributable to the owners of the Bank										
	Share capital	Legal reserve	Subordinated loan reserve	Fair value reserve	Special reserve	Impairment reserve	Retained earnings	Total	Tier 1 Perpetual subordinated bonds	Total equity	
	Note	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Balance at 1 January 2021		164,966	34,028	11,400	(4,066)	998	10,127	46,897	264,350	124,000	388,350
Profit for the year		-	-	-	-	-	-	27,606	27,606	-	27,606
Other comprehensive income		-	-	-	2,670	-	-	-	2,670	-	2,670
Transactions within equity											
Transfer to legal reserve	20	-	2,761	-	-	-	-	(2,761)	-	-	-
Transfer to subordinated loan reserve	18	-	-	450	-	-	-	(450)	-	-	-
Transfer from subordinated loan reserve	18	-	-	(8,850)	-	-	-	8,850	-	-	-
Net amount reclassified to the income statement on sale of debt instruments at FVOCI		-	-	-	(2,695)	-	-	-	(2,695)	-	(2,695)
Loss on sale of equity investments at FVOCI		-	-	-	1,539	-	-	(1,539)	-	-	-
Interest paid on Tier 1 perpetual subordinated bond	22	-	-	-	-	-	-	(9,300)	(9,300)	-	(9,300)
		-	2,761	(8,400)	(1,156)	-	-	(5,200)	(11,995)	-	(11,995)
Transactions with owners recognised directly in equity											
Cash dividends	21	-	-	-	-	-	-	(9,749)	(9,749)	-	(9,749)
Rights issue of shares	19	30,000	-	-	-	-	-	-	30,000	-	30,000
Excess of receipts over rights issue expenses		-	115	-	-	-	-	-	115	-	115
Total transactions with owners		30,000	115	-	-	-	-	(9,749)	20,367	-	20,367
At 31 December 2021		194,966	36,904	3,000	(2,552)	998	10,127	59,554	302,997	124,000	426,997
At 31 December 2021 (US\$ '000)		506,405	95,854	7,792	(6,629)	2,592	26,303	154,685	787,002	322,078	1,109,080

STATEMENT OF CHANGES IN EQUITY *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2020

Attributable to the owners of the Bank

		Share capital	Legal reserve	Subordinated loan reserve	Fair value reserve	Special reserve	Impairment reserve	Retained earnings	Total	Tier 1 Perpetual subordinated bonds	Total equity
	Note	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
At 1 January 2020		157,110	31,632	14,000	(4,233)	1,893	9,334	55,459	265,195	124,000	389,195
Profit for the year		-	-	-	-	-	-	23,968	23,968	-	23,968
Other comprehensive income		-	-	-	198	-	-	-	198	-	198
Transactions within equity											
Transfer to legal reserve	20	-	2,396	-	-	-	-	(2,396)	-	-	-
Transfer to subordinated loan reserve	18	-	-	2,400	-	-	-	(2,400)	-	-	-
Transfer from subordinated loan reserve	18	-	-	(5,000)	-	-	-	5,000	-	-	-
Transfer to impairment reserve	8	-	-	-	-	-	793	(793)	-	-	-
Transfer from special reserve		-	-	-	-	(895)	-	895	-	-	-
Gain on sale of equity investments at FVOCI		-	-	-	(31)	-	-	31	-	-	-
Interest paid on Tier 1 perpetual subordinated bond	22	-	-	-	-	-	-	(9,300)	(9,300)	-	(9,300)
		-	2,396	(2,600)	(31)	(895)	793	(8,963)	(9,300)	-	(9,300)
Transactions with owners recognised directly in equity											
Cash dividends	21	-	-	-	-	-	-	(15,711)	(15,711)	-	(15,711)
Issue of bonus shares	19	7,856	-	-	-	-	-	(7,856)	-	-	-
Total transactions with owners		7,856	-	-	-	-	-	(23,567)	(15,711)	-	(15,711)
At 31 December 2020		164,966	34,028	11,400	(4,066)	998	10,127	46,897	264,350	124,000	388,350
At 31 December 2020 (US\$ '000)		428,482	88,385	29,611	(10,561)	2,592	26,303	121,811	686,623	322,078	1,008,701

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021

2020	2021		2021	2020
US\$ '000	US\$ '000	Note	RO '000	RO '000
CASH FLOWS FROM OPERATING ACTIVITIES				
70,127	83,532		32,160	26,999
Profit before taxation				
Adjustments for:				
6,774	7,125	10	2,743	2,608
37,408	38,130	29	14,680	14,402
283	649	17	250	109
(31)	(7,649)	27	(2,945)	(12)
392	(436)	27	(168)	151
114,953	121,351		46,720	44,257
-	(10,000)		(3,850)	-
(463,151)	(513,667)		(197,762)	(178,313)
(9,670)	(18,182)		(7,000)	(3,723)
209,223	330,120		127,096	80,551
553,060	666,849		256,737	212,928
21,050	5,702		2,195	8,104
425,465	582,173		224,136	163,804
(9,514)	(6,491)		(2,499)	(3,663)
(86)	(472)	17	(182)	(33)
415,865	575,210		221,455	160,108
CASH FLOWS FROM INVESTING ACTIVITIES				
(11,114)	(16,957)	10	(6,528)	(4,279)
(1,580,177)	(1,537,665)		(592,001)	(608,368)
1,519,930	1,410,594		543,080	585,173
(71,361)	(144,028)		(55,449)	(27,474)
CASH FLOWS FROM FINANCING ACTIVITIES				
415,584	50,000		19,250	160,000
(330,584)	(225,000)		(86,625)	(127,275)
(12,987)	(23,377)		(9,000)	(5,000)
(2,455)	(893)		(344)	(945)
(40,808)	(25,321)	21	(9,749)	(15,711)
-	78,222		30,115	-
(24,156)	(24,156)	22	(9,300)	(9,300)
4,594	(170,525)		(65,653)	1,769
349,098	260,657		100,353	134,403
169,522	518,620		199,669	65,266
518,620	779,277		300,022	199,669

CASH AND CASH EQUIVALENTS COMPRISE OF THE FOLLOWING

2020	2021	Note	2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
203,883	296,566	5	114,178	78,495
119,932	106,088	6	40,844	46,174
194,805	376,623		145,000	75,000
518,620	779,277		300,022	199,669

The accompanying notes form an integral part of these financial statements.
Report of the independent auditors - pages 47 - 52

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

ahlibank SAOG (the 'Bank') is a joint stock company incorporated in the Sultanate of Oman and is engaged in commercial & investment banking activities through a network of thirty seven branches as at year end with twenty two conventional and fifteen Islamic branches. (2020 - nineteen conventional and twelve Islamic branches). The registered address of the Bank is PO Box 545, Mina Al Fahal, PC 116, Sultanate of Oman.

ahli islamic (the Islamic Window) was licensed by Central Bank of Oman (CBO) to operate as an Islamic Banking Window of 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, Mudaraba, Musharaka, Ijarah and undertaking investment activities and providing commercial banking services and other investment activities permitted under the Islamic Banking Regulatory Framework (IBRF) issued by the CBO.

The Bank had 795 employees as at 31 December 2021 compared to 730 as at 31 December 2020.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by International Accounting Standards Board (IASB), the requirements of the Commercial Companies Law of 2019, disclosure requirements of the Capital Market Authority (CMA) of the Sultanate of Oman and the applicable regulations of the Central Bank of Oman (CBO).

The Bank prepares a separate set of financial statements for its Islamic Banking Window (IBW) in accordance with the requirements of Section 1.2 of Title 3 of the Islamic Banking Regulatory Framework ("IBRF") issued by the CBO. The separate set of carve out financial statements of its IBW 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 (the "SSB") and other applicable requirements of the CBO. The IBWs financial statements are then converted into International Financial Reporting Standards (IFRS) compliant financial statements and included in these financial statements. All inter branch balances and transactions have been eliminated.

2.2 Basis of measurement

The financial statements have been prepared under the historical cost convention except for derivative financial instruments, financial instruments at fair value through profit or loss and financial instruments at fair value through other comprehensive income which have been measured at fair value. The statement of financial position is presented in the order of liquidity as this presentation is more appropriate to Bank's operations.

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 to US\$ for information purposes as a supplementary information only, using the exchange rate of RO 0.385 = US\$ 1.00. 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 IFRS 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. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. 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 if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. 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 4.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

2 BASIS OF PREPARATION *(continued)*

2.5 Standards, amendments and interpretations effective in 2021 and relevant for the Bank's operations

Interest rate benchmark reform - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The United Kingdom's Financial Conduct Authority ('FCA'), which regulates the London Interbank Offered Rate ('LIBOR'), had announced that the interest benchmark would be replaced with alternative risk-free rates (RFR) after 31 December 2021/ 30 June 2023. As a result, Banks have ceased rate submissions for the calculation of the London Interbank Offered Rates (LIBOR), for all currencies and tenors (other than certain settings of USD LIBOR), after December 31, 2021. For 1 month, 3 month, 6 month and 12 month tenors of USD, rate submission will cease after June 30, 2023. The Bank has certain exposures to USD LIBOR on its financial instruments that are being impacted due to this benchmark transition. The alternative risk-free rate, Secured Overnight Financing Rate ('SOFR'), has been announced as replacement rate for USD LIBOR.

Interbank Offered Rate (IBOR) Reform- Phase 1 Amendments

The Bank had adopted Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (IBOR reform Phase 1) with effect from 1 January 2020. IBOR reform Phase 1 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective. IBOR reform Phase 1 provides reliefs which require the Bank to assume that hedging relationships are unaffected by the uncertainties caused by IBOR reform. This includes assuming that hedged cash flows are not altered because of IBOR reform. In addition, the reliefs allow the Bank to not discontinue hedging relationships because of retrospective or prospective ineffectiveness. IBOR Reform Phase 1 also requires additional disclosures in relation to those hedging relationships to which the reliefs are applied.

Interest rate benchmark reform - Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' (IBOR reform Phase 2) is effective for annual periods beginning on or after 1 January 2021 with earlier adoption permitted. IBOR reform Phase 2 includes a number of reliefs and additional disclosures. These reliefs relate to modifications of financial instruments, lease contracts or hedging relationships when a benchmark interest rate in a contract is replaced with a new alternative benchmark rate. The reliefs apply upon the transition of a financial instrument from a LIBOR to a risk-free-rate (RFR). Moreover, the Phase 2 amendments provide a series of reliefs from certain hedge accounting requirements when a change required by interest rate benchmark reform occurs to a hedged item and/or hedging instrument and consequently the hedge relationship can be continued without any interruption.

2.6 The following new standards and amendments have been issued by the International Accounting Standards Board (IASB) but are not yet mandatory for the year ended 31 December 2021:

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

2.6.1 IFRS 9 Financial Instruments – Fees in the 10 per cent test for derecognition of financial liabilities

As part of its 2018-2020 Annual Improvements to IFRS standards process, the IASB issued an amendment to IFRS 9 wherein it amended that the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Bank is currently assessing the impact on its financial statements.

2.6.2 Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022) reissued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023)

Amendments to IAS 1 clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance. The Bank is currently assessing the impact of this amendment on its financial statements.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

2 BASIS OF PREPARATION *(continued)*

2.6.3 Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023)

The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates. The Bank is currently assessing the impact of this amendment on its financial statements.

2.6.4 IFRS 17 “Insurance Contracts” - effective for annual periods beginning on or after 1 January 2023

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. IFRS 17 introduces new accounting requirements for banking products with insurance features that may affect the determination of which instruments or which components thereof will be in the scope of IFRS 9 or IFRS 17. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Bank is currently in the process of assessing the impact of amendment of IFRS 17 on its financial statements.

2.6.5 Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023)

The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The Bank is currently in the process of assessing the impact of adopting IFRS 17 on its financial statements

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Foreign currency translation

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

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

The non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date the fair value is determined. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income, except for non-monetary financial assets, which are included in other comprehensive income. 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.

3.2 Revenue and expense recognition

3.2.1 Interest income and expense

Interest income and expense is recognised in the statement of comprehensive income using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the gross carrying amount or the amortised cost of the financial asset or liability. The calculation of effective interest rate includes transaction costs and fees paid / received that are an integral part of effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.2.1 Interest income and expense *(continued)*

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principle repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for loss allowance.

The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Interest income and expense presented in the statement of comprehensive income include:

- i) Interest on financial assets and liabilities at amortised cost on an effective interest rate basis;
- ii) Interest on debt investment securities on an effective interest rate basis.

Interest income which is doubtful of recovery is included in loan impairment and excluded from income until it is received in cash.

3.2.2 Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income include account servicing fees, credit related fees, administration fees and other management fees, sales commission, placement fees, advisory fees and syndication fees. Fees and commission income is measured based on the consideration specified in the contract with the customers. The Bank satisfies its performance obligation upon completion of the related services as mentioned in the contract and revenue is recognised accordingly.

3.2.3 Dividends

Dividend income is recognised when the right to receive dividend is established.

3.2.4 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation arising from a past event and the costs to settle the obligation are both probable and can be reliably estimated.

3.3 Financial assets and financial liabilities

3.3.1 Recognition and initial measurement

The Bank initially recognises loans & advances and financing, deposits, borrowings and subordinated liabilities on the date on which they are originated. All other financial instruments are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

3.3.2 Measurement categories of financial assets and financial liabilities

Financial assets

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

On initial recognition, a financial asset is classified and measured at; amortised cost, FVOCI or FVTPL.

Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL;

- The asset is held within business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 Financial assets and financial liabilities *(continued)*

It is initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost less impairment.

Financial assets measured at fair value through other comprehensive income

a) Debt instruments

Investment in debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL;

- The asset is held within business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These debt instruments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity.

b) Equity instruments

For an equity instrument that is not held for trading, the Bank may elect at initial recognition to irrevocably designate those instruments under FVOCI. This election is made on an investment on investment basis. Amounts presented in other comprehensive income are not subsequently transferred to the statement of comprehensive income. Dividends are recognised in the statement of comprehensive income only when the right of payment has been established.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces and accounting mismatch that would otherwise arise.

Financial assets measured at fair value through profit or loss

Financial assets at fair value through profit or loss comprises of investments held for trading and designated as FVTPL on initial recognition or mandatorily required to be measured at fair value as per IFRS 9. It is initially recognised at fair value with transaction costs recognised in the statement of comprehensive income as incurred. Subsequently, they are measured at fair value and any gains or losses are recognised in the statement of comprehensive income.

Business model assessment

Business model available under IFRS 9 are:

- (i) Hold to Collect - Financial assets held with the objective to collect contractual cash flows.
- (ii) Hold to Collect and Sell - Financial assets held with the objective of both collecting contractual cash flows and selling financial assets.
- (iii) Other - Financial assets held with trading intent or that do not meet the criteria of either "Hold to collect" or "Hold to collect and sell".

The Bank's business model reflects how it manages the assets to generate cash flows. Whether it is solely to collect the contractual cash flows from the asset (Hold to collect) or both the contractual cash flows and from sale of asset (Hold to collect and sell). Factors considered by the Bank in determining the business models for group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel and how risks are assessed and managed.

Financial assets held for trading

Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking. These securities are classified in the 'other business model and measured at FVTPL.

Assessment whether contractual cash flows are solely payments of principal and interest (The 'SPPI test')

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represents solely payment of principal and interest. In making this assessment, the Bank considers whether the contractual cash flows are consistent with basic lending arrangement, i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 Financial assets and financial liabilities *(continued)*

3.3.2.1 Loans & advances and financings receivables

The Bank holds a portfolio of loans & advances and financing receivables for which interest rates are revised at periodic intervals. These rates are revised based on the market rates. Accordingly, the Bank has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate that is consideration for time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Loans & advances and financing receivables are initially recognised at fair value which is the cash consideration to originate or purchase the loan including any transaction costs and measured subsequently at amortised cost using the effective interest method less allowance for impairment losses which are recognised in the statement of comprehensive income.

The Bank has two classes of loans & advances and financing receivables;

Corporate banking (including SME)

Corporate customers includes loans & advances and financing given to corporate and institutional customers by way of working capital loans, term loans, overdrafts, leases, syndication arrangements, fund transfer facilities, etc.,

Retail banking

Retail banking offers a broad range of products and services to meet the personal banking needs of individual customers. It includes personal banking products such as current and savings accounts, mortgages and personal loans, credit cards, debit cards, overdraft facilities, Islamic financing and fund transfer facilities.

3.3.2.2 Investments

Investments which are recognised in the statement of financial position includes:

- (i) Debt securities measured at FVOCI;
- (ii) Equity investment securities mandatorily measured at FVTPL and these are at fair value with changes recognised immediately in profit or loss;
- (iii) Equity investment securities designated at FVOCI

For debt securities measured at FVOCI, gain and losses are recognised in 'other comprehensive income' and when it is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. The Bank has designed certain equity investments under FVOCI on the basis that these investments are not held for trading / intends to hold in long term for better dividend yields. The Bank elects to present in other comprehensive income the changes in the fair value of certain investments in equity instruments that are measured at FVOCI. The election is made on an instrument by instrument basis on initial recognition.

3.3.2.3 Cash and cash equivalents

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

3.3.2.4 Due from banks

These are stated at amortised cost using effective interest rate method, less any amounts written off and allowance for impairment.

3.3.2.5 Financial guarantee contracts, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letter of credit and loan commitments. Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holders for a loss that is incurred because of specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 Financial assets and financial liabilities *(continued)*

3.3.2.5 Financial guarantee contracts, letters of credit and undrawn loan commitments *(continued)*

For financial guarantee contracts and loan commitments, the loss allowance is recognised as a provision as described in note 4.3.5. Liabilities arising from financial guarantee and loan commitments are included within provisions under other liabilities in statement of financial position.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position.

3.3.2.6 Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognized in statement of comprehensive income, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in the statement of comprehensive income.

3.3.2.7 Borrowed funds

Borrowed funds are recognised initially at their issue proceeds less transaction cost, if any. Borrowings are subsequently stated at amortised cost, any difference between proceeds net of transaction cost, and the redemption value is recognised in the statement of comprehensive income over the period of borrowing using the effective interest rate method.

3.3.2.8 Deposits and subordinated liabilities

Deposits and subordinated liabilities are measured at amortised cost using the effective interest method.

3.3.3 Derecognition

Financial assets

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

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

When the Bank has transferred its rights to receive cash flows from an asset and has netither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of Bank's involvement in the asset. In that case, the Bank also recognises an associated liability.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 Financial assets and financial liabilities *(continued)*

3.3.4 Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on net basis only when permitted by IFRS or for gains and losses arising from a group of similar transactions.

3.3.5 Impairment

The Bank assess on a forward-looking basis the expected credit losses (ECL) associated with financial assets measured at amortised cost or FVOCI which mainly include loans & advances and financings, investments (other than equity investments), interbank placements, loan commitments and financial guarantees. The Bank recognises a loss allowance and provisions for such losses at reporting date. The measurement of ECL reflects:

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

The Bank's approach leveraged the existing regulatory capital models and processes for Bank's loan portfolios that use the existing Internal Rating based and behavioral credit models. ECL is calculated by multiplying the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

No impairment loss is recognised on equity investments. The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities and loans & advances and financings 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.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within 12 months after the reporting date.

i) Measurement of ECL

ECL are a probability weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit impaired at the reporting date: as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit impaired at the reporting date: Difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the bank if the commitment is drawn down and the cash flows that the Bank expects to receive;
- financial guarantee contracts; the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

ii) Overview of ECL principles

The Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment requirements under IFRS 9.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 Financial assets and financial liabilities *(continued)*

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

Both 12 month expected credit loss and lifetime expected credit losses are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instruments credit risk has increased significantly since initial recognition, by considering the change in risk of default occurring over the remaining life of the financial instrument.

At initial recognition of a financial asset, the Bank recognises a loss allowance equal to 12 month expected credit losses. After initial recognition, the three stages would be applied as follows:

Stage 1: Credit risk has not increased significantly since initial recognition- recognise 12 month expected credit losses.

Stage 2: Credit risk has not increased significantly since initial recognition- recognise lifetime expected losses with revenue being calculated based on the gross amount of the asset.

Stage 3: There is objective evidence of impairment as at the reporting date to recognise lifetime expected losses, with revenue being based on the net amount of the asset.

For financial assets in Stage 1 and Stage 2, the Bank calculates interest income by applying the Effective Interest Rate (EIR) to the gross carrying amount (i.e., without deduction for ECLs). Interest income for financial assets in Stage 3 is suspended and included in loan impairment.

iii) ECL calculation

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

- probability of default (PD);
- loss given default (LGD);
- 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.

When estimating the ECL, the Bank considers three scenarios (a base case, good case and a bad case). Each of these is associated with different PDs, EADs and LGDs for calculating ECL on the financial assets. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral the amount that might be received for selling the asset.

iv) Presentation of ECL allowance in the statement of financial position

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

- financial assets at amortised cost: as a deduction from gross carrying amount of assets;
- loan commitments and financial guarantee contracts: carrying as provision and shown within other liabilities.
- Debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 Financial assets and financial liabilities *(continued)*

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

v) Debt instruments measured at fair value through OCI

The ECL's for debt instruments measured at FVOCI do not reduce the carrying amount of these financial statements in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance is recognised in the other comprehensive income with a corresponding charge to the statement of income. The accumulated loss recognised in other comprehensive income is recycled to the profit and loss upon derecognition of assets.

vi) Credit enhancements: collateral valuation and financial guarantees

Credit risk mitigation (CRM) encompasses collateral management and credit guarantee arrangements. To mitigate credit risk, the Bank will use collateral values, wherever possible. The Bank accepts various types of collateral such as cash margins, fixed deposits, real estate, shares listed in GCC etc., Collateral unless it is repossessed, is not recorded in the statement of financial position. Since the fair value of collateral affects the calculation of ECLs, management monitors and reassess the collateral values at regular intervals and requests for additional collateral, if required. To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Non financial collateral such as real estate is valued by certified third party valuers.

vii) Write off

Loans & advances and 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 Bank. The Bank may write-off financial assets that are still subject to enforcement activity when the Bank seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery. If, in a subsequent year, written off loans & advances and financings receivable is recovered, the recovery is credited to the statement of comprehensive income.

viii) Forward looking information

In its ECL models, the Bank 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 when such differences are significantly material. Disclosures relating to model adjustments and management overlays are provided in note 37.1.7.

3.3.6 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 borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are 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.

3.3.7 Credit impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost/FVOCI are credit impaired. A financial asset is "credit impaired" when one or more below mentioned events has occurred.

- significant financial difficulty of the borrower;
- a breach of contract such as default or past due event;
- the restructuring of a loan by the Bank;
- it is becoming probable that the borrower will enter into bankruptcy or other financial reorganisation.

A loan that has been renegotiated due to a deterioration in the borrowers condition is usually considered to be credit impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 Financial assets and financial liabilities *(continued)*

In making an assessment of whether an investment in a debt instrument is credit impaired, the Bank considers the following events:

- The markets' assessment of creditworthiness of those instrument yields.
- Rating agencies assessment
- The country's ability to access the capital markets for new debt issuance.

3.3.8 Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

3.3.9 Modifications of financial assets and liabilities

Financial assets

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition and the Bank recalculates the gross carrying amount based on the revised cash flows and the amount arising from adjusting the gross carrying amount as a modification gain or loss in statement of comprehensive income. If the cash flows are substantially different, the Bank derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset.

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at either amortised cost or fair value. The difference between the carrying amount of the financial liability derecognised and the new financial liability with modified terms is recognised in the statement of income.

3.3.10 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell an asset or transfer a liability takes place either in the principal market, or in the absence of a principal market, in the most advantageous market.

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

A number of the Bank's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on a number of accounting policies and methods. Where applicable, information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. Please refer to note 35 for fair value hierarchy valuation techniques.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. Fair value of the non financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At each reporting date, the bank analyses the movements in the values of assets and liabilities which are required to be remeasured or reassessed as per the Bank accounting policies. For this analysis, the Bank verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The Bank also compares each of the changes in fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risk of the asset or liability and the level of the fair value hierarchy as explained above.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.3 Financial assets and financial liabilities *(continued)*

3.3.11 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date derivative contracts are entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. On initial designation of the hedge, the Bank formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Bank makes an assessment, both on inception of the hedging relationship and on an ongoing basis, of whether the hedging instrument(s) is (are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80–125%. For a cash flow hedge of a forecast transaction, the Bank makes an assessment of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss. The Bank designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
- hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or
- hedges of a net investment in a foreign operation (net investment hedge).

For fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the statement of comprehensive income. The hedged item is adjusted for fair value changes relating to the risk being hedged and the difference is recognised in the statement of comprehensive income.

If the hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated.

For cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument which is determined to be an effective hedge is recognised initially in OCI. The ineffective portion of the fair value of the derivative is recognised immediately in the statement of comprehensive income.

For hedges which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are recognised in the statement of comprehensive income for the year.

3.4 Repurchase and resale agreements

Securities sold with a commitment to repurchase (repos) at a specified future date at predetermined price are recognised in the statement of financial position and are measured in accordance with accounting policies for financial assets. The counterparty liability for amounts received under these agreements is included in 'due to banks'. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repo agreement using the effective interest rate method. These securities are not derecognised as the related risks and rewards are not transferred to the counterparties.

Securities purchased with a corresponding commitment to resell at a specified future date (reverse repos) at predetermined price are not recognised in the statement of financial position and the amounts paid under these agreements are included in 'due from banks'. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repo agreement.

3.5 Capitalisation of borrowing costs

Interest cost on borrowings that are directly associated with the acquisition and construction of the qualifying property, equipment and software are capitalised as part of the cost of these assets.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.6 Property, equipment and software

Items of property, equipment and software are measured at cost less accumulated depreciation / amortisation and impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset. Depreciation / amortisation is provided on a straight-line basis over the estimated useful lives of property, equipment and software, except freehold land. The estimated useful lives for the current period are as follows:

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

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

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

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

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

3.7 Collateral pending sale

The Bank occasionally acquires real estate in settlement of certain loans and financings receivables. Real estate is stated at the lower of the net realisable value of the related loans and financings receivables and the current fair value of such assets. Gains or losses on disposal and unrealised losses on revaluation are recognised in the statement of comprehensive income.

3.8 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in these financial statements.

3.9 Taxation

Taxation is provided in accordance with Omani fiscal regulations. Income tax comprises current and deferred tax. Tax expense is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax asset/liability is calculated using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary difference when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax asset is reviewed at each reporting date and is reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.10 Trade and settlement date accounting

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.11 Leases

A. Definition of lease

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

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

B. As a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use (ROU) assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Lease liabilities

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

Lease payments included in the measurement of lease liability comprise the following:

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

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

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

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

The IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 'Leases' to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. Rent concessions can include rent holidays or rent reductions for a period of time, possibly followed by increased rent payments in future periods.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

3.12 Acceptances

Acceptances are disclosed in the statement of financial position under other assets with corresponding liability disclosed under other liabilities. Therefore, there is no off-balance sheet commitment for acceptances.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

3.13 Employee terminal benefits

3.13.1 Terminal benefits

End of service benefits are accrued in accordance with the terms of employment of the Bank's employees at the reporting date, having regard to the requirements of the Oman Labor Law 2003, as amended and in accordance with IAS 19 employee benefits.

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

3.13.2 Short term benefits

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

3.14 Segment reporting

An operating segment is the component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenue and expenses that relate to transaction with any of the Bank's other components, whose operating results are reviewed regularly by the Bank's Management Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

3.15 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

3.16 Directors' remuneration

The Board of Directors' remuneration is accrued within the limits specified by the Capital Market Authority and the requirements of the Commercial Companies Law of the Sultanate of Oman.

3.17 Dividend on ordinary shares

Dividend on ordinary shares is recognised as liability and deducted from equity in the period when it is approved by the Bank's shareholders. Interim dividend is deducted from equity when they are paid.

Dividend for the year that is approved after the reporting date is considered to be an event after the reporting date and disclosed in the financial statements.

3.18 Perpetual subordinated bond

Perpetual subordinated bonds - Additional Tier 1 capital instruments of the Bank are recognised under equity in the statement of financial position and the corresponding distribution on those instruments are accounted as a debit to retained earnings. The Tier 1 securities constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32 - Financial Instruments: Presentation. The Tier 1 securities do not have a fixed redemption or final maturity date and is redeemable by the Bank at its sole discretion on the first call date or on any interest payment date thereafter.

4 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.

4.1 Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI 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 37.1.7, 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

4.2 Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined using valuation techniques. The Bank uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The Bank uses expected cash flow analysis for various FVOCI financial assets that are not traded in active markets.

4.3 Classification of Tier 1 perpetual bond instrument under IAS 32

The Bank has issued Perpetual Tier 1 Securities listed on the Muscat Securities Market, which have been classified as equity in accordance with IAS 32: Financial Instruments – Classification. The key features of the instruments are as follows:

- no fixed date of maturity.
- payment of interest and/or capital is solely at the discretion of the Bank.
- the instruments are deeply subordinated and rank just above the ordinary shareholders.
- these securities also allow the Bank to write-down (in whole or in part) any amounts due to the holders in the event of non-viability with the approval of the Central Bank of Oman.

The determination of equity classification of these instruments requires significant judgement as certain clauses, particularly the “Events of Default”, require interpretation. The Directors, after factoring in the clauses relating to the write-down, non-payment and subordination in the instrument offering document consider that the Bank will not reach the point of insolvency before a write-down is affected due to a non-viability event. Accordingly, such clauses were assessed by the Directors as not being substantive for the purpose of determining the debt vs equity classification. The Directors have considered appropriate independent legal advice in forming their judgement around this matter.

4.4 Going Concern

The Bank’s management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Bank’s ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

For the year ended 31 December 2021, the Bank has recognised a net profit after tax of RO 27.606 million. The Bank’s high quality liquid assets were RO 355.437 million as at 31 December 2021 with the liquidity coverage ratio of 150.01%.

5 CASH AND BALANCES WITH CENTRAL BANK OF OMAN

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
37,906	47,198	Cash	18,171	14,594
1,299	1,299	Capital deposit with Central Bank of Oman	500	500
65	65	ATM deposit with Central Bank of Oman	25	25
165,977	249,368	Clearing account and placement with Central Bank of Oman	96,007	63,901
<u>205,247</u>	<u>297,930</u>		<u>114,703</u>	<u>79,020</u>

The capital and ATM deposits with the Central Bank of Oman (CBO) are mandatory deposits and cannot be withdrawn without its approval and accordingly are not available for use in day to day operations of the Bank. The average minimum balance to be kept with the Central bank of Oman as statutory reserve is RO 72.587 million (2020: RO 65.072 million)

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

6 DUE FROM BANKS

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
72,792	60,000	Placements	23,100	28,025
47,462	56,183	Nostro account balances	21,630	18,273
(322)	(95)	Less: Impairment loss allowance - Refer note 37.1.7	(36)	(124)
<u>119,932</u>	<u>116,088</u>		<u>44,694</u>	<u>46,174</u>

7 LOANS & ADVANCES AND FINANCING, NET

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
		Conventional Banking		
3,415,312	3,840,532	Corporate lending	1,478,605	1,314,895
1,573,065	1,547,108	Retail lending	595,636	605,630
<u>4,988,377</u>	<u>5,387,640</u>	Loans & advances, gross	<u>2,074,241</u>	<u>1,920,525</u>
		Islamic Banking		
553,543	676,895	Corporate financing	260,605	213,114
373,657	374,050	Retail financing	144,009	143,858
<u>927,200</u>	<u>1,050,945</u>	Financing, gross	<u>404,614</u>	<u>356,972</u>
5,915,577	6,438,585	Loans & advances and financing, gross	2,478,855	2,277,497
(152,208)	(199,678)	Loans and financing impairment (including reserve interest and profit)* - Refer note 37.1.7	(76,876)	(58,600)
<u>5,763,369</u>	<u>6,238,907</u>		<u>2,401,979</u>	<u>2,218,897</u>

*Reserve interest forms part of specific provision for the purpose of IFRS.

The table below analyses the concentration of gross loans & advances and financing by economic sector:

7 LOANS & ADVANCES AND FINANCING, NET

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
1,946,722	1,921,158	Personal loans	739,645	749,488
1,047,428	1,054,709	Construction	406,063	403,260
616,472	675,381	Wholesale and retail trade	260,022	237,342
705,557	827,198	Services	318,471	271,639
410,312	448,826	Financial institutions	172,798	157,970
304,713	391,331	Manufacturing	150,662	117,315
270,638	216,482	Electricity, gas and water	83,345	104,195
303,944	385,336	Mining and quarrying	148,354	117,018
209,951	383,714	Transport and communication	147,730	80,831
18,486	18,485	Non-resident lending	7,117	7,117
25,067	61,100	Government	23,523	9,651
56,287	54,865	Other	21,125	21,671
<u>5,915,577</u>	<u>6,438,585</u>		<u>2,478,855</u>	<u>2,277,497</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

8 LOANS & ADVANCES AND FINANCING, NET *(continued)*

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 loan accounts for regulatory reporting purposes.

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

Disclosure requirements for the year ended 31 December 2021, containing the risk classification-wise gross and net amount outstanding, provision required as per CBO norms, allowance made as per IFRS 9, interest recognised as per IFRS 9 and reserve interest 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	Interest recognised in SOCI as per IFRS 9	Reserve interest 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)
Standard	Stage 1	1,931,317	27,542	8,873	18,669	1,903,775	1,922,444	-	-
	Stage 2	329,414	-	9,927	(9,927)	329,414	319,487	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		2,260,731	27,542	18,800	8,742	2,233,189	2,241,931	-	-
Special Mention	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	139,710	-	11,875	(11,875)	139,710	127,835	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		139,710	-	11,875	(11,875)	139,710	127,835	-	-
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	1,121	313	501	(188)	808	620	-	44
Subtotal		1,121	313	501	(188)	808	620	-	44
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	5,399	2,580	3,351	(771)	2,819	2,048	-	97
Subtotal		5,399	2,580	3,351	(771)	2,819	2,048	-	97
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	71,894	61,428	42,349	19,079	10,466	29,545	-	8,078
Subtotal		71,894	61,428	42,349	19,079	10,466	29,545	-	8,078
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	660,181	-	503	(503)	660,181	659,678	-	-
	Stage 2	39,870	-	1,114	(1,114)	39,870	38,756	-	-
	Stage 3	113	-	26	(26)	113	87	-	-
Subtotal		700,164	-	1,643	(1,643)	700,164	698,521	-	-
	Stage 1	2,591,498	27,542	9,376	18,166	2,563,956	2,582,122	-	-
	Stage 2	508,994	-	22,916	(22,916)	508,994	486,078	-	-
	Stage 3	78,527	64,321	46,227	18,094	14,206	32,300	-	8,219
Total	Total	3,179,019	91,863	78,519	13,344	3,087,156	3,100,500	-	8,219
	Total (US \$'000)	8,257,192	238,605	203,945	34,659	8,018,587	8,053,247	-	21,348

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

8 LOANS & ADVANCES AND FINANCING, NET *(continued)*

8.2 Restructured loans

Asset classifica- tion as per CBO norms	Asset classifica- tion as per IFRS 9	Gross carrying amount	Provision required as per CBO norms	Provision held as per IFRS 9	Difference between CBO pro- vision re- quired and provision held	Net Carrying amount as per CBO norms*	Net carrying amount as per IFRS 9	Interest recog- nised in SOCI as per IFRS 9	Reserve interest 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	53,019	-	818	(818)	53,019	52,201	-	-
	Stage 2	47,742	998	3,431	(2,433)	46,744	44,311	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		100,761	998	4,249	(3,251)	99,763	96,512	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	29,423	20,233	13,701	6,533	9,190	15,722	-	2,514
Sub total		29,423	20,233	13,701	6,533	9,190	15,722	-	2,514
Total	Stage 1	53,019	-	818	(818)	53,019	52,201	-	-
	Stage 2	47,742	998	3,431	(2,433)	46,744	44,311	-	-
	Stage 3	29,423	20,233	13,701	6,533	9,190	15,722	-	2,514
	Total	130,184	21,231	17,950	3,282	108,953	112,234	-	2,514
	Total (US \$'000)	338,140	55,145	46,625	8,526	282,994	291,518	-	6,529

*Net of provisions and reserve interest as per CBO norms

**The difference between CBO provision along with reserve interest and IFRS 9 provision is appropriated from the retained earnings net of tax.

8.3 Impairment charge and provisions held

	As per CBO norms	As per IFRS 9	Difference
Impairment loss charged to SOCI	14,680	14,680	-
Provisions required as per CBO norms/ held as per IFRS 9	91,863	78,519	13,344
Gross NPL ratio (percentage)	3.16%	3.16%	-
Net NPL ratio (percentage)	0.57%	1.30%	-0.73%

Impairment reserve:

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

8 LOANS & ADVANCES AND FINANCING, NET *(continued)*

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

Disclosure requirements for the year ended 31 December 2020, containing the risk classification-wise gross and net amount outstanding, provision required as per CBO norms, allowance made as per IFRS 9, interest recognised as per IFRS 9 and reserve interest 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	Interest recognised in SOCI as per IFRS 9	Reserve interest as per CBO norms
			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)
Standard	Stage 1	1,769,171	25,935	8,315	17,620	1,743,236	1,760,856	-	-
	Stage 2	296,565	-	8,356	(8,356)	296,565	288,209	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		2,065,736	25,935	16,671	9,264	2,039,801	2,049,065	-	-
Special Mention	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	145,359	-	10,135	(10,135)	145,359	135,224	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		145,359	-	10,135	(10,135)	145,359	135,224	-	-
Substandard	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	810	230	405	(175)	580	405	-	16
Subtotal		810	230	405	(175)	580	405	-	16
Doubtful	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	21,899	10,864	6,605	4,259	11,035	15,294	-	760
Subtotal		21,899	10,864	6,605	4,259	11,035	15,294	-	760
Loss	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	43,693	40,356	24,784	15,572	3,337	18,909	-	4,492
Subtotal		43,693	40,356	24,784	15,572	3,337	18,909	-	4,492
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	611,072	-	584	(584)	611,072	610,488	-	-
	Stage 2	54,216	-	1,019	(1,019)	54,216	53,197	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		665,288	-	1,603	(1,603)	665,288	663,685	-	-
Total	Stage 1	2,380,243	25,935	8,899	17,036	2,354,308	2,371,344	-	-
	Stage 2	496,140	-	19,510	(19,510)	496,140	476,630	-	-
	Stage 3	66,402	51,450	31,794	19,656	14,952	34,608	-	5,268
	Total	2,942,785	77,385	60,203	17,182	2,865,400	2,882,582	-	5,268
	Total (US \$'000)	7,643,597	200,999	156,371	44,628	7,442,598	7,487,226	-	13,683

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

8 LOANS & ADVANCES AND FINANCING, NET *(continued)*

Asset classification as per CBO norms	Asset classification as per IFRS 9	Gross carrying amount	Provision required as per CBO norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Carrying amount as per CBO norms*	Net carrying amount as per IFRS 9	Interest recognised in SOCI as per IFRS 9	Reserve interest as per CBO norms
		RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
		(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
(1)	(2)								
Classified as performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	45,101	998	2,688	(1,690)	44,103	42,413	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		45,101	998	2,688	(1,690)	44,103	42,413	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	22,632	14,864	8,522	6,342	7,768	14,110	-	1,485
Sub total		22,632	14,864	8,522	6,342	7,768	14,110	-	1,485
Total	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	45,101	998	2,688	(1,690)	44,103	42,413	-	-
	Stage 3	22,632	14,864	8,522	6,342	7,768	14,110	-	1,485
	Total	67,733	15,862	11,210	4,652	51,871	56,523	-	1,485
	Total (US \$'000)	175,930	41,200	29,117	12,083	134,730	146,813	-	3,857

*Net of provisions and reserve interest as per CBO norms

**The difference between CBO provision along with reserve interest and IFRS 9 provision is appropriated from the retained earnings net of tax.

8.6 Impairment charge and provisions held

	As per CBO norms	As per IFRS 9	Difference
Impairment loss charged to SOCI	15,335	14,402	933
Provisions required as per CBO norms/ held as per IFRS 9	77,385	60,203	17,182
Gross NPL ratio (percentage)	2.92%	2.92%	-
Net NPL ratio (percentage)	0.66%	1.52%	-0.86%

Impairment reserve:

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.

Special reserve:

During the year, impairment provision on specific basis includes provision on re-structured loans as per CBO guidelines. Similarly based on the requirements of the CBO's letter BSD/2017/BKUP/Bank & FLC's/ 467 dated 20 June 2017, the Bank is required to create a provision on certain loans appropriated to a special reserve account. Accordingly, the Bank set aside an amount of RO 0.998 million (2019: RO 1.893 million) equivalent to US\$ 2.59 million (2019: US\$ 4.92 million) as a non distributable special reserve in its statement of changes in equity for the current year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

9 INVESTMENT SECURITIES

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
		Equity investments:		
1,810	2,265	Measured at FVTPL	872	697
11,712	12,403	Designated at FVOCI	4,775	4,509
13,522	14,668		5,647	5,206
		Debt investments:		
782,239	1,098,000	Designated at FVOCI	422,730	301,162
795,761	1,112,668	Total investment securities	428,377	306,368

The table below summarises the concentration of investments by various sectors.

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
		Equity investments:		
		A. Measured at FVTPL		
		Quoted investments - Oman		
400	-	Banking and investment sector	-	154
405	-	Service sector	-	156
112	-	Manufacturing	-	43
917	-		-	353
		Quoted investments - Foreign		
125	155	Banking and investment sector	60	48
47	196	Manufacturing	76	18
327	655	Construction	252	126
394	1,259	Service sector	484	152
893	2,265		872	344
1,810	2,265	Total	872	697
		B. Designated at FVOCI		
		Quoted investments - Oman		
1,881	1,791	Manufacturing	690	724
2,855	1,184	Banking and investment sector	456	1,099
5,216	3,078	Service sector	1,185	2,008
9,952	6,053		2,330	3,831
		Quoted investments - Foreign		
229	1,715	Manufacturing	660	88
491	2,110	Banking and investment sector	812	189
816	2,265	Service sector	872	314
224	-	Construction	-	87
-	260	Trading	100	-
1,760	6,350		2,445	678
11,712	12,403	Total	4,775	4,509

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

9 INVESTMENT SECURITIES *(continued)*

2020	2021	Debt investments:	2021	2020
US\$ '000	US\$ '000	Designated at FVOCI	RO '000	RO '000
		Quoted investments - Oman		
361,745	464,323	Government development bonds	178,764	139,272
79,055	54,465	Government bonds	20,969	30,436
78,821	81,613	Government sukuks	31,421	30,346
33,940	45,243	Services	17,419	13,067
13,036	28,631	Banking and investment	11,023	5,019
566,597	674,275		259,596	218,140
		Quoted investments - Foreign		
2,140	2,114	Government bonds	814	824
18,697	45,256	Banking and investment	17,423	7,198
20,837	47,370		18,237	8,022
194,805	376,355	Unquoted Oman Government Treasury bills	144,897	75,000
782,239	1,098,000	Total	422,730	301,162
795,761	1,112,668	Total investments	428,377	306,368

In 2021, the Bank received dividends of RO 0.166 million which is equivalent to US\$ 0.43 million (2020: RO 0.305 million equivalent to US\$ 0.79 million) which was recognised as other operating income. (Refer note 27).

The Bank has designated certain equity investments as FVOCI as these are investments that are not held for trading and intended to be held for long term for better dividend yields. Certain investments were sold during the year on account of lesser yields. The cumulative loss recognised in other comprehensive income amounted to RO 1.539 million (2020: RO 0.031 million) equivalent to US\$ 3.99 million (2020: US\$ 0.08 million).

Refer to Note 14 of the financial statements for the details of bonds issued as collaterals against the borrowed funds

10 PROPERTY AND EQUIPMENT

	Freehold land	Building	Leasehold improve-ments	Computer and other equipment	Intangibles	Vehicles	Furniture	ROU assets	Capital work in progress	Total
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Cost:										
At 1 January 2021	7,091	5,884	3,048	4,859	8,117	206	962	4,261	2,980	37,408
Additions	-	-	788	247	385	-	120	937	4,051	6,528
Transfers	-	-	201	1,157	1,676	-	-	-	(3,034)	-
Disposals / scrapped	-	-	(55)	(36)	(94)	-	(27)	-	-	(212)
At 31 December 2021	7,091	5,884	3,982	6,227	10,084	206	1,055	5,198	3,997	43,724
Accumulated depreciation and amortization:										
At 1 January 2021	-	1,666	2,059	3,397	4,626	153	746	1,897	-	14,544
Charge for the year	-	235	364	440	683	12	70	939	-	2,743
Disposals / scrapped	-	-	(55)	(36)	(94)	-	(27)	-	-	(212)
At 31 December 2021	-	1,901	2,368	3,801	5,215	165	789	2,836	-	17,075

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

10 PROPERTY AND EQUIPMENT *(continued)*

Net book value as at
31 December 2021

RO '000	7,091	3,983	1,614	2,426	4,869	41	266	2,362	3,997	26,649
US\$ '000	18,418	10,346	4,192	6,300	12,646	108	691	6,135	10,383	69,219

	Freehold land	Building	Leasehold improve- ments	Computer and other equipment	Intangibles	Vehicles	Furniture	ROU assets	Capital work in progress	Total
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Cost:										
At 1 January 2020	7,091	5,884	2,881	4,345	7,412	145	904	3,083	1,865	33,610
Additions	-	-	513	333	77	61	90	1,178	2,027	4,279
Transfers	-	-	-	282	630	-	-	-	(912)	-
Disposals / scrapped	-	-	(346)	(101)	(2)	-	(32)	-	-	(481)
At 31 December 2020	7,091	5,884	3,048	4,859	8,117	206	962	4,261	2,980	37,408
Accumulated depreciation and amortization:										
At 1 January 2020	-	1,431	2,155	3,148	4,074	144	707	757	-	12,416
Charge for the year	-	235	250	349	554	9	71	1,140	-	2,608
Disposals / scrapped	-	-	(346)	(100)	(2)	-	(32)	-	-	(480)
At 31 December 2020	-	1,666	2,059	3,397	4,626	153	746	1,897	-	14,544
Net book value as at 31 December 2020										
RO '000	7,091	4,218	989	1,462	3,491	53	216	2,364	2,980	22,864
US\$ '000	18,418	10,955	2,569	3,798	9,068	138	561	6,140	7,740	59,387

11 LEASES

The Bank has taken various branch premises on lease rental basis which will fall under IFRS 16. The leases typically run for an average period of 5 years, with an option to renew the lease after that date. For some leases, payments are renegotiated every five years to reflect market rentals. Similarly, the Bank has taken certain office equipment (printers) on lease basis which are of short term in nature/leases of low value items. The Bank has elected not to recognise right-of-use assets and lease liabilities for these leases. Disclosure about leases for which the Bank is a lessee is as below:

I. Right of Use Assets

Right-of-use assets related to leased branch and office premises are presented within property and equipment. Refer note 10 for the detailed breakup of those assets.

II. Amounts recognised in statement of comprehensive income

2020	2021		2021	2020
US\$'000s	US\$'000s	Particulars	RO'000s	RO'000s
247	171	Interest on lease liabilities	66	95
177	465	Expenses relating to short-term leases	179	68
538	60	Expenses relating to leases of low-value assets	23	207
962	696	Total	268	370

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

11 LEASES *(continued)*

III. Amounts recognised in statement of cash flows

Refer to the cash flow statement for the payment made towards lease liabilities in the year 2021 and 2020.

IV. Lease Liabilities

Refer note 37.2.2 for maturity analysis of liabilities as at 31 December 2021 and 31 December 2020.

12 TAXATION

a) Recognised in the statement of comprehensive income

2020 US\$ '000	2021 US\$ '000		2021 RO '000	2020 RO '000
		Current tax		
10,447	11,873	- Current year	4,571	4,022
(3,003)	(619)	- Prior years	(238)	(1,156)
429	575	Deferred tax	221	165
<u>7,872</u>	<u>11,829</u>		<u>4,554</u>	<u>3,031</u>

b) Tax liability

2020 US\$ '000	2021 US\$ '000		2021 RO '000	2020 RO '000
10,447	11,873	- Current year	4,571	4,022
6,327	10,577	- Prior years	4,072	2,436
<u>16,774</u>	<u>22,450</u>		<u>8,643</u>	<u>6,458</u>

c) Deferred tax liability

2020 US\$ '000	2021 US\$ '000		2021 RO '000	2020 RO '000
(314)	(743)	At 1 January	(286)	(121)
(429)	(575)	(Charged)/ Reversed during the year	(221)	(165)
<u>(743)</u>	<u>(1,318)</u>	At 31 December	<u>(507)</u>	<u>(286)</u>

d) Movement in Tax Liability

2020 US\$ '000	2021 US\$ '000		2021 RO '000	2020 RO '000
18,397	16,774	At 1 January	6,458	7,083
7,873	11,829	Charge for the year	4,554	3,031
(9,514)	(6,491)	Payments during the year	(2,499)	(3,663)
18	338	Additional provision made	130	7
<u>16,774</u>	<u>22,450</u>	At 31 December	<u>8,643</u>	<u>6,458</u>

e) Relationship between tax expense and accounting profit

The Bank is liable to income tax for the year 2021 in accordance with the income tax laws of the Sultanate of Oman at the rate of 15% (2020: 15%) on taxable profits.

2020 US\$ '000	2021 US\$ '000		2021 RO '000	2020 RO '000
70,127	83,532	Accounting profit for the year	32,160	26,999
10,519	12,530	Tax charge @ 15% on accounting profit	4,824	4,050
		Add / (less) tax effects of:		
(409)	(607)	Income not taxable	(234)	(158)
59	93	Non deductible expense / (income)	36	23
(3,003)	-	Prior year tax expense	-	(1,156)
706	(187)	Others	(72)	272
<u>7,873</u>	<u>11,829</u>	Tax expense	<u>4,554</u>	<u>3,031</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

12 TAXATION *(continued)*

The effective tax rate of the Bank for 2021 was 14.21% (2020: 14.90%)

The Bank's tax assessments have been completed by the Tax Authorities upto the year 2017. The Bank is of the opinion that additional taxes, if any, related to the open tax years would not be significant to the Bank's financial position as at 31 December 2021

13 OTHER ASSETS

2020 US\$ '000	2021 US\$ '000		2021 RO '000	2020 RO '000
53,909	70,843	Acceptances	27,274	20,755
3,901	3,315	Prepaid expenses	1,276	1,502
7,158	8,701	Interest and profit receivable on investments	3,350	2,756
6,914	4,885	Derivatives - positive mark-to-market (note 36)	1,881	2,662
3,943	6,233	Other receivables	2,400	1,518
(101)	(71)	Less: Impairment loss allowance	(27)	(39)
<u>75,724</u>	<u>93,906</u>		<u>36,154</u>	<u>29,154</u>

14 DUE TO BANKS

2020 US\$ '000	2021 US\$ '000		2021 RO '000	2020 RO '000
132,444	342,982	Inter-bank deposits	132,048	50,991
6,771	3,244	Vostro account balances	1,249	2,607
212,068	335,177	Borrowings under repurchase agreements	129,043	81,646
<u>351,283</u>	<u>681,403</u>		<u>262,340</u>	<u>135,244</u>

Borrowings from financial institutions under repurchase agreements are secured by collateralisation of Oman treasury bills, OmGrid bonds, Oztel bonds and ICICI bonds. Market value of collateralized treasury bills/ bonds as of 31 December 2021 amounted to RO 138.500 million equivalent to US\$ 359.74 million (31 December 2020: RO 88.174 million equivalent to US\$ 229.02 million). The Bank has master netting arrangements with counterparty banks, which are enforceable in case of default. Collateralisation of these borrowings gives the lender the right to set off. As at 31 December 2021, the fair value of collateralized assets are higher than the borrowings under repurchase agreements.

15 CUSTOMERS' DEPOSITS

2020 US\$ '000	2021 US\$ '000		2021 RO '000	2020 RO '000
		Conventional Banking		
2,941,766	2,801,880	Time deposits	1,078,723	1,132,580
909,384	1,242,678	Demand deposits	478,431	350,113
406,483	598,390	Savings deposits	230,380	156,496
<u>4,257,633</u>	<u>4,642,948</u>		<u>1,787,534</u>	<u>1,639,189</u>
		Islamic Banking		
360,077	447,037	Time deposits	172,109	138,630
126,081	162,921	Demand deposits	62,725	48,541
255,310	413,046	Savings deposits	159,023	98,294
<u>741,468</u>	<u>1,023,004</u>		<u>393,857</u>	<u>285,465</u>
<u>4,999,101</u>	<u>5,665,952</u>		<u>2,181,391</u>	<u>1,924,654</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

16 BORROWED FUNDS

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
415,000	240,000	Financial institutions	92,400	159,775

Borrowed funds includes unsecured US Dollar (USD) borrowings from foreign financial institutions. Applicable financial covenants for these borrowings include the requirement for a minimum tangible networth of the Bank, a minimum capital adequacy ratio and other covenants to be maintained by the Bank which have been complied during the current and prior year.

17 OTHER LIABILITIES

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
53,909	70,843	Acceptances	27,274	20,755
89,634	74,512	Interest and profit payable	28,687	34,509
15,561	15,226	Accrued expenses	5,862	5,991
6,829	8,187	Staff related liabilities	3,152	2,629
15,554	7,360	Derivatives - negative mark-to-market (note 36)	2,834	5,988
743	1,318	Deferred Tax Liability (Note 12 (c))	507	286
11,558	20,624	Others	7,940	4,450
3,604	3,971	Impairment allowance on off balance sheet items	1,529	1,388
197,392	202,041		77,785	75,996

Staff related liabilities includes employee end of service benefits liabilities, the movement during the year is as follows:

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
1,083	1,280	At 1 January	493	417
283	649	Provided during the year (note 30)	250	109
(86)	(472)	Payments made during the year	(182)	(33)
1,280	1,457	At 31 December	561	493

As per the directives of the CMA the amount of unpaid dividend which is outstanding for more than seven months is required to be transferred to the "Investors' Trust Fund" established by the CMA. During the year unpaid cash dividend amounting to RO 0.01 million equivalent to US\$ 0.04 million was transferred to the "Investors' Trust Fund" (2020: RO 0.03 million equivalent to US\$ 0.07 million).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

18 SUBORDINATED LOANS

In accordance with CBO's regulations, subordinated loans are included in the calculation of supplementary capital as defined by the Bank for International Settlements (BIS) for capital adequacy purposes.

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
31,169	7,792	Subordinated loans	3,000	12,000

For each of the last 5 years of the tenor of the subordinated loans, the Bank is required to transfer 20% of the liability to subordinated loan reserve. All subordinated liabilities are repayable at par on maturity. On repayment of subordinated loans, the related subordinated loan reserve balance is released to retained earnings. During the year, an amount of RO 9.00 million equivalent to US\$ 23.38 million was repaid on maturity. The maturity profile and interest rate of these liabilities are disclosed in note 37.2.2.

19 SHARE CAPITAL

The authorised share capital of the Bank is 2,500,000,000 shares amounting to RO 250.000 million (31 December 2020: 2,500,000,000 shares amounting to RO 250.000 million) out of which 1,949,657,466 (31 December 2020: 1,649,657,466 shares) are issued and fully paid up amounting to RO 194.966 million (31 December 2020: RO 164.966 million). During the year, the Bank raised additional capital through rights issue of 300,000,000 shares of 100bz each. In relation to the rights issue, the Bank received RO 300,000 towards rights issue expenses and it incurred RO 185,000 towards the issue expenses. Accordingly, excess of receipts over expenses towards share issue expenses amounting to RO 115,000 has been transferred to the legal reserve.

Ahli United Bank B.S.C (AUB) is the only shareholder which owns 10% or more of the Bank's shares and having significant influence. On 31 December 2021, shareholding of AUB was 682,380,099 shares equivalent to 35% (31 December 2020: 577,380,102 shares equivalent to 35%).

20 LEGAL RESERVE

As required by the Commercial Companies Law of 2019, 10% of the net profit for the year has been transferred to legal reserve. The Bank may resolve to discontinue such annual transfers when the reserve totals one third of the paid up share capital. The reserve is not available for distribution to the shareholders. During the year, RO 2.761 million equivalent to US\$ 7.17 million (31 December 2020: RO 2.396 million equivalent to US\$ 6.23 million) was transferred to legal reserve.

21 DIVIDEND PAID AND PROPOSED

The Board of Directors have recommended cash dividend of 7.5 baizas per share which is subject to approval of the shareholders at the ensuing Annual General Meeting (31 December 2020: cash dividend of 5 baizas per share). The cash dividend 2020 was approved by the shareholders in Annual General Meeting and was paid in 2021.

22 TIER 1 PERPETUAL SUBORDINATED BONDS

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
322,078	322,078	Tier 1 perpetual subordinated bonds	124,000	124,000

In 2017, the Bank has issued perpetual subordinated bonds - Additional Tier 1 (AT1) capital instruments (the "Tier 1 Securities") amounting to RO 50 million (USD 129.87 million). They are redeemable by the Bank at its sole discretion on 11 October 2022 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of CBO.

In 2018, the Bank has further issued perpetual subordinated bonds AT1 capital instruments (the "Tier 1 Securities") amounting to RO 54 million (USD 140.26 million). They are redeemable by the Bank at its sole discretion on 17 December 2023 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of CBO.

In June 2019, the Bank has further issued perpetual subordinated bonds AT1 capital instruments (the "Tier 1 Securities") amounting to RO 20 million (USD 51.95 million). They are redeemable by the Bank at its sole discretion on 13 June 2024 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of CBO.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

22 TIER 1 PERPETUAL SUBORDINATED BONDS *(continued)*

The issuances of Tier 1 Securities bear interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 7.50% per annum. Thereafter the interest rate will be reset at five year intervals. Interest will be payable semi annually in arrears and treated as deduction from equity. Interest is non cumulative and payable at Bank's discretion.

The Bank at its sole discretion may elect not to distribute interest on these Tier 1 perpetual subordinated bonds and this is not considered as an event of default. If the Bank does not pay interest on the Tier 1 perpetual subordinated bonds on the relevant interest payment date, the Bank shall not have any obligation to make any subsequent payment in respect of any unpaid interest payment amount. If interest is not paid as a consequence of a non payment event or a non payment election, then from the date of such Non-Payment Event or Non-Payment Election (the "Dividend Stopper Date"), the Bank will not, so long as any of the Bonds are outstanding declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, the ordinary shares of the Bank, ranking junior to or pari passu with the Tier 1 capital securities unless and until it has paid one interest payment in full on the Tier 1 capital securities. The Tier 1 capital securities also allow the bank to write down (in whole or in part) any amounts due to the holders of the securities under certain circumstances.

These securities form part of Tier 1 Capital of the Bank and comply with Basel III and CBO regulations (BM 1114).

23 NET ASSETS VALUE PER SHARE

Net assets value per share is calculated by dividing the net assets with the issued and paid up shares at end of the year.

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
686,623	787,002	Net assets	302,997	264,350
<u>1,649,657</u>	<u>1,949,657</u>	Issued and paid up shares (in 000's) at 31 December	<u>1,949,657</u>	<u>1,649,657</u>
42	40	Net asset value per share (US cents /baizas)	155	160

24 CONTINGENT LIABILITIES AND COMMITMENTS

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
323,429	304,293	Financial guarantees*	117,153	124,520
172,345	104,816	Letters of credit	40,354	66,353
122,545	124,473	Loan commitments	47,922	47,180
4,377	19,372	Capital commitments	7,458	1,685
<u>622,696</u>	<u>552,954</u>		<u>212,887</u>	<u>239,738</u>

*As at December 31, 2021, guarantees of RO 3.363 million were issued against counter guarantees of other banks

Legal cases

As at 31 December 2021, there were certain legal suits pending against the Bank. Based on the opinion of the Bank's legal counsel, the Bank's management believes that no additional liability is expected to arise from these cases and therefore does not consider it necessary to make any additional provisions in this regard.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

25 INTEREST INCOME/INCOME FROM ISLAMIC FINANCING AND INVESTMENTS

2020 US\$ '000	2021 US\$ '000		2021 RO '000	2020 RO '000
265,314	274,987	Loans and advances	105,870	102,146
26,099	33,605	Investments	12,938	10,048
1,065	2,826	Due from banks	1,088	410
<u>292,478</u>	<u>311,418</u>		<u>119,896</u>	<u>112,604</u>
43,987	51,780	Islamic financing	19,935	16,935
4,465	4,060	Islamic investment	1,563	1,719
<u>48,452</u>	<u>55,840</u>		<u>21,498</u>	<u>18,654</u>
<u>340,930</u>	<u>367,258</u>	Total	<u>141,394</u>	<u>131,258</u>

26 INTEREST EXPENSE/UNRESTRICTED INVESTMENT ACCOUNT HOLDERS' SHARE OF PROFIT AND PROFIT EXPENSE

2020 US\$ '000	2021 US\$ '000		2021 RO '000	2020 RO '000
116,491	127,408	Time deposits	49,052	44,849
26,421	22,673	Demand and saving deposits	8,729	10,172
14,408	10,283	Borrowings	3,959	5,547
8,275	10,439	Inter-bank deposits	4,019	3,186
<u>165,595</u>	<u>170,803</u>		<u>65,759</u>	<u>63,754</u>
18,647	26,158	Islamic customer deposits	10,071	7,179
600	-	Islamic investment	-	231
<u>19,247</u>	<u>26,158</u>		<u>10,071</u>	<u>7,410</u>
<u>184,842</u>	<u>196,961</u>	Total	<u>75,830</u>	<u>71,164</u>

27 OTHER OPERATING INCOME

2020 US\$ '000	2021 US\$ '000		2021 RO '000	2020 RO '000
31	7,649	Gain on sale of investments	2,945	12
9,390	7,412	Foreign exchange gain, net	2,854	3,615
792	432	Dividend income (Refer note 9)	166	305
(392)	436	Unrealised gain/(loss) on FVTPL investments	168	(151)
<u>9,821</u>	<u>15,929</u>		<u>6,133</u>	<u>3,781</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

28 DISAGGREGATION OF FEE AND COMMISSION INCOME, NET

IFRS 15 requires the disclosure of disaggregated revenue earned from contracts with customers for major products/ service lines. The below table provides disaggregation of fees and other income & commission with the Bank's reportable segments:

	2021			2020		
	Retail banking	Wholesale banking, treasury and investment banking	Total	Retail banking	Wholesale banking, treasury and investment banking	Total
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Disaggregated income						
Service charges	696	473	1,169	573	411	984
Fees income	1,884	6,956	8,840	1,204	4,633	5,837
Commission income	70	1,526	1,596	36	1,304	1,340
Total fee and commission income	2,650	8,955	11,605	1,813	6,348	8,161
Fee expense	(864)	-	(864)	(540)	-	(540)
Net fee and commission income	1,786	8,955	10,741	1,273	6,348	7,621
			2021			2020
	Retail banking	Wholesale banking, treasury and investment banking	Total	Retail banking	Wholesale banking, treasury and investment banking	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Disaggregated income						
Service charges	1,807	1,229	3,036	1,488	1,068	2,556
Fees income	4,893	18,067	22,963	3,126	12,034	15,160
Commission	181	3,963	4,144	94	3,387	3,481
Total fee and commission income	6,881	23,259	30,143	4,708	16,489	21,197
Fee expense	(2,244)	-	(2,244)	(1,403)	-	(1,403)
Net fee and commission income	4,637	23,259	27,899	3,305	16,489	19,794

29 NET IMPAIRMENT ON FINANCIAL ASSETS

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
		Net impairment charge		
314	(226)	Due from banks	(87)	121
44,340	47,470	Loans & advances and financing	18,276	17,071
65	(5)	Investment securities	(2)	25
73	(31)	Other assets	(12)	28
758	366	Loan commitments and financial guarantees	141	292
(99)	(166)	Loans & advances and financing written back	(64)	(38)
(1,833)	(1,613)	Recovery of loans written off earlier	(621)	(706)
43,618	45,795		17,631	16,793
(6,210)	(7,665)	Less: Interest reserved during the period	(2,951)	(2,391)
37,408	38,130		14,680	14,402

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

30 STAFF EXPENSES

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
41,787	47,076	Salaries and allowances	18,124	16,088
3,153	5,021	Other staff costs	1,933	1,214
3,065	3,767	Contribution to social insurance schemes	1,450	1,180
283	649	Employees end of service benefits (note 17)	250	109
<u>48,288</u>	<u>56,513</u>		<u>21,757</u>	<u>18,591</u>

31 OTHER OPERATING EXPENSES

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
21,013	25,659	Operating and administration costs	9,879	8,090
1,574	2,249	Occupancy costs	866	606
519	917	Board related expenses	353	200
<u>23,106</u>	<u>28,825</u>		<u>11,098</u>	<u>8,896</u>

32 BASIC AND DILUTED EARNINGS PER SHARE

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
62,254	71,703	Profit for the year	27,606	23,968
(24,157)	(24,157)	Less: AT1 Interest Paid during the year	(9,300)	(9,300)
<u>38,097</u>	<u>47,546</u>	Profit Attributable to Equity Shareholders	<u>18,306</u>	<u>14,668</u>
1,652,175	1,882,826	Weighted average number of outstanding shares during the year (in 000's)	1,882,826	1,652,175
<u>2</u>	<u>3</u>	Earnings per share (cents / baizas)	<u>10</u>	<u>9</u>

Basic and diluted earnings per share are same as the Bank has not issued any instruments which would have a diluting impact on earnings per share when exercised.

Earnings per share for the current and prior period have been calculated using the weighted average shares outstanding for the current period. The weighted average shares outstanding for the period ended 31 December 2021 were 1,882,826 which included rights issue of 300,000,000 shares at par in March 2021

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

33 RELATED PARTY TRANSACTIONS

The Bank enters into transactions with major shareholders, directors, senior management and their related entities in the ordinary course of business at commercial terms as approved by the board.

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

2020 US\$ '000	2021 US\$ '000		2021 RO '000	2020 RO '000
		Directors and senior management		
2,436	2,468	Loans & advances and financing, gross	950	938
1,213	1,045	- secured	402	467
1,223	1,423	- unsecured	548	471
5	8	- Expected credit loss allowance	3	2
3,268	4,005	Customers' deposits	1,542	1,258
		Major shareholders and others		
4,086	3,894	Due from banks	1,499	1,573
499	351	Investments securities	135	192
		Other assets		
579	-	- Fair value of forward contracts	-	223
11,909	10,234	Due to banks	3,940	4,585
68	57	Customers' deposits	22	26
		Other liabilities		
3	-	- Fair value of forward contracts	-	1
8,701	4,434	- Fair value of swaps	1,707	3,350
888	888	Contingent liabilities and commitments	342	342

Loans & advances and financing provided to directors and senior management are not credit impaired at the reporting date and ECL allowance was calculated based on expected credit losses.

The related maturity profile and interest rate risk is given in note 37.2.2 and 37.3.2 respectively.

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

2020 US\$ '000	2021 US\$ '000		2021 RO '000	2020 RO '000
		Directors and senior management		
109	96	Interest income	37	42
60	119	Interest expense	46	23
384	779	Board remuneration proposed	300	148
135	138	Board sitting fees	53	52
86	73	Shariah Supervisory Board expenses	28	33
-	-	Other operating expenses	-	-
		Major shareholders and others		
121	32	Interest expense	12	47
579	-	Gain on fair value of forward contracts	-	223
4,132	4,434	Loss on fair value of interest rate swaps	1,707	1,591

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

33 RELATED PARTY TRANSACTIONS *(continued)*

As at 31 December 2021, guarantees were issued to beneficiaries on behalf of Ahli United Bank, Bahrain, a major shareholder amounting to RO 3.179 million equivalent to US\$ 8.26 million (31 December 2019: RO 3.087 million equivalent to US\$ 8.02 million). The Bank has earned RO 0.001 million equivalent to US\$ 0.003 million (2020: RO 0.004 million equivalent to US\$ 0.01 million) fee on issuing guarantees.

Compensation of the key management personnel is as follows;

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
3,169	2,962	Salaries and allowances	1,140	1,127
68	62	End of service benefits	24	19
<u>3,237</u>	<u>3,024</u>		<u>1,164</u>	<u>1,146</u>

34 FINANCIAL INSTRUMENTS CLASSIFICATION

The following table provides a reconciliation between lines in the statement of financial position and categories of financial instruments:

Particulars	Note	2021					Total
		Amortised cost	FVOCI-debt instruments	FVOCI-equity instruments	FVTPL		
		RO '000	RO '000	RO '000	RO '000	RO '000	
Financial assets							
Cash and balances with Central Bank of Oman	5	114,703	-	-	-	114,703	
Due from banks	6	44,694	-	-	-	44,694	
Loans & advances and financing, net	7	2,401,979	-	-	-	2,401,979	
Investment securities	9	-	422,730	4,775	872	428,377	
Other assets - acceptances and interest and profit receivable	13	30,625	-	-	-	30,625	
Derivatives - positive mark-to-market		-	-	-	1,178	1,178	
Financial liabilities							
Due to banks	14	262,340	-	-	-	262,340	
Customers' deposits	15	2,181,391	-	-	-	2,181,391	
Borrowed funds	16	92,400	-	-	-	92,400	
Subordinated liabilities	18	3,000	-	-	-	3,000	
Other liabilities - acceptances and interest and profit payable	17	55,961	-	-	-	55,961	
Derivatives - negative mark-to-market		-	1,828	-	968	2,797	

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

34 FINANCIAL INSTRUMENTS CLASSIFICATION *(continued)*

Particulars	Note	2021					Total
		Amortised cost	FVOCI-debt instruments	FVOCI-equity instruments	FVTPL		
		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	
Financial assets							
Cash and balances with Central Bank of Oman	5	297,930	-	-	-	297,930	
Due from banks	6	116,088	-	-	-	116,088	
Loans & advances and financing, net	7	6,238,907	-	-	-	6,238,907	
Investment securities	9	-	1,098,000	12,403	2,265	1,112,668	
Other assets - acceptances and interest and profit receivable	13	79,544	-	-	-	79,544	
Derivatives - positive mark-to-market		-	-	-	3,060	3,060	
Financial liabilities							
Due to banks	14	681,403	-	-	-	681,403	
Customers' deposits	15	5,665,952	-	-	-	5,665,952	
Borrowed funds	16	240,000	-	-	-	240,000	
Subordinated liabilities	18	7,792	-	-	-	7,792	
Other liabilities - acceptances and interest and profit payable	17	145,353	-	-	-	145,353	
Derivatives - negative mark-to-market		-	4,749	-	2,515	7,264	

Particulars	Note	2020					Total
		Amortised cost	FVOCI-debt instruments	FVOCI-equity instruments	FVTPL		
		RO '000	RO '000	RO '000	RO '000	RO '000	
Financial assets							
Cash and balances with Central Bank of Oman	5	79,020	-	-	-	79,020	
Due from banks	6	46,174	-	-	-	46,174	
Loans & advances and financing, net	7	2,218,897	-	-	-	2,218,897	
Investment securities	9	-	301,162	4,509	697	306,368	
Other assets - acceptances and interest and profit receivable	13	23,511	-	-	-	23,511	
Derivatives - positive mark-to-market		-	-	-	849	849	
Financial liabilities							
Due to banks	14	135,244	-	-	-	135,244	
Customers' deposits	15	1,924,654	-	-	-	1,924,654	
Borrowed funds	16	159,775	-	-	-	159,775	
Subordinated liabilities	18	12,000	-	-	-	12,000	
Other liabilities - acceptances and interest and profit payable	17	55,264	-	-	-	55,264	
Derivatives - negative mark-to-market		-	5,153	-	737	5,890	

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

34 FINANCIAL INSTRUMENTS CLASSIFICATION *(continued)*

Particulars	Note	2020				
		Amortised cost	FVOCI-debt instruments	FVOCI-equity instruments	FVTPL	Total
		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Financial assets						
Cash and balances with Central Bank of Oman	5	205,247	-	-	-	205,247
Due from banks	6	119,932	-	-	-	119,932
Loans & advances and financing, net	7	5,763,369	-	-	-	5,763,369
Investment securities	9	-	782,239	11,712	1,810	795,761
Other assets - acceptances and interest and profit receivable	13	61,067	-	-	-	61,067
Derivatives - positive mark-to-market		-	-	-	2,205	2,205
Financial liabilities						
Due to banks	14	351,283	-	-	-	351,283
Customer deposits	15	4,999,101	-	-	-	4,999,101
Borrowed funds	16	415,000	-	-	-	415,000
Subordinated liabilities	18	31,169	-	-	-	31,169
Other liabilities - acceptances and interest and profit payable	17	143,543	-	-	-	143,543
Derivatives - negative mark-to-market		-	13,385	-	1,914	15,299

35 ESTIMATION OF FAIR VALUES

The following summarises the major methods and assumptions used in estimating the fair values of financial assets and financial liabilities.

Loans & advances and financing

The fair value of loans & advances and financings receivables is estimated at the present value of future cash flows, discounted at the market value of interest at the reporting date. These financial assets fall under level 3 category of fair value hierarchy levels. Carrying value of loans and advances & financing are considered to approximate their fair value.

Investments

Fair value is based on quoted market prices at the reporting date without any deduction for transaction costs. If a quoted market price is not available, a reasonable estimate of the fair value is determined by reference to the current market value of a similar investment, or is based on the expected discounted cash flows. Investments having short term maturities are not discounted.

Current account balances due to and due from banks

The carrying values of current account balances due to and due from banks is considered to be a reasonable estimate of fair value due to their short term in nature.

Other financial instruments

The fair value of all on balance sheet financial instruments are considered to approximate their book values.

Foreign exchange contracts are valued based on market prices. The market value adjustments in respect of foreign exchange contracts are included under other assets and other liabilities.

Fair Value Measurement recognised in Statement of Financial Position

Level 1 - Quoted prices (unadjusted) in active markets.

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).

The following table shows an analysis of financial instruments other than derivative instruments recorded at fair value by level of the fair value hierarchy.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

35 ESTIMATION OF FAIR VALUES *(continued)*

	31 December 2021			31 December 2020		
	Level 1 RO '000	Level 2 RO '000	Total RO '000	Level 1 RO '000	Level 2 RO '000	Total RO '000
Financial assets:						
Investments at FVTPL	872	-	872	697	-	697
Investments at FVOCI	73,325	354,180	427,505	61,053	244,618	305,671
Derivative financial instruments						
Interest rate swaps	-	1,178	1,178	-	849	849
Forward foreign exchange contracts	703	-	703	1,813	-	1,813
	<u>74,900</u>	<u>355,358</u>	<u>430,258</u>	<u>63,563</u>	<u>245,467</u>	<u>309,030</u>
Financial liabilities						
Derivative financial instruments						
Interest rate swaps	-	2,797	2,797	-	5,890	5,890
Forward foreign exchange contracts	37	-	37	98	-	98
	<u>37</u>	<u>2,797</u>	<u>2,834</u>	<u>98</u>	<u>5,890</u>	<u>5,988</u>
Financial assets:	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Investments at FVTPL	2,265	-	2,265	1,810	-	1,810
Investments at FVOCI	190,455	919,948	1,110,403	158,579	635,372	793,951
Derivative financial instruments						
Interest rate swaps	-	3,060	3,060	-	2,205	2,205
Forward foreign exchange contracts	1,825	-	1,825	4,709	-	4,709
	<u>194,545</u>	<u>923,008</u>	<u>1,117,553</u>	<u>165,098</u>	<u>637,577</u>	<u>802,675</u>
Financial liabilities						
Derivative financial instruments						
Interest rate swaps	-	7,264	7,264	-	15,299	15,299
Forward foreign exchange contracts	96	-	96	255	-	255
	<u>96</u>	<u>7,264</u>	<u>7,360</u>	<u>255</u>	<u>15,299</u>	<u>15,554</u>

There are no transfers between levels of fair value measurement hierarchy during the years 2021 and 2020.

36 DERIVATIVES HELD FOR RISK MANAGEMENT AND HEDGE ACCOUNTING

In the ordinary course of business the Bank enters into various types of transactions that involve derivative financial instruments.

Derivative product types

Swaps are contractual agreements between two parties to exchange interest based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

Forward contracts are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forward contracts are customised contracts transacted through various process.

Derivatives held for hedging purposes

Fixed interest rates on principal amount of loans and investments are normally hedged using interest rate swaps whose repayments dates are the same as of hedge item. These contracts are designated as fair value hedges since inception.

Derivatives held for risk management purposes

The Bank has entered into interest rate swaps and forward contracts for risk management purposes.

The Bank ensures that its exposure is kept to acceptable level by buying and selling of foreign currencies in forward market when necessary to address short term imbalances.

Fair value hedges of interest rate risk

The Bank uses interest rate swaps to hedge its exposure to changes in fair values of fixed-rate investments in respect of a USD LIBOR interest rate (for the impact of IBOR reform on hedge accounting, see below). Interest rate swaps are matched to specific purchases of investments.

The Bank hedges interest rate risk only to the extent of benchmark interest rates. The benchmark rate is a component of interest rate risk that is observable in relevant environments. Hedge accounting is applied where economic hedge relationships meet the hedge accounting criteria. The Bank considers whether the critical terms of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

36 DERIVATIVES HELD FOR RISK MANAGEMENT AND HEDGE ACCOUNTING *(continued)*

When fair value hedge accounting is applied by the Bank, the Bank assesses whether the derivative designated in each hedging relationship is expected to be and has been highly effective in offsetting changes in fair value of the hedged item.

The fair value of the swaps is disclosed in other assets (liabilities) and the carrying amount of the hedged items included in the line item 'Investments' in the statement of financial position. Fair value gains on derivatives held in qualifying fair value hedging relationships and the hedging gain or loss on the hedged items are included in other operating income.

The carrying amount of the hedged items are included in the line item 'Investments' on the statement of financial position with the notional amount totalling to RO 28.309 million (2020: RO 31.888 million) equivalent to US\$ 73.53 million (2020: 82.83 million). These hedged items comprise of debt instruments which are held as FVOCI.

Cash flow hedge

The Bank uses interest rate swaps to hedge the cash flow volatility risk on its borrowed funds and pay fixed/receive floating interest rate in respect of USD LIBOR interest rate (for the impact of IBOR reform on hedge accounting, see below). The Bank hedges interest rate risk to the extent of benchmark interest rate exposure on its floating-rate notes to mitigate variability in its cash flows. Hedge accounting is applied where economic hedging relationships meet the hedge accounting criteria. The carrying amount of the hedged items is included in the line item "Borrowed funds" on the statement of financial position with the notional amount totalling to RO 21.175 million (2020: RO 98.175 million) equivalent to US\$ 55.00 million (2020: US\$ 255.00 million).

Interest rate benchmark reform (IBOR reform)

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (LIBORs) with alternative nearly risk-free rates (referred to as 'LIBOR reform'). The Bank's LIBOR exposures are primarily in USD LIBOR. The alternative reference rate for USD LIBOR is the Secured Overnight Financing Rate (SOFR). USD LIBOR was planned to be discontinued by the end of year 2021.

The Bank is managing the transition to new benchmark rates for affected financial assets and financial liabilities by actively reviewing existing contracts indexed to LIBOR to ensure appropriate fallback provisions is contained in all contracts. The main risks to which the Bank is exposed as a result of IBOR reform are operational. For example, the renegotiation of loan contracts through bilateral negotiation with customers and updating of contractual terms related to the reform. Financial risk is predominantly limited to interest rate risk, the impact of which is a result of basis risk due to uncertainty around timing difference between transitioning of USD assets and USD liabilities. Although it is too early to predict the exact financial impact the transition will have, based on Bank's internal assessment, it is expected that the impact will not be material.

The main risks to which the Bank is exposed to as a result of IBOR reform are operational. In order to manage these risks, the Bank has evaluated potential changes to market infrastructures on its risk framework, models, systems, products and processes. The Bank has completed the review and identification of existing contracts warranting amendments by insertion of appropriate fall back clauses related to cessation of LIBOR. Accordingly, the Bank has engaged an external legal consultant to advice on such amendments to all relevant contracts. All contracts being entered during the interim period, until cessation, are and will be executed with robust fallback language. To overcome the limitations of existing IT system, the Bank is in the process of upgrading its system by selecting a suitable vendor. The Bank is also implementing effective strategies in areas such as communication with customers and training to staff to minimize any risks from the transition.

Although the financial impact from differing transition timelines of effected assets/liabilities and the potential for mismatch in their pricing cannot be reliably estimated, based on the repricing profile of the Bank's assets and liabilities, the Bank believes that the impact of this change is not material to the financial statements. This is based on the assumption that the replacement rate along with relevant spread is not materially different from the existing LIBOR based rates and that the Bank will be able to negotiate similar spreads with the customers/ counterparties.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

36 DERIVATIVES HELD FOR RISK MANAGEMENT AND HEDGE ACCOUNTING *(continued)*

The table below discloses amounts of non-derivative financial assets and liabilities and derivative contracts at 31 December 2021 which are based on USD LIBOR, along with maturities beyond the cessation date of 30 June 2023.

	in RO'000		in US\$'000	
	Total	Post Cessation Date of 30 June 2023	Total	Post Cessation Date of 30 June 2023
NON-DERIVATIVE FINANCIAL ASSETS				
Due from other banks	23,100	-	60,000	-
Loans and advances to customers	482,938	217,590	1,254,385	565,168
TOTAL NON-DERIVATIVE FINANCIAL ASSETS	506,038	217,590	1,314,385	565,168
NON-DERIVATIVE FINANCIAL LIABILITIES				
Due to other banks	144,943	71,225	376,476	185,000
TOTAL NON-DERIVATIVE FINANCIAL LIABILITIES	144,943	71,225	376,476	185,000
DERIVATIVE FINANCIAL INSTRUMENTS				
Interest rate swaps: notional amounts	208,806	116,777	542,353	303,316
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS	208,806	116,777	542,353	303,316

The table below shows the positive and negative fair values of derivative financial instruments, together with the undiscounted cash flows analysed by the term of their maturity.

	Assets RO '000	Liabilities RO '000	Nominal cash flows by term to maturity			
			Notional cash flows RO '000	Within 3 months RO '000	3 to 12 months RO '000	Over 1 year RO '000
At 31 December 2021						
Derivatives for hedging:						
Interest rate swaps						
-Fair value hedge	1,178	2,675	168,381	-	26,579	141,802
-Cash flow hedge	-	122	40,425	19,250	11,550	9,625
Derivatives:						
Forward purchase contracts	107	23	166,065	63,823	94,482	7,760
Forward sales contracts	596	14	166,066	63,823	94,483	7,760
	1,881	2,834	540,937	146,896	227,094	166,947
	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Derivatives for hedging:						
Interest rate swaps						
-Fair value hedge	3,060	6,948	437,353	-	69,037	368,316
-Cash flow hedge	-	316	105,000	50,000	30,000	25,000
Derivatives:						
Forward purchase contracts	277	60	431,338	165,774	245,409	20,156
Forward sales contracts	1,548	36	431,339	165,774	245,409	20,156
	4,885	7,360	1,405,030	381,548	589,855	433,628

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

36 DERIVATIVES HELD FOR RISK MANAGEMENT AND HEDGE ACCOUNTING *(continued)*

At 31 December 2020	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
<i>Derivatives for hedging:</i>						
Interest rate swaps						
-Fair value hedge	849	4,090	108,429	-	-	108,429
-Cash flow hedge	-	1,800	98,175	-	-	98,175
<i>Derivatives:</i>						
Forward purchase contracts	-	98	208,652	155,164	44,861	8,627
Forward sales contracts	1,813	-	208,653	155,165	44,861	8,627
	<u>2,662</u>	<u>5,988</u>	<u>623,909</u>	<u>310,329</u>	<u>89,722</u>	<u>223,858</u>
	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000
<i>Derivatives for hedging:</i>						
Interest rate swaps						
-Fair value hedge	2,205	10,624	281,635	-	-	281,635
-Cash flow hedge	-	4,675	255,000	-	-	255,000
<i>Derivatives:</i>						
Forward purchase contracts	-	255	541,954	403,025	116,522	22,407
Forward sales contracts	4,709	-	541,954	403,025	116,523	22,406
	<u>6,914</u>	<u>15,554</u>	<u>1,620,543</u>	<u>806,050</u>	<u>233,045</u>	<u>581,448</u>

Fair values are included under other assets where positive and other liabilities where negative.

37 FINANCIAL RISK MANAGEMENT

The primary objective of the risk management system is to safeguard the Bank's capital, its financial resources from various risks. The Bank has exposure to the following risks from its use of financial instruments:

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

The Board of Directors ("the Board") has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has approved the Bank's risk management policies in their specified areas.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate limits and controls and to monitor risks and adherence to the limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank through its training and management procedures, aims to develop a constructive control environment, in which all employees understand their roles and obligations.

Executive Risk Committee of the Board under the oversight of the Board is responsible for monitoring compliance with the Bank's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Executive Risk Committee of the Board is assisted in these functions by the Risk Management Department. The Internal Audit Department undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Compliance Committee.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

37 FINANCIAL RISK MANAGEMENT *(continued)*

Outbreak of Coronavirus and measures taken by the Bank

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

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

37.1 CREDIT RISK

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Bank's loans & advances and financing to customers, due from banks and investment securities but can also arise from credit enhancement provided such as financial guarantees, letters of credit and acceptances. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

37.1.1 Management of credit risk

The Board has delegated responsibility for the monitoring of credit risk to its Executive Risk Committee. A separate Risk Management Department, reporting to the chairman of the Executive Risk Committee, is responsible for the following:

- formulating credit risk policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements;
- establishing the authorisation structure for the approval and renewal of credit facilities;
- reviewing and assessing credit risk. The Board's Executive Risk Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process. The process also includes approval by Risk of borrower ratings arrived at by the business units;
- limiting concentrations of exposure to counterparties, geographies and industries (for loans & advances and financing), and by issuer, market liquidity and country (for investment securities);
- developing and maintaining the Bank's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks;
- reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Ensuring to be within the single obligor limit and also within the concentration risk limit for various sectors, which are continuously monitored; and
- providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.1 Management of credit risk *(continued)*

Each business unit is required to implement Bank's credit risk policies and procedures, with credit approval authorities delegated from the Board. Business units have their counter parts in risk management, having specialised expertise in managing risks typical to these business units. Regular audits of business units and the Bank's credit processes are undertaken by Internal Audit Department.

The Bank employs a range of policies and practices to mitigate credit risk. The Bank follows a risk mitigation practice of identifying business cash flows as the primary take out for the loans & advances and financing extended. These cash flows are then tested for sustainability over the tenor of the credit facility and a suitable mechanism is put in place to capture the same into the borrowers account with the Bank. To cover unforeseen risks, which dry up the cash flows, additional tangible securities are taken such as real estate or equity shares. The Bank implements guidelines on the acceptability of specific classes of collateral credit risk mitigation. The principal types of collaterals for loans & advances and financing are:

- mortgages over properties;
- charges over business assets such as premises, inventory and accounts receivable; and
- charges over financial instruments such as debt securities and equity securities.

Longer-term finance and lending to corporate borrowers are generally secured; revolving individual credit facilities are generally unsecured from a collateral perspective, whereas credit risk is primarily mitigated through capture of business cash flows. In addition, in order to minimise the credit loss, the Bank seeks additional collateral from the borrower as soon as impairment indicators are noticed for the relevant individual loans & advances and financing. Collateral held as security for financial assets other than loans & advances and financing, is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured other than certain assets where hedging strategy is considered.

All loans & advances and financing of the Bank are regularly monitored to ensure compliance with the stipulated repayment terms. Those loans & advances and financing are classified into 6 broad classification categories: High Standard, Standard, Special Mention, Substandard, Doubtful, and Loss – as stipulated by Central Bank of Oman regulations and guidelines. Further, as mandated by IFRS 9, the loans & advances and financing, due from banks and investment debt securities are classified into stage 1, stage 2 and stage 3 based on criteria established by the Bank in line with the requirements of CBO circular BM 1149 and its subsequent amendments.

37.1.2 Credit risk measurement

(a) Loans and advances (including Loan commitments and guarantees)

Corporate and SME credit

Risk department is responsible for independent assessment and control of risks related to all corporate and Small and Medium Enterprise exposures. The credit risk associated with corporate loans is assessed based on analysis of customer and the industry in which it operates. The credit rating acts as a key factor in credit decisions at the time of approval and subsequent credit reviews. The department reviews and assesses credit risk for proposed exposures prior to facilities being committed to customers by the concerned business units. Renewals and reviews are also subject to same process. Each proposal is also assessed with respect to established concentration limits for various economic sectors, countries, grades etc, and deviations, if any are highlighted. The Bank has implemented a customised Moody's CreditLens model for risk rating of corporate borrowers. The Bank maintains an accurate and consistent corporate credit rating for all its customers.

In addition to formal annual credit risk reviews of each corporate facility, more frequent reviews are also undertaken for watch list accounts, early warning accounts, lower rated customers and public exposures. The Bank undertakes sector review of its exposure to real estate, construction, healthcare etc. A comprehensive review of the corporate credit portfolio is conducted on regular basis and provided to the executive management and Risk committee. The salient areas covered in the review include:

- Exposures downgraded / negatively migrated.
- Portfolio concentration / performance.
- Position of restructured exposures.
- Position of past due exposures.
- Syndicated exposures.
- Exposure to countries / financial institutions.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.2 Credit risk measurement *(continued)*

Retail credit

Retail credit department manages the credit risk in retail portfolio. Credit facilities are offered to retail customers primarily based on product programmes approved by Risk committee. The retail credit book is classified into performing and non performing loans at monthly intervals. The risk department shall prepare a list of classified accounts based on the risk rating policy of the Bank. A review of retail credit portfolio is conducted on half yearly basis and provided to the board sub committees. Salient areas covered in the review include:

- Portfolio quality
- NPA trends
- Identifying the delinquency factors.
- Recommendations for improving portfolio quality.

Loan review mechanism

Loan Review Mechanism (LRM) is an effective tool for constantly evaluating the quality of loan portfolio and to assist in improving the credit administration quality. As mandated by CBO, the Bank has put in place a proper LRM, addressing the high value accounts taking into consideration qualitative criteria such as restricted accounts, risk ratings, high risk sectors like real estate, etc. The bank has an independent loan review division whose objective is to improve the quality of bank assets and to identify any potential deterioration in the book / asset quality. Moreover, the division evaluates the effectiveness and efficiency of credit approval process, review of credit assessment, evaluate portfolio quality etc.

(b) Credit risk grading

The Bank uses internal credit risk gradings 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 the 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'.

The following table contains an analysis of gross carrying amount financial assets / off balance sheet items by credit risk grading wise measured at amortised cost.

	2021			
	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000	Total RO '000
Loans & advances and financing				
Performing loans (Risk rating 1-6)	1,931,317	329,414	-	2,260,731
Special mention loans (Risk rating 7)	-	139,710	-	139,710
Non performing loans (Risk rating 8-10)	-	-	78,414	78,414
Gross carrying amount (RO'000)	1,931,317	469,124	78,414	2,478,855
Gross carrying amount (US\$'000)	5,016,408	1,218,504	203,673	6,438,585
Loss allowance (RO'000)	8,873	21,802	46,201	76,876
Loss allowance (US\$'000)	23,047	56,628	120,003	199,678

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.3 Exposure to credit risk *(continued)*

Total loans & advances and financing, net (RO'000)	1,922,444	447,322	32,213	2,401,979
Total loans & advances and financing, net (US\$'000)	4,993,361	1,161,876	83,670	6,238,907
Corporate Loans & advances and financing				
Performing loans (Risk rating 1-6)	1,219,425	325,186	-	1,544,611
Special mention loans (Risk rating 7)	-	137,952	-	137,952
Non performing loans (Risk rating 8-10)	-	-	56,647	56,647
Gross carrying amount (RO'000)	1,219,425	463,138	56,647	1,739,210
Gross carrying amount (US\$'000)	3,167,336	1,202,956	147,135	4,517,427
Loss allowance (RO'000)	6,767	19,854	30,102	56,723
Loss allowance (US\$'000)	17,577	51,569	78,187	147,333
Retail Loans & advances and financing				
Performing loans (Risk rating 1-6)	711,892	4,228	-	716,120
Special mention loans (Risk rating 7)	-	1,758	-	1,758
Non performing loans (Risk rating 8-10)	-	-	21,767	21,767
Gross carrying amount (RO'000)	711,892	5,986	21,767	739,645
Gross carrying amount (US\$'000)	1,849,072	15,548	56,538	1,921,158
Loss allowance (RO'000)	2,107	1,947	16,099	20,153
Loss allowance (US\$'000)	5,473	5,057	41,815	52,345
Credit related contingent items				
Performing grades (Risk rating 1-6)	168,809	36,507	113	205,429
Special mention grades (Risk rating 7)	-	-	-	-
Gross carrying amount (RO'000)	168,809	36,507	113	205,429
Gross carrying amount (US\$'000)	438,465	94,823	294	533,582
Loss allowance (RO'000)	394	1,109	26	1,529
Loss allowance (US\$'000)	1,023	2,880	68	3,971
Due from banks (including balances with CBO)				
Performing banks (rated)	140,737	-	-	140,737
Performing banks (unrated)	-	-	-	-
Gross carrying amount (RO'000)	140,737	-	-	140,737
Gross carrying amount (US\$'000)	365,551	-	-	365,551
Loss allowance (RO'000)	36	-	-	36
Loss allowance (US\$'000)	95	-	-	95
Investment securities				
Performing grades (Risk rating 1-6)	422,730	-	-	422,730
Gross carrying amount (RO'000)	422,730	-	-	422,730
Gross carrying amount (US\$'000)	1,098,000	-	-	1,098,000
Loss allowance (RO'000)	50	-	-	50

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.3 Exposure to credit risk *(continued)*

Loss allowance (US\$'000)	130	-	-	130
Other assets				
Performing grades (Risk rating 1-6)	27,261	197	-	27,458
Special mention grades (Risk rating 7)	-	3,166	-	3,166
Gross carrying amount (RO'000)	27,261	3,363	-	30,624
Gross carrying amount (US\$'000)	70,806	8,735	-	79,541
Loss allowance (RO'000)	23	5	-	28
Loss allowance (US\$'000)	58	13	-	71

	2020			
	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000	Total RO '000
Loans & advances and financing				
Performing loans (Risk rating 1-6)	1,769,171	296,565	-	2,065,736
Special mention loans (Risk rating 7)	-	145,359	-	145,359
Non performing loans (Risk rating 8-10)	-	-	66,402	66,402
Gross carrying amount (RO'000)	1,769,171	441,924	66,402	2,277,497
Gross carrying amount (US\$'000)	4,595,249	1,147,855	172,473	5,915,577
Loss allowance (RO'000)	8,315	18,491	31,794	58,600
Loss allowance (US\$'000)	21,597	48,029	82,582	152,208
Total loans & advances and financing, net (RO'000)	1,760,856	423,433	34,608	2,218,897
Total loans & advances and financing, net (US\$'000)	4,573,652	1,099,826	89,891	5,763,369
Corporate Loans & advances and financing				
Performing loans (Risk rating 1-6)	1,048,100	292,409	-	1,340,509
Special mention loans (Risk rating 7)	-	141,340	-	141,340
Non performing loans (Risk rating 8-10)	-	-	46,160	46,160
Gross carrying amount (RO'000)	1,048,100	433,749	46,160	1,528,009
Gross carrying amount (US\$'000)	2,722,338	1,126,620	119,897	3,968,855
Loss allowance (RO'000)	6,451	16,388	18,004	40,843
Loss allowance (US\$'000)	16,756	42,566	46,764	106,086
Retail Loans & advances and financing				
Performing loans (Risk rating 1-6)	721,071	4,156	-	725,227
Special mention loans (Risk rating 7)	-	4,019	-	4,019
Non performing loans (Risk rating 8-10)	-	-	20,242	20,242
Gross carrying amount (RO'000)	721,071	8,175	20,242	749,488
Gross carrying amount (US\$'000)	1,872,912	21,234	52,576	1,946,722
Loss allowance (RO'000)	1,864	2,103	13,790	17,757
Loss allowance (US\$'000)	4,842	5,462	35,818	46,122
Credit related contingent items				
Performing grades (Risk rating 1-6)	185,532	44,691	-	230,223

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.3 Exposure to credit risk *(continued)*

Special mention grades (Risk rating 7)	-	7,830	-	7,830
Gross carrying amount (RO'000)	185,532	52,521	-	238,053
Gross carrying amount (US\$'000)	481,901	136,418	-	618,319
Loss allowance (RO'000)	374	1,014	-	1,388
Loss allowance (US\$'000)	971	2,634	-	3,605
Due from banks (including balances with CBO)				
Performing banks (rated)	110,199	-	-	110,199
Performing banks (unrated)				-
Gross carrying amount (RO'000)	110,199	-	-	110,199
Gross carrying amount (US\$'000)	286,231	-	-	286,231
Loss allowance (RO'000)	124	-	-	124
Loss allowance (US\$'000)	322	-	-	322
Investment securities				
Performing grades (Risk rating 1-6)	301,162	-	-	301,162
Gross carrying amount (RO'000)	301,162	-	-	301,162
Gross carrying amount (US\$'000)	782,239	-	-	782,239
Loss allowance (RO'000)	52	-	-	52
Loss allowance (US\$'000)	134	-	-	134
Other assets				
Performing grades (Risk rating 1-6)	21,802	-	-	21,802
Special mention grades (Risk rating 7)	-	1,709	-	1,709
Gross carrying amount (RO'000)	19,046	1,709	-	23,511
Gross carrying amount (US\$'000)	49,470	4,439	-	61,067
Loss allowance (RO'000)	34	5	-	39
Loss allowance (US\$'000)	88	13	-	101

Risk mitigation policies

The Bank manages, limits and controls concentrations of credit risk in particular, with respect to individual counterparties and groups / Industries. The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or group of borrowers. Such risks are monitored and reviewed periodically by the Executive & Credit committee.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.3 Exposure to credit risk *(continued)*

Maximum exposure to credit risk before collateral held or other credit enhancements

Net maximum exposure	Gross maximum exposure	Net maximum exposure	Gross maximum exposure		Gross maximum exposure	Net maximum exposure	Gross maximum exposure	Net maximum exposure
2020	2020	2021	2021		2021	2021	2020	2020
US\$ '000	US\$ '000	US\$ '000	US\$ '000		RO '000	RO '000	RO '000	RO '000
167,341	167,341	250,732	250,732	Balances with Central Bank of Oman	96,532	96,532	64,426	64,426
120,254	120,254	116,183	116,183	Due from banks	44,730	44,730	46,298	46,298
1,231,717	5,915,577	1,880,647	6,438,585	Loans & advances and financing	2,478,855	724,049	2,277,497	474,211
682,042	3,968,855	1,238,964	4,517,430	-Corporate	1,739,210	477,001	1,528,009	262,586
549,675	1,946,722	641,683	1,921,155	-Retail	739,645	247,048	749,488	211,625
782,239	782,239	1,098,000	1,098,000	Investment securities	422,730	422,730	301,162	301,162
53,909	53,909	79,542	79,542	Other assets	30,624	30,624	23,511	23,511
2,205	2,205	3,060	3,060	Derivative financial instruments	1,178	1,178	849	849
2,357,665	7,041,525	3,428,164	7,986,102	Total on balance sheet exposure	3,074,649	1,319,843	2,713,743	910,457
126,922	126,922	124,473	143,845	Loan & capital commitments	47,922	47,922	48,865	48,865
370,390	495,774	297,921	409,109	Financial guarantess and letters of credit	157,507	114,700	190,873	142,600
497,312	622,696	422,394	552,954	Total off balance sheet exposure	205,429	162,622	239,738	191,465
2,854,977	7,664,221	3,850,558	8,539,056	Grand total	3,280,078	1,482,465	2,953,481	1,101,922

The above table represents the maximum credit risk exposure to the Bank at 31 December 2021 and 2020 without taking into account the collateral held or other credit enhancements. Management is confident that the bank has suitable policies to measure and control the credit risk. In addition, credit risk is mitigated through collaterals in the form of mortgages and guarantees wherever required.

37.1.4 Collateral and other credit enhancements

The Bank employs a range of policies and practices to mitigate credit risk. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The Bank has guidelines regarding the acceptability of types of collateral and valuation parameters. The principal collateral types for loans & advances and financing are as follows:

- Charges over business assets such as premises, inventory and accounts receivable
- Lien on fixed deposits
- Cash margins
- Mortgages over residential and commercial properties

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 Bank also periodically reviews the collateral cover for determining the adequacy of the allowance for impairment losses. The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since last year. There are no repossessed assets held by the Bank as at the balance sheet date.

The fair value of collateral that the bank holds relating to loans & advances and financing that are credit impaired at the reporting date as at 31 December 2021 was RO 48.168 million equivalent to US\$ 125.11 million (2020: RO 19.452 million equivalent to US\$ 50.53 million). Loans & advances and financing with collateral amounting RO 1,706.638 million equivalent to US\$ 4,432.83 million (2020: RO 1,851.599 million equivalent to US\$ 4,809.25 million) are not credit impaired

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.4 Collateral and other credit enhancements *(continued)*

37.1.5 Modification of loans

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

As per Bank assessment there is no de-recognition of the loans happened based on the deferrment granted as the deferrment is for a short term period and revised terms are not substantially different from the original terms. The Bank has determined that the impact of modificaiton was not material for the reporting period.

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

	Construction	Services	Manufacturing	All Others	Total
	RO '000	RO '000	RO '000	RO '000	RO '000
Stage 1					
Loans & advances and financing, net	50,056	14,770	21,664	21,788	108,279
ECL Allowance	108	80	80	123	392
Of Which:					
Deferred					
Principal	4,142	2,897	10,616	16,974	34,629
Interest	4,896	2,625	2,725	940	11,186
ECL allowance	19	30	50	111	210
Carrying Amount	9,018	5,492	13,291	17,803	45,604
Stage 2					
Loans & advances and financing, net	67,432	97,320	16,101	47,211	228,065
ECL Allowance	4,494	2,295	567	3,483	10,838
Of Which:					
Deferred					
Principal	57,067	11,407	14,483	26,332	109,290
Interest	5,780	10,966	996	2,855	20,598
ECL allowance	4,188	528	545	2,202	7,463
Carrying Amount	58,659	21,846	14,935	47,865	122,426
Total					
Loans & advances and financing, net	117,488	112,091	37,765	69,000	336,343
ECL Allowance	4,602	2,375	647	3,606	11,230
Of Which:					
Deferred					
Principal	61,209	14,304	25,099	43,307	143,919
Interest	10,676	13,591	3,721	3,796	31,784
ECL allowance	4,208	557	595	2,313	7,673
Carrying Amount	67,677	27,337	28,226	70,482	168,029

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

Retail Portfolio	Outstanding	ECL	Principal Deferred	Interest Deferred	ECL	Carrying Amount
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Salaried	6,600	18	212	170	1	381
Irregular Salary	2,225	10	39	48	1	86
Total	8,825	28	251	218	2	467

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.6 Loans written off / recovery based on enforcement activity

The Bank has made certain technical write off of loans & advances that are still subject to enforcement activity. The contractual amount outstanding that were technically written off as at year end 31 December 2021 was RO 4.620 million (2020: RO 5.223 million) equivalent to US\$ 11.70 million (2020: US\$ 13.57 million). The Bank still seeks to recover amounts it is legally owned in full, but has been technically written off due to no reasonable expectation of full recovery.

37.1.7 Expected credit loss (ECL) measurement

Overview of ECL principles

The adoption of IFRS 9 has fundamentally changed the Bank's financing loss impairment method by replacing incurred loss approach with a forward looking ECL approach. The Bank has been recording the allowance for expected credit losses for all financing exposure and other debt financial assets not held at FVTPL, together with financing commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

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

Measuring ECL-Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit –impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12MPD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amount the bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD) . For example, for revolving commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- Loss Given Default (LGD) represents the bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made it the default occurs in the next 12 months and lifetime LGD is the percentage of loss expected to be made it the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projected the PD, LGD and EAD for each future month and for each individual exposure of collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month).this effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof. The lifetime PD is developed by applying a maturity profile to the current 12 months PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loan. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortizing products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12 month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.
- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a 'credit conversion factor' which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilization band, based on analysis of the bank's recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies, including contracted debt sales and price.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.7 Expected credit loss (ECL) measurement *(continued)*

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

Stage 1

When financing are first recognised, the Bank 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 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.

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

Generating the term structure of probability of default (PD)

Risk ratings are the primary input into determination of PD term structure for credit exposures. Default and performing information is collected for each credit exposure and analysed by borrower and respective risk rating. Statistical models are utilize to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

ECL exposure of financial assets and off-balance sheet

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

Movement in gross carrying amount

	2021				
	Stage 1	Stage 2	Stage 3	Total	Total
	RO '000	RO '000	RO '000	RO '000	US\$ '000
Loans & advances and financing at Amortised cost					
Balance at 1 January	1,769,171	441,924	66,402	2,277,497	5,915,577
Transfer between stages					
- Transfer to Stage 1	24,527	(24,409)	(118)	-	-
- Transfer to Stage 2	(27,103)	27,103	-	-	-
- Transfer to Stage 3	(549)	(8,800)	9,349	-	-
Re-measurement of outstanding	155	41,022	3,450	44,627	115,912
Financial assets originated during the period	230,453	-	-	230,453	598,581
Financial assets matured during the period	(65,332)	(7,716)	(610)	(73,658)	(191,319)
Write off	(5)	-	(59)	(64)	(166)
Balance at 31 December	1,931,317	469,124	78,414	2,478,855	6,438,585
Corporate Loans & advances and financing at Amortised cost					
Balance at 1 January	1,048,100	433,749	46,160	1,528,009	3,968,855
Transfer between stages					
- Transfer to Stage 1	19,608	(19,608)	-	-	-
- Transfer to Stage 2	(22,690)	22,690	-	-	-
- Transfer to Stage 3	-	(7,912)	7,912	-	-
Re-measurement of outstanding	17,313	41,383	2,665	61,361	159,378
Financial assets originated during the period	184,696	-	-	184,696	479,730
Financial assets matured during the period	(27,599)	(7,164)	(90)	(34,853)	(90,527)
Write off	(3)	-	-	(3)	(8)
Balance at 31 December	1,219,425	463,138	56,647	1,739,210	4,517,427

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.7 Expected credit loss (ECL) measurement *(continued)*

Retail Loans & advances and financing at Amortised cost

Balance at 1 January	721,071	8,175	20,242	749,488	1,946,722
Transfer between stages					
- Transfer to Stage 1	4,919	(4,801)	(118)	-	-
- Transfer to Stage 2	(4,413)	4,413	-	-	-
- Transfer to Stage 3	(549)	(888)	1,437	-	-
Re-measurement of outstanding	(17,158)	(361)	785	(16,734)	(43,465)
Financial assets originated during the period	45,757	-	-	45,757	118,852
Financial assets matured during the period	(37,733)	(552)	(520)	(38,805)	(100,792)
Write off	(2)	-	(59)	(61)	(158)
Balance at 31 December	711,892	5,986	21,767	739,645	1,921,158

Movement in gross carrying amount <i>(continued)</i>	2021				Total US\$ '000
	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000	Total RO '000	
Debt investment securities at FVOCI					
Balance at 1 January	301,162	-	-	301,162	782,239
Transfer between stages					
- Transfer to Stage 1	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-
Financial assets originated during the period	121,568	-	-	121,568	315,761
Financial assets matured during the period	-	-	-	-	-
Loss from change in fair value	-	-	-	-	-
Balance at 31 December	422,730	-	-	422,730	1,098,000

Other financial assets at amortised cost

Balance at 1 January	132,001	1,709	-	133,710	347,299
Transfer between stages					
- Transfer to Stage 1	67	(67)	-	-	-
- Transfer to Stage 2	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-
Financial assets originated during the period	43,265	-	-	43,265	112,377
Financial assets matured during the period	(7,335)	1,721	-	(5,614)	(14,583)
Balance at 31 December	167,998	3,363	-	171,361	445,093

Off balance sheet items at amortised cost

Balance at 1 January	185,532	52,521	-	238,053	618,319
Transfer between stages					
- Transfer to Stage 1	17,933	(17,933)	-	-	-
- Transfer to Stage 2	(302)	302	-	-	-
- Transfer to Stage 3	-	(580)	580	-	-
Financial assets originated during the period	40,424	-	-	40,424	104,997
Financial assets matured during the period	(74,778)	2,197	(467)	(73,048)	(189,734)
Balance at 31 December	168,809	36,507	113	205,429	533,582

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.7 Expected credit loss (ECL) measurement *(continued)*

Movement in gross carrying amount	2020				
	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000	Total RO '000	Total US\$ '000
Loans & advances and financing at Amortised cost					
Balance at 1 January	1,684,146	375,931	36,438	2,096,515	5,445,494
Transfer between stages					
- Transfer to Stage 1	82,986	(81,566)	(1,420)	-	-
- Transfer to Stage 2	(148,672)	148,718	(46)	-	-
- Transfer to Stage 3	(505)	(28,120)	28,625	-	-
Re-measurement of outstanding	53,414	44,209	3,197	100,820	261,870
Financial assets originated during the period	169,154	-	-	169,154	439,361
Financial assets matured during the period	(71,352)	(17,248)	(355)	(88,955)	(231,052)
Write off	-	-	(37)	(37)	(96)
Balance at 31 December	1,769,171	441,924	66,402	2,277,497	5,915,577
Corporate Loans & advances and financing at Amortised cost					
Balance at 1 January	986,033	365,124	17,117	1,368,274	3,553,959
Transfer between stages					
- Transfer to Stage 1	75,260	(75,260)	-	-	-
- Transfer to Stage 2	(142,003)	142,003	-	-	-
- Transfer to Stage 3	(38)	(26,805)	26,843	-	-
Re-measurement of outstanding	64,561	45,205	2,273	112,039	291,010
Financial assets originated during the period	110,272	-	-	110,272	286,420
Financial assets matured during the period	(45,985)	(16,518)	(73)	(62,576)	(162,535)
Write off	-	-	-	-	-
Balance at 31 December	1,048,100	433,749	46,160	1,528,009	3,968,855
Retail Loans & advances and financing at Amortised cost					
Balance at 1 January	698,113	10,807	19,321	728,241	1,891,535
Transfer between stages	-	-	-	-	-
- Transfer to Stage 1	7,726	(6,306)	(1,420)	-	-
- Transfer to Stage 2	(6,669)	6,715	(46)	-	-
- Transfer to Stage 3	(467)	(1,315)	1,782	-	-
Re-measurement of outstanding	(11,147)	(996)	924	(11,219)	(29,140)
Financial assets originated during the period	58,882	-	-	58,882	152,940
Financial assets matured during the period	(25,367)	(730)	(282)	(26,379)	(68,517)
Write off	-	-	(37)	(37)	(96)
Balance at 31 December	721,071	8,175	20,242	749,488	1,946,722

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.7 Expected credit loss (ECL) measurement *(continued)*

Movement in gross carrying amount <i>(continued)</i>	2020				
	Stage 1	Stage 2	Stage 3	Total	Total
Debt investment securities at FVOCI	RO '000	RO '000	RO '000	RO '000	US\$ '000
Balance at 1 January	252,634	-	-	252,634	656,193
Transfer between stages	-	-	-	-	-
- Transfer to Stage 1	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-
Financial assets originated during the period	48,528	-	-	48,528	126,046
Financial assets matured during the period	-	-	-	-	-
Loss from change in fair value	-	-	-	-	-
Balance at 31 December	<u>301,162</u>	<u>-</u>	<u>-</u>	<u>301,162</u>	<u>782,239</u>
Other financial assets at amortised cost					
Balance at 1 January	156,911	6,843	-	161,740	420,103
Transfer between stages					
- Transfer to Stage 1	6,048	(6,048)	-	-	-
- Transfer to Stage 2	(1,682)	1,682	-	-	-
- Transfer to Stage 3	18,007	-	-	-	-
Financial assets originated during the period	(47,283)	(768)	-	(35,667)	(92,641)
Financial assets matured during the period	-	-	-	-	-
Balance at 31 December	<u>132,001</u>	<u>1,709</u>	<u>-</u>	<u>126,073</u>	<u>327,462</u>
Off balance sheet items at amortised cost					
Balance at 1 January	225,252	64,200	-	289,452	751,823
Transfer between stages	-	-	-	-	-
- Transfer to Stage 1	19,022	(19,022)	-	-	-
- Transfer to Stage 2	(9,400)	9,400	-	-	-
- Transfer to Stage 3	49,168	-	-	49,168	127,709
Financial assets originated during the period	(98,510)	(2,057)	-	(100,567)	(261,213)
Financial assets matured during the period	-	-	-	-	-
Balance at 31 December	<u>185,532</u>	<u>52,521</u>	<u>-</u>	<u>238,053</u>	<u>618,319</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.7 Expected credit loss (ECL) measurement *(continued)*

Movement in impairment allowance and provision

	2021			Total RO '000	Total US\$ '000
	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000		
Loans & advances and financing at Amortised cost					
Balance at 1 January	8,315	18,491	31,794	58,600	152,208
Transfer between stages					
- Transfer to Stage 1	1,921	(1,701)	(220)	-	-
- Transfer to Stage 2	(80)	80	-	-	-
- Transfer to Stage 3	(2)	(622)	624	-	-
Impairment charged to income statement for					
- <i>Re-measurement of impairment allowances</i>	(1,281)	5,554	14,003	18,276	47,470
- <i>Financial assets originated during the period</i>	(1,617)	6,128	12,855	17,366	45,106
- <i>Financial assets matured during the period</i>	627	-	-	627	1,629
- <i>Financial assets matured during the period</i>	(286)	(574)	-	(860)	(2,234)
Recoveries from impairment for credit losses	-	-	(1,744)	(1,744)	(4,530)
Interest reserve charged to interest income	-	-	3,815	3,815	9,909
Recoveries of reserved interest in interest income	-	-	(864)	(864)	(2,244)
Write off of impairment allowances	(5)	-	(59)	(64)	(166)
Balance at 31 December	8,873	21,802	46,201	76,876	199,678

Corporate Loans & advances and financing at Amortised cost

Balance at 1 January	6,451	16,388	18,004	40,843	106,087
Transfer between stages					
- Transfer to Stage 1	640	(640)	-	-	-
- Transfer to Stage 2	(69)	69	-	-	-
- Transfer to Stage 3	-	(395)	395	-	-
Impairment charged to income statement for					
- <i>Re-measurement of impairment allowances</i>	(256)	4,434	11,703	15,881	41,250
- <i>Financial assets originated during the period</i>	(580)	4,867	9,392	13,679	35,531
- <i>Financial assets originated during the period</i>	492	-	-	492	1,278
- <i>Financial assets matured during the period</i>	(165)	(433)	-	(598)	(1,553)
Recoveries from impairment for credit losses	-	-	(379)	(379)	(984)
Interest reserve charged to interest income	-	-	3,074	3,074	7,984
Recoveries of reserved interest in interest income	-	-	(384)	(384)	(997)
Write off of impairment allowances	(3)	-	-	(3)	(8)
Balance at 31 December	6,766	19,856	30,102	56,724	147,337

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.7 Expected credit loss (ECL) measurement *(continued)*

Movement in impairment allowance and provision *(continued)*

Retail Loans & advances and financing at Amortised cost

Balance at 1 January	1,864	2,103	13,790	17,757	46,121
Transfer between stages					
- Transfer to Stage 1	1,281	(1,061)	(220)	-	-
- Transfer to Stage 2	(11)	11	-	-	-
- Transfer to Stage 3	(2)	(227)	229	-	-
Impairment charged to income statement for	(1,025)	1,120	2,300	2,395	6,220
- <i>Re-measurement of impairment allowances</i>	(1,037)	1,261	3,463	3,687	9,577
- <i>Financial assets originated during the period</i>	135	-	-	135	351
- <i>Financial assets matured during the period</i>	(121)	(141)	-	(262)	(681)
Recoveries from impairment for credit losses	-	-	(1,365)	(1,365)	(3,546)
Interest reserve charged to interest income	-	-	741	741	1,925
Recoveries of reserved interest in interest income	-	-	(480)	(480)	(1,247)
Write off of impairment allowances	(2)	-	(59)	(61)	(158)
Balance at 31 December	2,107	1,946	16,099	20,152	52,341

	2021				
	Stage 1	Stage 2	Stage 3	Total	Total
	RO '000	RO '000	RO '000	RO '000	US\$ '000
Debt investment securities at FVOCI					
Balance at 1 January	52	-	-	52	135
Transfer between stages					
- Transfer to Stage 1	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-
Impairment charged to income statement for	(2)	-	-	(2)	(5)
- <i>Re-measurement of impairment allowances</i>	(2)	-	-	(2)	(5)
- <i>Financial assets originated during the period</i>	-	-	-	-	-
- <i>Financial assets matured during the period</i>	-	-	-	-	-
Balance at 31 December	50	-	-	50	130

Other financial assets at amortised cost

Balance at 1 January	158	5	-	163	423
Transfer between stages					
- Transfer to Stage 1	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-
Impairment charged to income statement for	(99)	-	-	(99)	(257)
- <i>Re-measurement of impairment allowances</i>	(99)	-	-	(99)	(257)
- <i>Financial assets originated during the period</i>	-	-	-	-	-
- <i>Financial assets matured during the period</i>	-	-	-	-	-
Balance at 31 December	59	5	-	64	166

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.7 Expected credit loss (ECL) measurement *(continued)*

Movement in impairment allowance and provision *(continued)*

	Stage 1	Stage 2	Stage 3	Total	Total
	RO '000	RO '000	RO '000	RO '000	US\$ '000
Off balance sheet items at amortised cost					
Balance at 1 January	374	1,014	-	1,388	3,605
Transfer between stages					
- Transfer to Stage 1	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-
Impairment charged to income statement for	20	95	26	141	366
- <i>Re-measurement of impairment allowances</i>	20	95	26	141	366
- <i>Financial assets originated during the period</i>	-	-	-	-	-
- <i>Financial assets matured during the period</i>	-	-	-	-	-
Balance as at 31 December	394	1,109	26	1,529	3,971

	2020				
Movement in impairment allowance and provision					
Loans & advances and financing at Amortised cost					
Balance at 1 January	6,116	14,599	20,814	41,529	107,868
Transfer between stages					
- Transfer to Stage 1	3,800	(2,906)	(894)	-	-
- Transfer to Stage 2	(375)	396	(21)	-	-
- Transfer to Stage 3	(2)	(1,808)	1,810	-	-
Impairment charged to income statement for	(1,224)	8,210	10,085	17,071	44,340
- <i>Re-measurement of impairment allowances</i>	(2,000)	9,058	12,299	19,357	50,279
- <i>Financial assets originated during the period</i>	997	-	-	997	2,589
- <i>Financial assets matured during the period</i>	(221)	(848)	-	(1,069)	(2,776)
Recoveries from impairment for credit losses	-	-	(4,572)	(4,572)	(11,875)
Interest reserve charged to interest income	-	-	3,384	3,384	8,789
Recoveries of reserved interest in interest income	-	-	(992)	(992)	(2,577)
Write off of impairment allowances	-	-	(34)	(34)	(89)
Balance at 31 December	8,315	18,491	31,794	58,600	152,208

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.7 Expected credit loss (ECL) measurement *(continued)*

Movement in impairment allowance and provision *(continued)*

Corporate Loans & advances and financing at amortized cost	2020			Total	Total
	Stage 1	Stage 2	Stage 3		
	RO '000	RO '000	RO '000	RO '000	US\$ '000
Balance at 1 January	4,416	12,049	8,994	25,459	66,128
Transfer between stages					
- Transfer to Stage 1	1,483	(1,483)	-	-	-
- Transfer to Stage 2	(352)	352	-	-	-
- Transfer to Stage 3		(1,391)	1,391	-	-
Impairment charged to income statement for	904	6,861	7,619	15,384	39,959
- Re-measurement of impairment allowances	234	7,572	7,223	15,029	39,036
- Financial assets originated during the period	820	-	-	820	2,129
- Financial assets matured during the period	(150)	(711)	-	(861)	(2,236)
Recoveries from impairment for credit losses	-	-	(1,627)	(1,627)	(4,225)
Interest reserve charged to interest income	-	-	2,554	2,554	6,634
Recoveries of reserved interest in interest income	-	-	(531)	(531)	(1,379)
Write off of impairment allowances	-	-	-	-	-
Balance at 31 December	6,451	16,388	18,004	40,843	106,087
Retail Loans & advances and financing at Amortised cost					
Balance at 1 January	1,700	2,550	11,820	16,070	41,740
Transfer between stages					
- Transfer to Stage 1	2,317	(1,423)	(894)	-	-
- Transfer to Stage 2	(23)	44	(21)	-	-
- Transfer to Stage 3	(2)	(417)	419	-	-
Impairment charged to income statement for	(2,128)	1,349	2,466	1,688	4,382
- Re-measurement of impairment allowances	(2,234)	1,486	5,076	4,329	11,243
- Financial assets originated during the period	177	-	-	177	460
- Financial assets matured during the period	(71)	(137)	-	(208)	(540)
Recoveries from impairment for credit losses			(2,945)	(2,945)	(7,650)
Interest reserve charged to interest income			830	830	2,155
Recoveries of reserved interest in interest income			(461)	(461)	(1,197)
Write off of impairment allowances			(34)	(34)	(89)
Balance at 31 December	1,864	2,103	13,790	17,757	46,121

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.7 Expected credit loss (ECL) measurement *(continued)*

Movement in impairment allowance and provision *(continued)*

	2020			Total RO '000	Total US\$ '000
	Stage 1 RO '000	Stage 2 RO '000	Stage 3 RO '000		
Debt investment securities at FVOCI					
Balance at 1 January	27	-	-	27	70
Transfer between stages					
- Transfer to Stage 1	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-
Impairment charged to income statement for	25	-	-	25	64
- Re-measurement of impairment allowances	25	-	-	25	64
- Financial assets originated during the period	-	-	-	-	-
- Financial assets matured during the period	-	-	-	-	-
Balance at 31 December	52	-	-	52	134
Other financial assets at amortised cost					
Balance at 1 January	5	9	-	14	37
Transfer between stages					
- Transfer to Stage 1	6	(6)	-	-	-
- Transfer to Stage 2	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-
Impairment charged to income statement for	147	2	-	149	386
- Re-measurement of impairment allowances	147	2	-	149	386
- Financial assets originated during the period	-	-	-	-	-
- Financial assets matured during the period	-	-	-	-	-
Balance at 31 December	158	5	-	163	424
Off balance sheet items at amortised cost					
Balance at 1 January	238	858	-	1,096	2,847
Transfer between stages					
- Transfer to Stage 1	16	(16)	-	-	-
- Transfer to Stage 2	(23)	23	-	-	-
- Transfer to Stage 3	-	-	-	-	-
Impairment charged to income statement for	143	149	-	292	758
- Re-measurement of impairment allowances	114	143	-	257	668
- Financial assets originated during the period	80	6	-	86	222
- Financial assets matured during the period	(51)	-	-	(51)	(132)
Balance as at 31 December	374	1,014	-	1,388	3,605

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.7 Expected credit loss (ECL) measurement *(continued)*

Significant increase in credit risk (SICR)

The Bank continuously monitors all assets subject to ECLs. When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers both quantitative and qualitative information and analysis, based on the Bank'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 Bank assigns each facility a credit rating at initial recognition based on qualitative and quantitative information available about the borrower. Credit risk is deemed to have increased significantly if the credit rating has significantly deteriorated at the reporting date relative to the credit rating at the date of initial recognition. In addition, as a backstop, the Bank considers that significant increase in credit risk occurs when an asset is more than 30 DPD. In certain cases, the Bank may also consider other events as triggers for significant increase in credit risk as determined internally.

Covid-19 impact on the Bank

The assessment of Significant Increase in Credit risk (SICR) and the measurement of ECLs are based on reasonable and supportable information that is available without undue cost or effort. In assessing forecast conditions, consideration has been given both to the effects of COVID-19 and the significant government support measures being undertaken. Relief measures, such as payment holidays, has not automatically lead to loans being measured on the basis of lifetime losses and considerable judgment was made to measure ECLs. When it was not possible to reflect such information in the models, post-model overlays or adjustments were considered. This is consistent with guidelines issued by CBO during the year 2021 and 2020.

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

The Bank is fully committed to help its customers as directed by the CBO especially during the pandemic period. The Bank continued to support its customers and partners through well-executed business continuity plans, in addition to adopting health and safety measures announced by the Supreme Committee entrusted with finding mechanisms for dealing with developments resulting from the COVID-19 pandemic from time to time. The Bank continually reviews its precautionary and administrative measures in response to changes on the ground.

Impact on SICR

The exercise of the deferment option by a customer, in its own, is not considered by the Bank as triggering SICR. However, as part of the Bank's credit evaluation process especially given the current economic situation due to after effects of lock down, the Bank 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' credit ratings and accordingly exposure staging were adjusted, where applicable.

Definition of default and cure

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 realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation of the Bank.

Overdrafts are considered as being past due once the customer has breached the advised limit or been advised of a limit smaller than the current amount outstanding without acceptable justification.

In assessing whether the borrower is in default, the Bank 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 Bank; and
- based on data developed internally and obtained from external sources.

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.7 Expected credit loss (ECL) measurement *(continued)*

The definition of default is largely aligned to CBO regulatory requirements. An instrument is considered to no longer be in default (i.e. to have been cured) when it no longer meets the default criteria in line with requirements of CBO relevant to upgrading of customer from stage 3. Any upgrade is appropriately approved and validated by the internal audit department.

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 Bank 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.

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. PMA and management overlays made in estimating the reported ECL as at 31 December 2021 are set out as follows:

As on the reporting date, collective provision held by the bank through management overlays amounts to 9.27% 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 conservative practices to mitigate any unforeseen impacts in the portfolio. The Bank will continue to reassess and appropriately adjust such overlays on a regular basis throughout the affected period.

Sensitivity analysis- ECL

The following table shows a comparison of the Bank's allowances for credit losses on non-impaired financial assets (Stages 1 and 2) under IFRS 9 based on the probability weightings of three scenarios with allowances for credit losses resulting from simulations of each scenario weighted at 100%.

2021			2021	
Impact on ECL	ECL		ECL	Impact on ECL
US\$'000	'US\$'000		RO'000	RO'000
	83,875	ECL on non impaired financial assets under IFRS 9	32,292	
(31,814)	52,061	Good scenario - 100% weighted	20,043	(12,248)
3,440	87,315	Base scenario - 100% weighted	33,616	1,325
19,662	103,537	Bad scenario - 100% weighted	39,862	7,570
2020			2020	
Impact on ECL	ECL		ECL	Impact on ECL
US\$'000	'US\$'000		RO'000	RO'000
	73,790	ECL on non impaired financial assets under IFRS 9	28,409	
(24,040)	49,749	Good scenario - 100% weighted	19,154	(9,255)
3,384	77,174	Base scenario - 100% weighted	29,712	1,303
17,222	91,011	Bad scenario - 100% weighted	35,039	6,630

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.7 Expected credit loss (ECL) measurement *(continued)*

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

The Bank carries out assessment on a portfolio basis using internal ratings for corporate and SME portfolio which are estimated on an individual basis with their respective credit risk parameters applied for ECL calculations of the same credit risk ratings and homogeneous segments of the loan portfolio. For retail portfolio similar assessment is made, however the internal ratings are replaced by Days Past Due buckets. The Bank performs an assessment on a portfolio basis for the following types of loans:

- Retail loans
- Corporate/ SMEs loans

When assessment is performed on a portfolio basis, the Bank determines the staging of the exposures and measures the loss allowance on a collective basis. The Bank analyses its exposures by segments determined on the basis of shared credit risk characteristics, such that exposures within a group have homogeneous or similar risks. The key shared credit characteristics considered are: type of customer (such as Corporate/ SME or retail), product type, credit risk rating both at initial recognition and current, term to maturity, collateral, etc. The different segments also reflect differences in credit risk parameters such as PD and LGD. The appropriateness of groupings is monitored and reviewed on a periodic basis by the Risk Management Department.

37.1.8 Settlement risk

Settlement risk is the risk of loss due to the failure of a party to honour its obligations to deliver cash, securities or other asset as contractually agreed on the day of settlement.

In foreign exchange trades, though there is fulfilment of both the legs of the transaction on the settlement date as it is common practice between trading partners (free settlement), there will be risk on account of different time zones. In these cases, the settlement risk is mitigated through the execution of bilateral payment netting agreements.

37.1.9 Concentration risk

Concentration of credit risk arise when a number of counterparties 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 Bank's performance to developments affecting a particular industry or geographical location.

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

	2021			2020		
	Loans & advances and financing, gross RO '000	Due from banks RO '000	Investment securities RO '000	Loans & advances and financing, gross RO '000	Due from banks RO '000	Investment securities RO '000
Concentration by type						
Corporate	1,739,210	-	51,543	1,528,009	-	29,399
Personal	739,645	-	-	749,488	-	-
Sovereign	-	-	375,962	-	-	276,732
Banks	-	44,730	872	-	46,298	237
	2,478,855	44,730	428,377	2,277,497	46,298	306,368

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.7 Expected credit loss (ECL) measurement *(continued)*

37.1.9 Concentration risk *(continued)*

Concentration by location

Oman	2,471,739	19,250	417,210	2,260,729	28,025	297,324
Other GCC countries	820	15,265	3,317	849	7,241	1,022
United Kingdom	2,744	1,151	-	2,514	323	-
United States of America	-	7,542	-	-	9,049	-
Others	3,552	1,522	7,850	13,405	1,660	8,022
	2,478,855	44,730	428,377	2,277,497	46,298	306,368

US\$ '000 US\$ '000 US\$ '000 US\$ '000 US\$ '000 US\$ '000

Concentration by type

Corporate	4,517,430	-	133,878	3,968,855	-	76,361
Personal	1,921,155	-	-	1,946,722	-	-
Sovereign	-	-	976,526	-	-	718,785
Banks	-	116,183	2,264	-	120,254	615
	6,438,585	116,183	1,112,668	5,915,577	120,254	795,761

Concentration by location

Oman	6,420,100	50,000	1,083,663	5,872,023	72,792	772,270
Other GCC countries	2,130	39,649	8,615	2,205	18,808	2,655
United Kingdom	7,128	2,990	-	6,530	839	-
United States of America	-	19,590	-	-	23,504	-
Others	9,227	3,954	20,390	34,819	4,311	20,836
	6,438,585	116,183	1,112,668	5,915,577	120,254	795,761

Concentration by location for loans & advances and financing is measured based on the location of the entity holding the asset, which has a high correlation with the location of the borrower. Concentration by location for investment securities is measured based on the location of the issuer of the security. An analysis of the Bank's gross exposure to relevant segments is provided in note 37.1.7

37.2 LIQUIDITY RISK

Liquidity risk is the risk that the Bank will face difficulty in meeting its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

37.2.1 Management of liquidity risk

The Bank'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 Bank's reputation. The Bank has put in place an approved Contingency Liquidity Plan to facilitate management of liquidity.

Liquidity risk is managed by the Bank 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 other banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. In this process due care is taken to ensure that the Bank complies with all the CBO regulations.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.1.7 Expected credit loss (ECL) measurement *(continued)*

All liquidity policies are subject to review and approval of Board of Directors.

The Bank prepares a liquidity gap report to monitor the Bank's short term liquidity position in a time horizon spanning one month. The gap is adjusted by instruments for repo or refinance and also for unavailed committed lines of credit, if any. This statement of short term liquidity is to be reported to the ALCO and Executive Risk Committee every month.

Covid -19 considerations on liquidity risk

CBO provided the following liquidity and capital stimulus during last year as part of Covid 19 measures which remained applicable during the year 2021:

- Lending ratio increased by 5% from 87.5% to 92.5%. The additional lending scope to be utilized for lending to productive sector including healthcare services.
- Additional liquidity support at concessional rates by reducing interest rates on Repo operations, discounting of Government Treasury Bills, FX swap and rediscounting of a Bills of Exchange and Promissory notes.
- Tenor for Repo and Swap facilities was increased from existing to a maximum period of 3 & 6 months respectively.
- Maximum limit of the CBO SWAP facility has been increased up to 100% of a bank's net worth and tenor has been extended up to a maximum period of 1 year.

As at the reporting date the liquidity and funding position of the Bank remains strong and is well placed to absorb the impact of the current disruption.

37.2.2 Exposure to liquidity risk

The lending ratio, which is the ratio of the total loans and advances to customer 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 Bank 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 Bank also maintains significant investments in liquid instruments issued by Governments and banks principally for maintaining liquidity. The Bank also has standby lines of credit to meet its obligations at any given time, if the need arises.

The CBO also restricts the limits on lending by the commercial banks. The maximum lending ratio permissible as at 31 December 2020 and 2021 was 92.5%.

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

	2021	2020
	Lending ratio	Lending ratio
Year end	84.86%	86.94%
Maximum for the year	88.92%	90.61%
Minimum for the year	82.99%	82.22%
Average for the year	86.08%	87.46%

The Bank also monitors Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), calculated in accordance with Basel III framework and guidelines adopted by CBO vide circular BM 1127 and BM 1147. The Bank has also laid down internal limits and are in compliance with the regulatory requirement as at 31 December 2021.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.2.2 Exposure to liquidity risk *(continued)*

The following table summarises the maturity profile of the Bank's 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 Bank's deposit retention history and the availability of liquid funds.

31 DECEMBER 2021	Upto three months or on demand	Above three months to twelve months	Above one year to five years	More than five years	Total
Assets	RO '000	RO '000	RO '000	RO '000	RO '000
Cash and balances with Central Bank of Oman	114,178	-	-	525	114,703
Due from banks	40,844	3,850	-	-	44,694
Loans & advances and financing, net	605,816	186,644	484,054	1,125,464	2,401,979
Investment securities	330,709	97,668	-	-	428,377
Other assets	36,154	-	-	-	36,154
Property & Equipment	-	-	-	26,649	26,649
Total assets	<u>1,127,701</u>	<u>288,163</u>	<u>484,054</u>	<u>1,152,638</u>	<u>3,052,556</u>
Liabilities and equity					
Due to banks	204,590	57,750	-	-	262,340
Customers' deposits	515,251	720,513	575,701	369,926	2,181,391
Borrowed funds	-	11,550	80,850	-	92,400
Tax Liability	8,643	-	-	-	8,643
Other liabilities	45,743	11,121	9,508	11,413	77,785
Subordinated liabilities	-	3,000	-	-	3,000
Tier 1 perpetual subordinated bonds	-	-	-	124,000	124,000
Shareholders' funds	-	-	-	302,997	302,997
Total liabilities and equity	<u>774,227</u>	<u>803,934</u>	<u>666,059</u>	<u>808,336</u>	<u>3,052,556</u>
Net liquidity gap	<u>353,474</u>	<u>(515,771)</u>	<u>(182,005)</u>	<u>344,302</u>	<u>-</u>
Off balance sheet items					
Irrecoverable commitments to extend credit	28,862	19,060	-	-	47,922
Financial guarantees and letters of credit	102,706	35,755	16,378	2,669	157,508
Derivative products	146,896	227,094	91,404	75,543	540,937
Total off balance sheet assets	<u>278,464</u>	<u>281,909</u>	<u>107,782</u>	<u>78,212</u>	<u>746,367</u>
Assets	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Cash and balances with Central Bank of Oman	296,566	-	-	1,364	297,930
Due from banks	106,088	10,000	-	-	116,088
Loans & advances and financing, net	1,573,548	484,789	1,257,287	2,923,282	6,238,906
Investment securities	858,985	253,683	-	-	1,112,668
Other assets	93,907	-	-	-	93,907
Property & Equipment	-	-	-	69,219	69,219
Total assets	<u>2,929,094</u>	<u>748,472</u>	<u>1,257,287</u>	<u>2,993,865</u>	<u>7,928,718</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.2.2 Exposure to liquidity risk *(continued)*

Liabilities and equity

Due to banks	531,403	150,000	-	-	681,403
Customers' deposits	1,338,315	1,871,461	1,495,330	960,846	5,665,952
Borrowed funds	-	30,000	210,000	-	240,000
Tax Liability	22,450	-	-	-	22,450
Other liabilities	118,810	28,886	24,701	29,644	202,041
Subordinated liabilities	-	7,792	-	-	7,792
Tier 1 perpetual subordinated bonds	-	-	-	322,078	322,078
Shareholders' funds	-	-	-	787,002	787,002
Total liabilities and equity	2,010,978	2,088,139	1,730,031	2,099,570	7,928,718
Net liquidity gap	918,116	(1,339,667)	(472,744)	894,295	-
Off balance sheet items					
Irrecoverable commitments to extend credit	74,967	49,506	-	-	124,473
Financial guarantees and letters of credit	266,769	92,870	42,540	6,931	409,110
Derivative products	381,547	589,855	237,412	196,216	1,405,030
Total off balance sheet assets	723,283	732,231	279,952	203,147	1,938,613

31 December 2020	Upto three months or on demand	Above three months to twelve months	Above one year to five years	More than five years	Total
<i>Assets</i>	RO '000	RO '000	RO '000	RO '000	RO '000
Cash and balances with Central Bank of Oman	78,495	-	-	525	79,020
Due from banks	21,149	25,025	-	-	46,174
Loans & advances and financing, net	449,999	226,125	447,543	1,095,230	2,218,897
Investment securities	232,265	74,103	-	-	306,368
Other assets	-	-	-	29,154	29,154
Property and Equipment	-	-	-	22,864	22,864
Total assets	781,908	325,253	447,543	1,147,773	2,702,477
<i>Liabilities and equity</i>					
Due to banks	121,239	-	14,005	-	135,244
Customers' deposits	419,292	650,083	574,867	280,412	1,924,654
Borrowed funds	-	28,875	130,900	-	159,775
Tax Liability	6,458	-	-	-	6,458
Other liabilities	31,271	19,634	13,445	11,646	75,996
Subordinated liabilities	-	9,000	3,000	-	12,000
Tier 1 perpetual subordinated bonds	-	-	124,000	-	124,000
Shareholders' funds	-	-	-	264,350	264,350
Total liabilities and equity	578,260	707,592	860,217	556,408	2,702,477
Net liquidity gap	203,648	(382,339)	(412,674)	591,365	-
<i>Off balance sheet items</i>					
Irrecoverable commitments to extend credit	12,952	34,228	-	-	47,180
Financial guarantees and letters of credit	138,807	30,960	20,283	823	190,873
Derivative products	310,329	89,722	192,865	30,993	623,909
Total off balance sheet assets	462,087	154,910	89,722	31,816	861,962

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.2.2 Exposure to liquidity risk *(continued)*

<i>Assets</i>	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Cash and balances with Central Bank of Oman	203,883	-	-	1,364	205,247
Due from banks	54,932	65,000	-	-	119,932
Loans & advances and financing, net	1,168,829	587,338	1,162,449	2,844,753	5,763,369
Investment securities	603,287	192,474	-	-	795,761
Other assets	68,462	7,262	-	-	75,724
Property and Equipment	-	-	-	59,387	59,387
<i>Total assets</i>	<u>2,099,393</u>	<u>852,074</u>	<u>1,162,449</u>	<u>2,905,504</u>	<u>7,019,420</u>
<i>Liabilities and equity</i>					
Due to banks	314,906	-	36,377	-	351,283
Customers' deposits	1,089,070	1,688,527	1,493,161	728,343	4,999,101
Borrowed funds	-	75,000	340,000	-	415,000
Tax Liability	16,774	-	-	-	16,774
Other liabilities	81,224	50,997	34,922	30,249	197,392
Subordinated liabilities	-	23,377	7,792	-	31,169
Tier 1 perpetual subordinated bonds	-	-	322,078	-	322,078
Shareholders' funds	-	-	-	686,623	686,623
<i>Total liabilities and equity</i>	<u>1,501,974</u>	<u>1,837,901</u>	<u>2,234,330</u>	<u>1,445,215</u>	<u>7,019,420</u>
<i>Net liquidity gap</i>	<u>597,419</u>	<u>(985,827)</u>	<u>(1,071,881)</u>	<u>1,460,289</u>	<u>-</u>
<i>Off balance sheet items</i>					
Irrecoverable commitments to extend credit	33,642	88,903	-	-	122,545
Financial guarantees and letters of credit	360,538	80,416	52,683	2,138	495,775
Derivative products	806,050	233,045	500,948	80,500	1,620,543
<i>Total off balance sheet assets</i>	<u>1,200,230</u>	<u>402,364</u>	<u>553,631</u>	<u>82,638</u>	<u>2,238,863</u>

The table below summarizes the maturity profile of the Bank's financial liabilities based on expected undiscounted payment obligations.

	Upto three months or on demand	Above three months to twelve months	Above one year to five years	More than five years	Total
31 DECEMBER 2021	RO '000	RO '000	RO '000	RO '000	RO '000
Due to banks	204,590	57,750	-	-	262,340
Customers' deposits	515,251	720,512	575,702	369,926	2,181,391
Borrowed funds	-	11,550	80,850	-	92,400
Subordinated liabilities	-	3,000	-	-	3,000
Total liabilities	<u>719,841</u>	<u>792,812</u>	<u>656,552</u>	<u>369,926</u>	<u>2,539,131</u>
Credit related commitments	<u>28,862</u>	<u>19,060</u>	<u>-</u>	<u>-</u>	<u>47,922</u>
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Due to banks	531,403	150,000	-	-	681,403
Customers' deposits	1,338,315	1,871,461	1,495,330	960,846	5,665,952
Borrowed funds	-	30,000	210,000	-	240,000
Subordinated liabilities	-	7,792	-	-	7,792
Total liabilities	<u>1,869,718</u>	<u>2,059,253</u>	<u>1,705,330</u>	<u>960,846</u>	<u>6,595,147</u>
Credit related commitments	<u>74,967</u>	<u>49,506</u>	<u>-</u>	<u>-</u>	<u>124,473</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.1 CREDIT RISK *(continued)*

37.2.2 Exposure to liquidity risk *(continued)*

	Upto three months or on demand	Above three months to twelve months	Above one year to five years	More than five years	Total
<i>31 December 2020</i>	RO '000	RO '000	RO '000	RO '000	RO '000
Due to banks	121,239	-	14,005	-	135,244
Customers' deposits	419,292	650,083	574,867	280,412	1,924,654
Borrowed funds	-	28,875	130,900	-	159,775
Subordinated liabilities	-	9,000	3,000	-	12,000
<i>Total liabilities</i>	<u>540,531</u>	<u>687,958</u>	<u>722,772</u>	<u>280,412</u>	<u>2,231,673</u>
<i>Credit related commitments</i>	<u>12,952</u>	<u>34,228</u>	<u>-</u>	<u>-</u>	<u>47,180</u>
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Due to banks	314,906	-	36,377	-	351,283
Customers' deposits	1,089,070	1,688,527	1,493,161	728,343	4,999,101
Borrowed funds	-	75,000	340,000	-	415,000
Subordinated liabilities	-	23,377	7,792	-	31,169
<i>Total liabilities</i>	<u>1,403,976</u>	<u>1,786,904</u>	<u>1,877,330</u>	<u>728,343</u>	<u>5,796,553</u>
<i>Credit related commitments</i>	<u>33,642</u>	<u>88,904</u>	<u>-</u>	<u>-</u>	<u>122,546</u>

37.3 MARKET RISK

Market risk is the exposure to loss resulting from the changes in the interest rates, foreign currency exchange rates and equity prices. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return to risk. There are no commodity price risk exposures to the Bank.

37.3.1 Management of market risks

The Bank separates its exposure to market risk between trading and non trading portfolios. Trading portfolios include all positions arising from market making and proprietary position taking together with financial assets and liabilities that are managed on a fair value basis.

All foreign exchange risk within the Bank is transferred by Treasury to the trading book. Accordingly, the foreign exchange position is treated as a part of the Bank's trading portfolio for risk management purposes. Foreign currency risk is monitored and managed by the Bank through Mid Office to monitor the market risk, and the risk is managed by putting in place Market Risk Management procedures and implementing limit framework, reporting tools like Currency Position Report, Risk Analysis of Currency Position, Breach Analysis Report, and Dealer Limit Breach report.

Overall authority for market risk is vested with ALCO. The risk management function is responsible for development of detailed risk management policies (subject to approval by ALCO and Executive Risk Committee of the Board). The market risk policies are periodically reviewed to keep it up to date with the market developments.

37.3.2 Exposure to interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches of interest rate and re-pricing tenure of rate sensitive assets and liabilities. The effective interest rate (effective yield) of a monetary financial instrument is the rate used in a present value calculation which results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating rate instrument or an instrument carried at fair value.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.3 MARKET RISK *(continued)*

37.3.2 Exposure to interest rate risk *(continued)*

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities. A summary of the Bank's interest rate gap position on non-trading portfolios is provided in this note. The Bank also assesses interest rate risk by assessing the interest rate impact (both earnings perspective and economic value perspective) as per Basel-II guidelines communicated by CBO by applying interest rate shock of 200 bps and takes measures to reduce the impact. The Bank also assesses impact on earnings of interest rate shock of 200 bps.

	Effective annual interest rate	Upto three months	Above three months to twelve months	Above one year to five years	More than five years	Non - Sensitive to interest rate	Total
31 DECEMBER 2021		RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Assets							
Cash and balances with Central Bank of Oman	1.50%	-	-	-	-	114,703	114,703
Due from banks	2.19%	40,844	3,850	-	-	-	44,694
Loans & advances and financing, net	5.19%	1,218,819	323,086	316,494	493,169	50,411	2,401,979
Investment securities	3.94%	144,896	14,819	145,099	111,611	11,952	428,377
Property and equipment		-	-	-	-	26,649	26,649
Other assets		-	-	-	-	36,154	36,154
Total assets		1,404,559	341,755	461,593	604,780	239,869	3,052,556
Liabilities and equity							
Due to banks	0.79%	243,090	19,250	-	-	-	262,340
Customers' deposits	3.09%	496,068	815,033	715,662	400	154,228	2,181,391
Borrowed funds	2.29%	92,400	-	-	-	-	92,400
Tax liability		-	-	-	-	8,643	8,643
Other liabilities		-	-	-	-	77,785	77,785
Subordinated loan	4.92%	-	3,000	-	-	-	3,000
Tier 1 perpetual subordinated bonds	7.50%	-	-	-	-	124,000	124,000
Shareholders' funds		-	-	-	-	302,997	302,997
Total liabilities and equity		831,558	837,283	715,662	400	667,653	3,052,556
Total interest rate sensitivity gap		573,001	(495,528)	(254,069)	604,380	(427,784)	-
Cumulative interest rate sensitivity gap		573,001	77,473	(176,596)	427,784	-	-

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.3 MARKET RISK *(continued)*

37.3.2 Exposure to interest rate risk *(continued)*

31 DECEMBER 2021		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Assets							
Cash and balances with Central Bank of Oman	1.50%	-	-	-	-	297,930	297,930
Due from banks	2.19%	106,088	10,000	-	-	-	116,088
Loans & advances and financing, net	5.19%	3,165,763	839,184	822,063	1,280,958	130,939	6,238,907
Investment securities	3.94%	376,353	38,491	376,881	289,899	31,044	1,112,668
Property and equipment		-	-	-	-	69,219	69,219
Other assets		-	-	-	-	93,906	93,906
Total assets		<u>3,648,204</u>	<u>887,675</u>	<u>1,198,944</u>	<u>1,570,857</u>	<u>623,038</u>	<u>7,928,718</u>
Liabilities and equity							
Due to banks	0.79%	631,403	50,000	-	-	-	681,403
Customers' deposits	3.09%	1,288,487	2,116,969	1,858,866	1,038	400,592	5,665,952
Borrowed funds	2.29%	240,000	-	-	-	-	240,000
Tax liability		-	-	-	-	22,450	22,450
Other liabilities		-	-	-	-	202,041	202,041
Subordinated liabilities	4.92%	-	7,792	-	-	-	7,792
Tier 1 perpetual subordinated bonds	7.50%	-	-	-	-	322,078	322,078
Shareholders' funds		-	-	-	-	787,002	787,002
Total liabilities and equity		<u>2,159,890</u>	<u>2,174,761</u>	<u>1,858,866</u>	<u>1,038</u>	<u>1,734,163</u>	<u>7,928,718</u>
Total interest rate sensitivity gap		<u>1,488,314</u>	<u>(1,287,086)</u>	<u>(659,922)</u>	<u>1,569,819</u>	<u>(1,111,125)</u>	<u>-</u>
Cumulative interest rate sensitivity gap		<u>1,488,314</u>	<u>201,228</u>	<u>(458,694)</u>	<u>1,111,125</u>	<u>-</u>	<u>-</u>

	Effective annual interest rate	Upto three months	Above three months to twelve months	Above one year to five years	More than five years	Non - Sensitive to interest rate	Total
<i>31 December 2020</i>							
<i>Assets</i>							
Cash and balances with Central Bank of Oman	1.50%	RO '000 500	RO '000 -	RO '000 -	RO '000 -	RO '000 78,520	RO '000 79,020
Due from banks	2.06%	36,549	9,625	-	-	-	46,174
Loans & advances and financing, net	5.44%	922,352	498,057	331,804	466,684	-	2,218,897
Investment securities	4.12%	75,000	-	75,140	150,928	5,300	306,368
Other assets		-	-	-	-	29,154	29,154
Property and equipment		-	-	-	-	22,864	22,864
Total assets		<u>1,034,401</u>	<u>507,682</u>	<u>406,944</u>	<u>617,612</u>	<u>135,838</u>	<u>2,702,477</u>
<i>Liabilities and equity</i>							
Due to banks	1.17%	135,244	-	-	-	-	135,244
Customers' deposits	3.42%	389,606	729,065	686,255	400	119,328	1,924,654
Borrowed funds	3.32%	159,775	-	-	-	-	159,775
Tax liability		6,458	-	-	-	-	6,458
Other liabilities		68	-	-	-	75,928	75,996
Subordinated liabilities	5.41%	-	-	-	-	12,000	12,000
Tier 1 perpetual subordinated bonds	7.50%	-	-	124,000	-	-	124,000
Shareholders' funds		-	-	-	-	264,350	264,350
Total liabilities and equity		<u>691,151</u>	<u>729,065</u>	<u>810,255</u>	<u>400</u>	<u>471,606</u>	<u>2,702,477</u>
Total interest rate sensitivity gap		<u>343,250</u>	<u>(221,383)</u>	<u>(403,311)</u>	<u>617,212</u>	<u>(335,768)</u>	<u>-</u>
Cumulative interest rate sensitivity gap		<u>343,250</u>	<u>121,867</u>	<u>(281,444)</u>	<u>335,768</u>	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.3 MARKET RISK *(continued)*

37.3.2 Exposure to interest rate risk *(continued)*

31 December 2020		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<i>Assets</i>							
Cash and balances with Central Bank of Oman	1.50%	1,299	-	-	-	203,948	205,247
Due from banks	2.06%	94,932	25,000	-	-	-	119,932
Loans & advances and financing, net	5.44%	2,395,719	1,293,655	861,829	1,212,166	-	5,763,369
Investment securities	4.12%	194,805	-	195,169	392,021	13,766	795,761
Other assets		-	-	-	-	75,724	75,724
Property and equipment		-	-	-	-	59,387	59,387
<i>Total assets</i>		<u>2,686,755</u>	<u>1,318,655</u>	<u>1,056,998</u>	<u>1,604,187</u>	<u>352,825</u>	<u>7,019,420</u>
<i>Liabilities and equity</i>							
Due to banks	1.17%	351,283	-	-	-	-	351,283
Customers' deposits	3.42%	1,011,964	1,893,675	1,782,480	1,039	309,943	4,999,101
Borrowed funds	3.32%	415,000	-	-	-	-	415,000
Tax liability		16,774	-	-	-	-	16,774
Other liabilities		177	-	-	-	197,215	197,392
Subordinated liabilities	5.41%	-	-	-	-	31,169	31,169
Tier 1 perpetual subordinated bonds	7.50%	-	-	322,078	-	-	322,078
Shareholders' funds		-	-	-	-	686,623	686,623
<i>Total liabilities and equity</i>		<u>1,795,198</u>	<u>1,893,675</u>	<u>2,104,558</u>	<u>1,039</u>	<u>1,224,950</u>	<u>7,019,420</u>
<i>Total interest rate sensitivity gap</i>		<u>891,557</u>	<u>(575,020)</u>	<u>(1,047,560)</u>	<u>1,603,148</u>	<u>(872,125)</u>	<u>-</u>
<i>Cumulative interest rate sensitivity gap</i>		<u>891,557</u>	<u>316,537</u>	<u>(731,023)</u>	<u>872,125</u>	<u>-</u>	<u>-</u>

Exposure and sensitivity analysis

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

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
<u>20,177</u>	<u>25,492</u>	Impact of +200 bps interest rate increase	<u>9,814</u>	<u>7,768</u>
<u>(20,177)</u>	<u>(25,492)</u>	Impact of -200 bps interest rate decrease	<u>(9,814)</u>	<u>(7,768)</u>

37.3.3 Exposure to equity price risk

The Bank's market risk is affected mainly by changes to the actual market price of financial assets. Actual performance of the Bank's local equity portfolio has a correlation to the performance of MSM 30 Index and international equity portfolio for other GCC countries has a correlation with their respective stock market index. The table below shows the changes in fair value +/- 5% in the MSM 30 Index and other GCC countries stock index;

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.3 MARKET RISK *(continued)*

37.3.3 Exposure to equity price risk *(continued)*

2020 US\$ '000	2021 US\$ '000		2021 RO '000	2020 RO '000
434	1,035	MSM - Oman +5% impact	398	167
(434)	(1,035)	MSM - Oman -5% impact	(398)	(167)
151	431	Other GCC countries +5% impact	166	58
(151)	(431)	Other GCC countries -5% impact	(166)	(58)

Investment value risk is the risk of reduction in the market value of the Bank's portfolio as a result of diminishment in the market value of individual investment. The responsibility for management of investment value risk rests with the Investment division under the supervision and guidance of the Credit Investment Committee and Executive Risk Committee of the Bank. The Bank's investments are governed by an investment policy approved by the Board of Directors. The rating and price of the instruments are monitored on a regular basis and necessary actions are taken to reduce exposure if needed. The portfolio of investments is revalued at market price to ensure that unrealised losses, if any, on account of reduction in the market value of the investments remains within the acceptable parameters.

37.3.4 Exposure to currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has 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 Bank also monitors foreign currency risk as per requirements and the same was within regulatory limit as at 31 December 2021.

The Bank had the following net exposures denominated in foreign currencies:

2020 US\$ '000	2021 US\$ '000		2021 RO '000	2020 RO '000
77,343	138,513	US Dollar	53,328	29,777
205	39	Euro	15	79
660	4,743	UAE Dirham	1,826	254
231	505	GBP Sterling	194	89
4,068	2,517	Others	969	1,566
82,507	146,317		56,332	31,765

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

Changes in the non parity foreign currency rates as at 31 December 2021 on net assets is considered negligible.

37.4 OPERATIONAL RISK

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk arises due to variety of causes associated with the Bank's processes, personnel, technology and infrastructure and from external events and to include risks other than credit, market and liquidity risks.

The Bank's objective is to manage operational risk to avoid/reduce financial losses to the Bank by establishing necessary controls, systems and procedures. The Bank recognises that over controlled environment may affect the Bank's business and earnings besides adding to costs. Therefore, the Bank aims at effective management of operational risk through control optimisation and well established systems, methods and governance framework.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.4 OPERATIONAL RISK *(continued)*

The primary responsibility for development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards in the following areas for management of operational risk:

- Clear reporting lines
- Proper delegation of powers
- Appropriate segregation of duties and authorisation of transactions through a maker checker system and authorisation matrix reporting lines
- Ownership, reconciliation and monitoring of accounts
- Documentation of controls and processes
- Compliance with regulatory and other legal requirements
- Periodic assessment of the operational risks faced and evaluating the adequacy of controls and procedures to address the risks identified
- Reporting of operational losses and incidents triggering operational losses and remedial action
- Development of contingency plans
- Training, skill upgradation and professional development
- Ethical and business standards
- Risk mitigation through insurance, wherever desirable

Compliance with Bank standards is complemented by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit and Compliance Committee and senior management of the Bank. The Bank has a comprehensive Operational Risk Management Framework by which the Bank has put in place Operational Risk Management Policy, Operational Risk Self Assessment (ORSA) Policy, Operational Risk Loss Event Reporting Framework, Maintenance of Operational Risk Loss Data Base.

The Bank carries out a comprehensive Business Continuity (BCP) test on an annual basis

37.5 CAPITAL MANAGEMENT

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

The Bank 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 Bank may adjust the amount of dividend payment to shareholders, 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 Bank has successfully completed issuance of right shares during March 2021 and increased the paid-up capital by RO 30 million.

The Bank carries out regular Internal Capital Adequacy Assessment process (ICAAP) exercise for assessing the Bank's capital adequacy

The risk asset ratio is calculated in accordance with the capital adequacy guidelines of the Basel Committee on Banking Supervision and CBO Circulars BM 1009 'Guidelines on Basel II' and BM 1114 'Regulatory Capital and Composition of Capital Disclosure requirements under Basel III' effective from 31 December 2014. During the year 2020, as part of the covid-19 relief measures CBO lowered the Capital Conservation Buffer (CCB) requirement by 50% from 2.5% to 1.25%. The minimum capital adequacy ratio requirement, accordingly was reduced to 12.25% including capital conservation buffer of 1.25% for both the year 2020 and 2021 (31 December 2019 : 13.5% including capital conservation buffer of 2.5%). In order to smoothen the higher volatility in ECL computation and its impact on regulatory capital of the banks amid covid-19 outbreak, CBO 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 since 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

37 FINANCIAL RISK MANAGEMENT *(continued)*

37.5 CAPITAL MANAGEMENT *(continued)*

2020	2021		2021	2020
US\$ '000	US\$ '000		RO '000	RO '000
620,893	701,502	Common Equity Tier 1 (CET1)	270,078	239,044
322,078	322,078	Additional Tier 1	124,000	124,000
942,971	1,023,580	Tier 1	394,078	363,044
58,308	53,100	Tier 2	20,264	22,448
1,001,279	1,076,680	Total regulatory capital	414,342	385,492
		Risk weighted assets		
5,896,920	6,019,852	Credit risk	2,317,643	2,270,314
188,802	84,840	Market risk	32,663	72,689
305,062	336,552	Operational risk	129,573	117,449
6,390,784	6,441,244	Total risk weighted assets	2,479,879	2,460,452
		Capital adequacy ratio		
9.72%	10.89%	CET1 capital expressed as a percentage of total risk-weighted assets	10.89%	9.72%
14.76%	15.90%	Total tier I capital expressed as a percentage of total risk-weighted assets	15.90%	14.76%
0.91%	0.81%	Tier II capital expressed as a percentage of total risk-weighted assets	0.81%	0.91%
15.67%	16.71%		16.71%	15.67%

Covid 19 impact on Capital adequacy:

Besides, the bank 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 40 bps.

In response to pandemic situation and current economic environment, the Bank continues to monitor and respond to all liquidity and funding requirements. As at the reporting date, the capital position of the Bank remains strong and is well placed to absorb the impact of the current disruption.

38 SEGMENT INFORMATION

Segment information is presented in respect of the Bank's operating segments. For management purposes, the Bank is organised into two operating segments based on products and services as follows:

- Retail banking includes customers' deposits, unrestricted investment account, consumer loans, overdrafts, credit card, Islamic financing and fund transfer facilities.
- Wholesale banking, treasury and investments include deposits including current accounts, term deposit, loans & advances and Islamic financing etc. for corporate and institutional customers, Treasury, Trade Finance and Investment Banking Services.

The Management Committee monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on the profit after tax. Geographical distribution of major assets are provided in note 36.1.9 and all liabilities are originated in Oman.

Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to business segments based on pool rate, which is approximates the cost of the funds.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

38 SEGMENT INFORMATION *(continued)*

Segment information is as follows:

	2021			2020		
	Retail banking	Wholesale banking, Treasury & Investment	Total	Retail banking	Wholesale banking, Treasury & Investment	Total
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Net interest income	20,080	34,057	54,137	17,551	31,299	48,850
Net income from Islamic financing and investments	5,859	5,568	11,427	3,419	7,825	11,244
Net interest income and income from islamic financing and investments	25,939	39,625	65,564	20,970	39,124	60,094
Fee and commission income, net & Other operating income	2,293	14,581	16,874	1,735	9,667	11,402
Net operating income	28,232	54,206	82,438	22,705	48,791	71,496
Net impairment on financial assets	(868)	(13,812)	(14,680)	(1,128)	(13,274)	(14,402)
Operating expenses	(21,886)	(13,712)	(35,598)	(17,330)	(12,765)	(30,095)
Profit before taxation	5,478	26,682	32,160	4,247	22,752	26,999
Tax expense	(776)	(3,778)	(4,554)	(477)	(2,554)	(3,031)
Segment profit for the year	4,702	22,904	27,606	3,770	20,198	23,968
Segment assets	729,978	2,322,578	3,052,556	739,286	1,964,678	2,703,964
Segment liabilities	689,124	1,936,435	2,625,559	473,527	1,840,765	2,314,292
Additions to segments	642	5,886	6,528	642	3,637	4,279
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Net interest income	52,156	88,459	140,615	45,587	81,296	126,883
Net income from islamic financing and investments	15,219	14,463	29,682	8,881	20,324	29,205
Net interest income and income from islamic financing and investments	67,375	102,922	170,297	54,468	101,620	156,088
Fee and commission income, net & Other operating income	5,956	37,872	43,828	4,506	25,109	29,615
Net operating income	73,331	140,794	214,125	58,974	126,729	185,703
Net impairment on financial assets	(2,255)	(35,875)	(38,130)	(2,930)	(34,478)	(37,408)
Operating expenses	(56,847)	(35,616)	(92,463)	(45,013)	(33,155)	(78,168)
Profit before taxation	14,229	69,303	83,532	11,031	59,096	70,127
Tax expense	(2,016)	(9,813)	(11,829)	(1,239)	(6,634)	(7,873)
Segment profit for the year	12,213	59,490	71,703	9,792	52,462	62,254
Segment assets	1,896,047	6,032,671	7,928,718	1,920,223	5,103,059	7,023,282
Segment liabilities	1,789,932	5,029,706	6,819,638	1,229,940	4,781,208	6,011,148
Additions to segments	1,668	15,289	16,957	1,668	9,447	11,115

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

39 Fiduciary Activities

The Bank's fiduciary activities consist of investment management activities conducted as trustee and manager as a part of the Discretionary portfolio management portfolio. The aggregate of the funds managed which are not included in the Bank's statement of financial position were RO 4.911 million which is equivalent to US\$ 12.76 million (2020: RO 2.505 equivalent to US\$ 6.51 million)

40 COMPARATIVE FIGURES

Corresponding figures have been rearranged and reclassified in order to conform with the presentation for the current year for the purpose of comparison and for better presentation. Such reclassifications are not considered material and do not affect previously reported net income or owner's equity.

Report of the independent auditors - pages 47 - 52



BASEL II PILLAR III AND BASEL III Report

31 December 2021



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

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman (CBO) Circular No. BM 1027 dated 4 December 2007 with respect to the Basel II - Pillar III Disclosures and Basel III related Disclosures (the disclosures) of Ahli Bank SAOG (the Bank) set out on pages 1 to 38 as at and for the year ended 31 December 2021. The disclosures were prepared by the management in accordance with the CBO's Circular No. BM 1009 dated 13 September 2006, Circular No. BM 1027 dated 4 December 2007, Circular No. BM 1114 dated 17 November 2013 and Circular No. BM 1149 dated 13 April 2017 amended with letter BSD/CB/FLC/2018/17 dated 26 November 2018, letter BSD/CB/2020/001 dated 18 March 2020 and letter BSD/CB/2020/005 dated 3 June 2020. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon-procedures engagements. The procedures, as set out in Circular No. BM 1027 dated 4 December 2007, were performed solely to assist you in evaluating the Bank's compliance with the disclosure requirements set out in CBO's Circular No. BM 1009 dated 13 September 2006, BM 1114 dated 17 November 2013 and Circular No. BM 1149 dated 13 April 2017 amended with letter BSD/CB/FLC/2018/17 dated 26 November 2018, letter BSD/CB/2020/001 dated 18 March 2020 and letter BSD/CB/2020/005 dated 3 June 2020.

We report our findings as follows:

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

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

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties other than CBO. This report relates only to the Bank's disclosures and does not extend to any financial statements of the Bank taken as a whole or to any other reports of the Bank.

Our obligations in respect of this report are entirely separate from, and our responsibility and liability is in no way changed by, any other role we may have (or may have had) as auditors of the 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.

Muscat, Sultanate of Oman
06 March 2022



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BASEL II PILLAR III AND BASEL III Report

31 December 2021

1. INTRODUCTION

This report represents the Basel II Pillar III and Basel III qualitative and quantitative disclosures, highlighting the capital adequacy, risk profile and control process of ahlibank SAOG ("the Bank") as per the requirements of CBO. The disclosures are intended to complement the Pillar I, minimum capital requirements and Pillar II, supervisory review process of the framework. They should be read in conjunction with the financial statements as of 31st December 2021.

The Bank has a formal "Disclosure Policy" for disclosure of information that it makes available to the general public as well as to the regulatory bodies. This policy is framed to enhance transparency about its activities and promote good governance. The Bank makes information publicly available in accordance with its policy on disclosure of information and applicable regulations.

Outbreak of Coronavirus (Covid-19)

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

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

2. SCOPE

The Bank prepares this report in accordance with the Basel Accord in conjunction with and as per the directive of the Central Bank of Oman (CBO).

The Scope of application covers the Bank only and is not part of any group either as a member or as top corporate entity in the group.

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

31 December 2021

3. CAPITAL STRUCTURE

The capital base for complying with regulatory purposes differs from accounting capital. The Bank's regulatory capital is classified into two categories- Tier I and Tier II capital.

Tier 1 capital is composed of core capital and is further classified into Common Equity Tier 1 capital ('CET1') and Additional Tier 1 capital ('AT1'). CET1 includes paid up capital, legal reserves and retained earnings reduced by cumulative unrealized losses on FVOCI investments and any other applicable deduction specified in the Basel III Capital Accord. AT1 capital consists of perpetual capital instruments.

Tier II capital consists of revaluation reserves/ cumulative fair value gain or losses on Fair value through other comprehensive income (FVOCI) instruments, Stage 1 and Stage 2 expected credit loss allowance as allowed by CBO and subordinated debt.

There is no innovative or complex capital instrument in the capital structure of the Bank.

CAPITAL MANAGEMENT

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 Bank has following credit ratings at present:

Capital Intelligence		Fitch Rating	
Foreign currency Long Term Rating:	BB	Viability rating;	b+
Foreign currency Short term;	B	Long term foreign currency and local currency IDRs;	B+
Outlook;	Negative	Short term foreign currency and local currency IDRs;	B
		Outlook;	Stable

The process of assessing the capital requirements of the Bank commences with the compilation of the annual business plan by individual business units, which are then consolidated into the annual budget plan of the Bank. The annual budget plan provides an estimate of the overall growth in assets, its impact on capital and targeted profitability.

Strategic business objectives and future capital needs are assessed within this framework. Normally, the Bank employs capital rationing techniques to allocate capital for each of the Bank's business risk departments in order to optimize returns.

Sources of future capital are identified and plans put in place to raise and retain capital, under the terms of the framework. The Bank also 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 Bank may adjust the amount of dividend payment to shareholders or issue capital to shareholders or issue capital securities. The Bank's Finance department monitors and reports the planned versus actual position, to ensure that the Bank is always adequately capitalized. Risk weighted assets and capital are monitored by the Risk Management department also periodically to assess the quantum of capital available to support assets growth and optimally deploy capital to achieve targeted returns.

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

SI.No	Elements of Capital	Amount(RO'000)
	Tier I Capital	
1	Share capital*	194,966
2	Legal reserves	36,904
3	Subordinated loan reserve	3,000
4	Retained earnings*	44,932
	Common Equity Tier I before deductions	279,802
	Deductions:	
5	Cumulative unrealized losses and intangibles recognized directly in equity	(9,724)
	Common Equity Tier 1	270,078
	Additional Tier I Capital	
	Tier 1 perpetual subordinated bonds	124,000
	Tier I capital after all deductions	394,078
	Tier II Capital	
7	Revaluation reserves / cumulative fair value gains on FVOCI Instruments	1,844
8	Stage 1 & Stage 2 expected credit losses	18,420
9	Subordinated debt	-
	Total Tier II Capital	20,264
	Total Regulatory Capital	414,342

* The Board of Directors has proposed a cash dividend of 7.5%, which has been adjusted and is subject to shareholder approval in the AGM.

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

31 December 2021

3. CAPITAL STRUCTURE *(continued)*

CAPITAL ADEQUACY

Qualitative disclosures

The Bank's capital management framework sets out to define, measure, raise and deploy capital in a co-ordinated 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 Bank manages its capital in an integrated manner with the aim of maintaining strong capital ratios and high ratings. 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. 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 Bank uses a prudential building-block approach as the measurement technique to assess capital adequacy for current and future activities, which is compared with the consolidated eligible capital.

The Bank's total capital adequacy ratio is 16.71% as against the CBO prescribed minimum requirement of 12.25% (including capital conservation buffer of 1.25%) as at 31 December 2021. The Bank follows a capital adequacy framework to link the Bank's annual budget projections and the capital required to achieve business objectives. It is determined by the Bank's strategic planning objectives and capital planning framework. Capital requirements are assessed for credit, operational and market, risks. In order to calculate the capital adequacy ratio, the Bank follows the standardized approach forming part of the Pillar 1 requirements of Basel II Norms and adopts rating from CBO's recognized four External Credit Assessment Institutions (ECAI), namely Moody's, Standard & Poors, Fitch and Capital Intelligence, for calculating the risk on its sovereign and bank exposures. In order to equip the requirements of the advanced approaches, the Bank has already implemented obligor rating models and the ratings are being tracked regularly.

In order to meet with Pillar 2 requirements of Basel II Norms, the Bank has in place Internal Capital Adequacy Assessment Process (ICAAP) for assessing the Bank's capital adequacy in relation to various risks such as interest rate risk, liquidity risk, concentration risk etc., as well as a strategy for maintaining the capital adequacy level. Based on the guidelines issued by Central Bank of Oman, assessment under ICAAP has been completed for the years from 2021-2024 and it has been determined that the Bank is adequately capitalized to undertake its planned business activities.

ICAAP process is divided into a base case and stressed scenarios. The Bank has assumed three different kinds of stress scenarios, namely Mild, Medium and Severe. These stress scenarios differ in terms of stress event impact level (Mild being the lowest and Severe being the highest).

The following stress scenarios are applied:

- Rise in NPL by % of direct credit facilities
- Portion of SME sector performing loans become NPLs
- Decline in prices of the Bank's portfolio of investments
- Appreciation / depreciation of local currency against all other currencies
- Withdrawal of customer deposits
- Decline in liquid assets
- Shift in LIBOR yield curve
- Increase in cost of funding due to reputational risk
- Branch generated less than expected profitability
- Consolidated impact of different scenarios

In addition to the above, the Bank has also identified additional stress scenarios to include testing of expected credit losses under IFRS9.

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

31 December 2021

3. CAPITAL STRUCTURE *(continued)*

Quantitative disclosures

I. Position of various risk weighted assets is presented as under (RO '000):

As on 31 December 2021

Sl. No	Details	Gross balances (book value)	Net balances (book value)	Risk weighted assets
1	On-balances sheet items	3,101,465	2,955,288	2,236,664
2	Off-balance sheet items	79,897	79,897	77,450
3	Derivatives	5,155	5,155	3,529
4	Market risk	-	-	32,663
5	Operational Risk	-	-	129,573
	Total			2,479,879
6	Tier 1 capital			394,078
7	Tier 2 capital			20,264
8	Total Regulatory Capital			414,342
8.1	Capital requirement for credit risk			283,911
8.2	Capital requirement for market risk			4,001
8.3	Capital requirement for operational risk			15,873
	Total required capital			303,785
9	CET 1 ratio			10.89%
10	Tier 1 ratio			15.89%
11	Total capital ratio			16.71%

II. Capital adequacy

As on 31 December 2021

Sl. No	Details	Simple Approach
1	Tier I capital (after supervisory deductions)	394,078
2	Tier II capital (after supervisory deductions and up to eligible limits)	20,264
3	Risk weighted assets – banking book	2,317,643
4	Risk weighted assets – operational risk	129,573
5	Total Risk Weighted Assets – Banking Book + Operational Risk	2,447,216
6	Minimum required capital to support RWAs of banking book and operational risk	299,784
	i) Minimum required Tier I capital for banking book and operational risk	250,840
	ii) Tier II capital required for banking book and operational risk	48,944
7	Tier I capital available for supporting trading book	114,558
8	Tier II capital available for supporting trading book	-
9	Risk Weighted Assets – trading book	32,663
10	Total capital required to support trading book	4,001
11	Minimum Tier I capital required for supporting trading book	1,140
12	Total Regulatory Capital	414,342
13	Total Risk Weighted Assets – Whole bank	2,479,879
14	BIS Capital Adequacy Ratio	16.71%

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

31 December 2021

3. CAPITAL STRUCTURE *(continued)*

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

Besides, the bank 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 40 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 Bank continues to monitor and respond to all liquidity and funding requirements. As at the reporting date the capital position of the Bank remains strong and is well placed to absorb the impact of the current disruption.

4. RISK EXPOSURE AND ASSESSMENT

Risk Management Principles

Risk is an inherent part of the Bank’s business activities. The primary goal of risk management is to ensure that the Bank’s asset and liability profile, its trading positions, and its credit and operational activities do not expose it to losses that could threaten its survival. Risk Management assists in ensuring that risk exposures do not become excessive, relative to the Bank’s capital and financial positions. The Bank has already in place a risk appetite statement set by the Board.

The Bank manages the risks effectively and efficiently by making risk management an integral part of commercial banking business. This emphasizes a clear understanding of business requirements in terms of products, clients, delivery capabilities, competition, regulatory environment, shareholder values and the global economic environment leading the Bank to identifying the various associated risks.

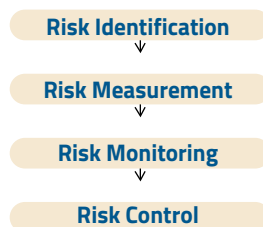
Having identified the risks, the Risk Management Department formulate policies and procedures taking into account regulatory requirements and best international practices, so as to monitor and control the risks within pre-determined acceptable limits.

Primary responsibility for the management of risk lies with the business and operational areas responsible for the generation of risk exposure. Risk management provides an in-depth check against risk decisions and an ongoing platform to evaluate, monitor and sanction risk at the individual transaction and overall portfolio level.

Risk Management Structure

The Bank’s risk management department reports directly to the Executive Risk Committee (a Board Committee).

The Bank’s Risk Management includes the following four elements:



Risk framework

The Bank has set up policies and measures to assess capital adequacy in terms of CBO regulations, which have been approved by the Board of Directors. Under these, the Bank assesses its capital against its risk profile, to ensure its capital is sufficient to support all material risks to which it is exposed.

The Board of Directors ensures that the senior management establishes a framework that identifies, measures, monitors and reports all relevant significant risks. The risk management department has identified material risks that the Bank is exposed to, and has defined the framework necessary to measure, monitor, and report these risks on a timely basis.

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

31 December 2021

4. RISK EXPOSURE AND ASSESSMENT *(continued)*

The following Board and Management committees manage and control material risks to the Bank:

Board Committees:

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

Management Committees:

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

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

First line of Defense

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

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

Second Line of Defense

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

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

31 December 2021

4. RISK EXPOSURE AND ASSESSMENT *(continued)*

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

Third Line of Defense

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

Fourth Line of Defense

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

Policies and Procedures:

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

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

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

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

31 December 2021

The bank has exposure to the following risks:

5. CREDIT RISK

Qualitative Disclosure

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 Bank 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 Bank, and proactive management is critical to the Bank's long-term success. The Bank 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 Board, depending on their delegated credit approval Jurisdiction (CAJ). All credit approvals are strictly in accordance with the regulatory guidelines issued from time to time by the CBO. Exceptions in retail credit exposure are escalated to Risk Management Department for necessary approvals.

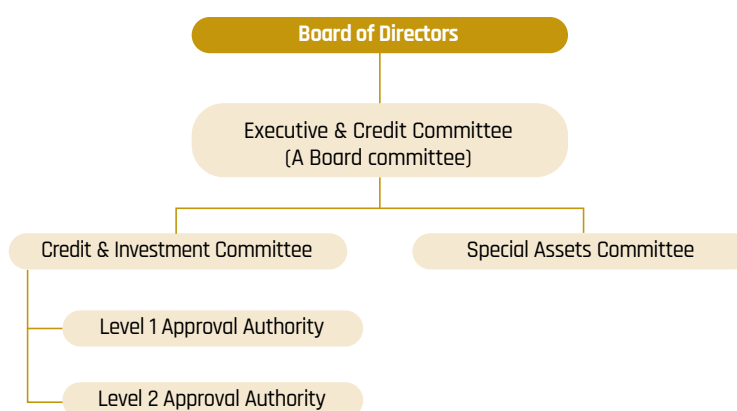
Risk Management quantifies the Bank's credit risk appetite in line with the Bank's strategic direction. A well-established process exists to ensuring the allocation of capital for the total credit risk to be assumed by the Bank; and measuring the actual use of capital at portfolio level.

With regard to credit culture, 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 loans through a Loan 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 risk of corporate borrowers and monitors ratings changes periodically. In case of financial institutions, ratings by credit rating agencies are considered.

Structure and policies of credit risk management

The credit risk management policies are governed through Credit Risk Management Committee, Executive Risk Committee of the Board and the Board of Directors. 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 Board based on the product category like Commercial Banking Lending, Country Limits or Limits for lending to Banks / FIs or Sovereigns and also lending related to the Bank's brokerage activities, the legal nature of the borrowers and their credit risk rating.

In regards to transaction risk, 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. To safeguard against concentration risk, sectoral limits have been set for ensuring that the Islamic window is having a well-diversified portfolio, the same is being reviewed by the Bank on a regular basis.

The Credit Risk Management Committee (CRMC) oversees, adherence to the limits, exceptions and makes recommendations to the Board in respect of policy related matters pertaining to credit risk management.

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

31 December 2021

5. CREDIT RISK *(continued)*

Past due credit exposures and Impairment policy

As a matter of policy, the Bank creates allowance for impairment of financing contracts promptly and in a consistent manner. The Bank has adopted IFRS 9 "Financial Instruments" accounting standard in 2018 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.

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

Stage 2:

When a Loans and advances & 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:

Loans and advances & 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)

Sl. No.	Type of credit exposure	Average gross exposure		Total gross exposure	
		31-Dec-21	31-Dec-20	31-Dec-21	31-Dec-20
1	Overdrafts	90,120	75,423	86,471	74,369
2	Personal loans	748,953	738,865	739,645	749,488
3	Loans and against trust receipts	73,880	63,724	80,996	66,807
4	Other loans	1,442,471	1,288,824	1,558,190	1,365,948
5	Bills purchased/ discounted	16,096	20,172	13,553	20,885
	Total	2,371,520	2,187,008	2,478,855	2,277,497

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

31 December 2021

5. CREDIT RISK *(continued)*

ii. Geographic distribution of exposures by major type of credit exposure: (RO '000)

SI No.	Type of Credit Exposure	Oman	Other GCC countries	OECD countries	India	Others	Total
1	Overdrafts	86,471	-	-	-	-	86,471
2	Personal loans	739,645	-	-	-	-	739,645
3	Loans against trust receipts	80,996	-	-	-	-	80,996
4	Other loans	1,551,074	820	5,827	469	-	1,558,190
5	Bills Purchased/discounted	13,553	-	-	-	-	13,553
6	Any other	-	-	-	-	-	-
	Total	2,471,739	820	5,827	469	-	2,478,855

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

SI No.	Economic sector	Overdrafts	Loans	Bills purchased/ discounted	Others	Total	Off Balance Sheet Exposure
1	Wholesale and retail trade	16,049	240,772	3,201	-	260,022	4,451
2	Mining and quarrying	2,486	143,921	1,947	-	148,354	546
3	Construction	34,459	368,691	2,913	-	406,063	71,600
4	Manufacturing	12,254	135,451	2,957	-	150,662	31,946
5	Transport and communication	766	146,964	-	-	147,730	581
6	Electricity, gas and water	1,697	81,648	-	-	83,345	5,032
7	Financial institutions	5,013	167,741	44	-	172,798	3,757
8	Services	9,600	306,380	2,491	-	318,471	12,072
9	Personal loans	2,707	736,938	-	-	739,645	35
10	Non- resident lending	-	7,117	-	-	7,117	-
11	Government	-	23,523	-	-	23,523	888
11	All others	1,442	19,683	-	-	21,125	26,599
	Total	86,473	2,378,829	13,553	-	2,478,855	157,507

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

SI No	Time Band	Overdraft	Loans	Bills purchased/ discounted	Others	Total	Off Balance Sheet Exposure
1	Upto 1Month	4,308	210,212	2,968	-	217,488	67,161
2	1-3 Months	4,308	378,074	8,629	-	391,011	35,886
3	3-6 Months	4,308	73,972	1,825	-	80,105	23,253
4	6-9 Months	4,308	57,162	131	-	61,601	6,733
5	9-12 Months	4,308	40,583	-	-	44,891	5,769
6	1-3 Years	21,540	230,545	-	-	252,085	15,645
7	3-5 Years	21,540	210,429	-	-	231,969	732
8	Over 5 Years	21,540	1,178,165	-	-	1,199,705	2,328
	Total	86,160	2,379,142	13,553	-	2,478,855	157,507

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2021

5. CREDIT RISK (continued)

v. Major industry or counterparty type : (RO'000)

The Bank has set aside an additional amount of RO 0.998 million as a non-distributable special reserve on restructured loans based on CBO circular as at 31 December 2021.

SI No	Economic sector	Gross loans	Of which Stage 3 exposure	Stage 1 & Stage 2 allowance [^]	Stage 3 allowance *	Impairment allowance made during the year	Advances written off, net during the year
1	Wholesale & retail trade	260,022	16,687	5,415	5,789	4,590	3
2	Mining & quarrying	148,354	17	2,338	11	241	-
3	Construction	406,063	11,048	8,175	7,465	4,239	-
4	Manufacturing	150,662	10,368	2,169	7,334	4,351	-
5	Electricity, gas & water	83,345	-	450	-	88	-
6	Transport & communication	147,730	710	1,320	527	232	-
7	Financial institutions	172,798	-	1,309	-	114	-
8	Services	318,471	11,048	5,116	4,469	2,347	-
9	Personal loans	739,645	21,802	4,052	16,099	941	61
10	Nonresident lending	7,117	6,297	3	4,252	1,551	-
11	Government	23,523	-	51	-	1	-
12	All others	21,125	437	277	255	(419)	-
	Total	2,478,855	78,414	30,675	46,201	18,276	64

*- Stage 3 allowance includes reserve interest amounting to RO 8.219 million.

[^]- Stage 1,2 & 3 includes additional ECL overlays of RO 7.280 million.

vi. Amount of impaired loans broken down by significant geographical areas including, with the amounts of impairment allowances related to each geographical area: (RO'000)

SI No.	Countries	Gross loans	Of which Stage 3 exposure	Stage 1 & Stage 2 allowance [^]	Stage 3 allowance *	Impairment allowance made during the year	Advances written off, net during the year
1	Oman	2,471,739	72,118	30,673	42,143	16,958	64
2	Other GCC countries	820	-	2	-	1	-
3	OECD countries	5,827	5,827	-	3,725	1,255	-
4	India	469	469	-	333	67	-
5	Pakistan	-	-	-	-	-	-
6	Others	-	-	-	-	(5)	-
	Total	2,478,855	78,414	30,675	46,201	18,276	64

*- Stage 3 allowance includes reserve interest amounting to RO 8.219 million.

[^]- Stage 1,2 & 3 includes additional ECL overlays of RO 7.280 million.

vii. Movement of gross loans (RO '000)

SI No.	Details	Stage 1	Stage 2	Stage 3	Total
1	Opening balance	1,769,171	441,924	66,402	2,277,497
2	Mitigation/ changes (+/-)	5,425	(12,709)	7,286	2
3	New loans	949,310	349,409	12,383	1,311,102
4	Recovery of loans	792,589	309,500	7,657	1,109,746
5	Loans written back	-	-	-	-
6	Closing balance	1,931,317	469,124	78,414	2,478,855
7	Impairment allowance held	8,873	21,802	37,982	68,657
8	Reserve interest	-	-	8,219	8,219

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

31 December 2021

5. CREDIT RISK *(continued)*

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

As part of the standardized approach, the Bank follows the simplified approach for credit risk capital charge calculation. Accordingly, keeping in view the CBO guidelines, the Bank has used the financial collaterals such as cash, acceptable bank guarantees and shares listed on the MSM main index as part of the credit risk mitigation for arriving at the capital adequacy.

Qualitative Disclosures:

The Bank is following Moody's, S&P and Fitch rating for both sovereign and interbank exposures and the balance is treated as unrated at 100% risk. As per the guidelines, the ratings corresponding to the two lowest risk weights are considered and the higher of the two risk weights is applied. There has been no change in the approach compared to previous year.

The bank uses the discretion to treat loans and advances as unrated at risk weight of 100%, except housing loans and SME which are risk weighted at 35% and 75% based on the requirements as stipulated in the guidelines issued by CBO.

Similarly, the bank uses the discretion of the simple approach for recognizing collaterals.

Quantitative Disclosures:

Gross exposure amount as at 31 December 2021, subject to the standardized approach is as below:

S. No.	Product / Rating	Capital Charge						RO 000's
		0%	20%	35%	50%	75%	100%	Total
Rated								
1	Sovereign	590,142	-	-	-	-	814	590,956
2	Banks	-	20,490	-	20,288	-	1,975	42,753
Unrated								
1	Corporate	-	-	-	-	140,407	1,335,927	1,476,334
2	Banks	-	19,463	-	3,955	-	-	23,418
3	Retail	-	-	-	-	-	425,312	425,312
4	Claims secured by residential property	-	-	56,942	-	-	228,918	285,860
5	Claims secured by commercial property	-	-	-	-	-	149,046	149,046
6	Past due loans	-	-	-	-	-	24,058	24,058
7	Other assets	18,171	-	-	-	-	150,609	168,780
Total Banking Book		608,313	39,953	56,942	24,243	140,407	2,316,659	3,186,517

Credit Risk Mitigation: Disclosures for standardized approaches

Qualitative disclosure

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 Bank 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.

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 Bank also has a mandatory requirement to obtain an insurance policy on real estate collateral (other than land) where the policy is assigned in the Bank's favor. Real estate collateral is valued on regular intervals and also on need basis based on the assessment of risk and economic scenario prevailing.

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

31 December 2021

5. CREDIT RISK *(continued)*

The Bank normally accepts the following types of collateral:

- Cash margins and fixed deposits
- Real estate comprising income-producing and non-income-producing assets
- Shares listed on recognized stock exchanges located in GCC
- Irrevocable and unconditional guarantees / standby LC issued by acceptable Banks
- Debt securities subject to meeting approved criteria
- Funds subject to meeting approved criteria

The Bank also accepts guarantees of individuals and corporates to mitigate risks, wherever applicable and has a system of assessment of their creditworthiness.

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 Bank also periodically reviews the collateral cover for determining the adequacy of the allowance for impairment losses. The fair value of collateral that the Bank held as at 31 December 2021 towards loan and advances not impaired amounted to RO 1,754.806 million.

Quantitative disclosure

As per Basel & CBO guidelines the Bank stands in possession of the following eligible collateral:

- 1) Cash 2) Shares 3) Sovereign Guarantee.

Exposure covered by cash collateral – RO 87.653 million after application of haircut (0%) exposure stands at RO Nil.

Exposure covered by Shares collateral – RO 146.310 Million; after application of haircut (50%) exposure stands at RO. 73.155 Million.

Exposure covered by Sovereign guarantee RO 94.854 Million; after application of haircut (0%) exposure stands at RO Nil.

Particulars	RO 'Mn
Gross Exposure - banking book	3,187
Credit risk mitigation	(161)
Risk weight impact - for banking book	(708)
Risk weighted assets - banking book	2,318
Capital charge for credit risk	284

Counterparty Credit Risk:

Counterparty Credit Risk (CCR) is the risk that the customer or trading counterparty of the Bank, usually an OTC derivative contract, may fail to fulfill its obligation which may result in replacement or termination of transaction at a loss to the Bank.

Bank has implemented Current Exposure Method (CEM) for the measurement of Risk Weighted Assets under CCR. Exposure under CEM method is defined as sum of Potential Future Exposure (PFE) and Current Credit Exposure (CCE). The PFE is the estimate of amount of exposure that may occur over a one year time horizon while CCE is the sum of positive MTM (Mark to Market) values. Bank has total exposure (CEM) of OMR on account of OTC derivatives (FX forwards, Interest Rate Swaps etc) and RWA of RO 5.155 million as at 31 December 2021.

6. MARKET RISK

Qualitative disclosure

Substantially all of the Bank's businesses are subject to the risk that market prices and rates will move and result in profits or losses for the Bank. Market risk arises from fluctuations in interest rates, foreign exchange rates, commodity and equity prices. Market risk has been categorized into interest rate risk, equity position risk and foreign exchange risk. The Bank does not take any trading positions in commodities.

The Bank has a robust Market Risk Management framework which comprises of risk identification, setting up of limits, monitoring, reporting, escalation matrix and resolution. The policy and procedure ensures that all limits are within risk appetite of the Bank and approved by the Board.

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

31 December 2021

6. MARKET RISK *(continued)*

Details of various market risks are as below:

Interest Rate Risk Principles and Framework

Interest rate risk arises from the possibility that changes in interest rates will affect the value of underlying financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or re-price in a given period. The Bank's overall goal is to manage interest rate sensitivity so that movements in interest rates do not adversely affect the Bank's net interest income. Interest rate risk is measured as the potential volatility in net interest income caused by changes in market interest rates. The Bank manages this risk by matching or hedging the re-pricing profile of assets and liabilities through various risk management strategies.

Interest Rate Risk in Trading Book

Interest rate risk in the trading book is the risk of losses in the market value of underlying financial instruments and arises from the sensitivity of interest bearing instruments to interest rate volatility. Interest rate risk in the trading book is monitored through notional exposure limits, stop loss limits, and maximum maturity limits, and is marked to market.

As of 31 December 2021, there were no trading book position sensitive to interest rate changes.

Equity Position Risk

Equity position risk occurs due to change in market value of the Bank's equity portfolio due to change in general market or security specific conditions. The ALCO monitors all equity investment on periodic basis. The Market Risk and Mid Office is responsible to ensure appropriate risk limits are in place and reports the same to appropriate authorities.

As of 31 December 2021, equity investments classified as FVTPL amount to OMR 0.872 million.

Foreign Exchange Risk

Foreign exchange risk is the risk that the foreign currency positions taken by the Bank 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. Treasury takes every possible measure to cover open positions created by customer transactions.

Instruments used to mitigate this risk are foreign exchange spot, forwards, deposits, etc. These instruments help to insulate the Bank against losses that may arise due to significant movements in foreign exchange rates. All foreign exchange exposures are centrally managed by the Bank's Treasury and are daily marked to market. Limits have been assigned with respect to overnight open exposures, stop loss and authorized currencies to monitor and control foreign exchange exposures.

The Bank treats its entire Foreign Exchange Exposure under Basel II Standardized method for capital calculation. The Net open position in all foreign currencies stands at RO 56.33 million (including RO 53.333 million open position is in effectively pegged currencies) as on 31 December 2021.

Quantitative Disclosure:

Capital Charge:

The exposure under the trading book of the Bank includes relatively small foreign exchange exposure primarily arising from the holding of day-end positions in currencies overnight, and exposure towards interest rate related instruments. Positions are monitored on daily basis to ensure open currency position is maintained within the regulatory limit. For the purpose of capital charge, the three month average of the sum of the net short positions or net long positions, whichever is higher, is taken. The average is worked out on the basis of the actual positions as obtained on all the working days during the three month period immediately preceding the reporting date.

In addition, the Bank holds insignificant FVTPL investments. The exposures are daily monitored by the Middle Office as per the approved stop loss and exposure limits.

Table showing capital charge for interest rate, equity and FX risk as on 31 December 2021 is shown below:

Type of risk	2021	2020
Interest rate risk	-	-
Equity position risk	140	111
Foreign exchange risk	2,474	5,704
Percentage of NOP to regulatory capital	13.56%	8.04%
Regulatory ceiling (% to total network)	40%	40%

Total risk weighted assets for trading book is RO 32.663 million with capital charge of RO 4.001 million.

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

31 December 2021

6. MARKET RISK *(continued)*

Investments in the banking book

The Bank's investments will have to be within the overall limits and restrictions as CBO may prescribe from time to time.

However, the Bank has set up internal limits and approval authorities at various Management and Board Level Committees or the full Board of Directors based on the product category like Repo, CBO CD or Equity / Bonds, as a percentage of the Capital Base of the Bank. All investment proposals are routed through the ALCO to the relevant approval authority.

In addition to the CBO restrictions on investments by banks, and such internal limits as described above, the following restrictions will apply:

The Bank's appetite for private subscriptions and unlisted / unquoted equity is low, and any such proposals should be 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.

All investments of the Bank should be in either USD or USD pegged GCC currencies or any investments in other currencies should be approved at least by the Executive & Credit Committee if it exceeds limits structured as a proportion of the Bank's capital base, after review and recommendation of the ALCO. Aggregate investments in all such currencies should not exceed a limit based on the Bank's capital base unless approved by the Board of Directors. This should include all investments through any Fund Manager, or proprietary investments made through the Bank's Asset Management Department.

Any investments of the Bank outside the GCC countries or US will have to be specifically approved by at least the Executive & Credit Committee if it exceeds limits structured as a proportion of the Bank's capital base. This should include all investments through any Fund Manager, or proprietary investments made through the Bank's Asset Management Department.

The Bank will try to achieve reasonable diversification of its equity investment portfolio among the economic sectors, and will 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
- i. Information Technology
- j. Pharmaceuticals
- k. Manufacturing and Industrials

This should include all proprietary investments made through the Bank's Asset Management Department.

Any proposal that leads to contravention of the above or any proposal for investment in any sector or industry not listed above will need approval of the Executive Credit Committee.

All investment approval requests for specific transactions or trading limits must be made by the relevant Business Line, approved by the Credit and Investment Committee and submitted to the Executive & Credit Committee as delegated. Any approval above those delegated limits is to be elevated to the Board level for approval. Any restrictions on investments as per effective CBO regulations shall apply. The details of investments are provided in Note 9 of the financial statements.

Investment exits/ Stop loss (does not cover Asset Management Division operations)

Exit strategies is clearly outlined in all investment proposals. In case of a change in the exit strategy, approval from the same approving body is obtained. Sale of FVOCI investments to book profit is approved/ ratified by the ALCO.

The tolerance level of a decrease in the value of an FVTPL investment is a maximum of 15% (in a particular financial year). Investments exceeding this threshold are exited. Any holding with loss equivalent or greater than 10% (in a particular financial year) are notified to ALCO members. In case an investment is witnessing a material change (downgrading or expected downgrade, etc.), the Business Unit outlines the action/remedial plan for ALCO's review. Based on its review, ALCO decides the most appropriate strategy and notify the Credit and Investment Committee.

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

31 December 2021

6. MARKET RISK *(continued)*

Interest Rate Risk in Banking Book (IRRBB)

The Bank monitors its interest rate risk in the banking book through performing repricing gap analysis of interest rate sensitive assets and liabilities. Under repricing gap analysis, the Bank distributes interest rate sensitive assets and liabilities into time bands according to their maturity (if fixed rate) or time remaining to their next repricing (if floating rate). The size of the gap for a given time period – that is assets minus liabilities that reprice or mature within that time band – gives an indication of the Bank's repricing risk exposure. The Bank evaluates the effect of a parallel shift in yield curve on its economic value by applying a proxy for modified duration multiplied by the assumed parallel change in interest rates to the gap under each time band.

The nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behavior of non-maturity deposits, and frequency of IRRBB measurement, are given below.

Interest rate risk is mainly related to retail banking book as they are re-priced with any change in the CBO's interest rate and for corporate customer re-priced in line with the market conditions.

Deposits are re-priced based on their final maturity, or if linked to a floating rate index, on the re-pricing date. Deposits that are insensitive to interest rate movements are categorized separately. The earnings at risk are calculated based on interest rate re-pricing gaps. The Bank is confident of sourcing the cheaper source of funds by way of customers' deposits. ALCO along with the risk management department identifies interest rate risk and these are monitored and reported periodically. Rate sensitive exposures are quantified using re-pricing gaps.

Quantitative Disclosure:

Exposure and sensitivity analysis

The sensitivity of interest rate risk is determined by applying 200 bps interest rate shock on net interest income and assessing the impact on Capital. The impact of a 200 basis points parallel shift in interest rate is provided below:

	2021	2020
	RO '000	RO '000
Impact of +200 bps interest rate increase	9,814	7,768
Impact of -200 bps interest rate decrease	(9,814)	(7,768)
Impact of +200 bps interest rate increase as % of Capital	+2.36%	+1.97%
Impact of -200 bps interest rate decrease as % of Capital	-2.36%	-1.97%

The bank's interest sensitivity position, in line with guidelines issued by Central bank of Oman, based on contractual re-pricing arrangements at 31 December 2021 is highlighted in Note 37.3.2 of the financial statements.

7. LIQUIDITY RISK

Qualitative Disclosure

The Bank 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 Bank:

- 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 & time deposit liabilities with CBO in the form of clearing balances
- Commitments for loans and advances are approved after taking into account the Bank's overall liquidity position.

The Bank'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.

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

31 December 2021

7. LIQUIDITY RISK *(continued)*

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 liquidity contingency plan have been established by the Bank.

Liquidity and Funding Policy

The Liquidity and Funding policy of the Bank 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 ALCO reviews the Liquidity 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. 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 Bank also maintains significant investments in liquid instruments issued by Government & banks principally for maintaining liquidity. The Bank also has standby lines of credit to meet its obligations at any given time, if the need arises.

Stock of Liquid Assets

An adequate stock of high quality liquid assets provides the Bank 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 Liquidity Coverage Ratio (LCR) of at least 100%. Further, Net Stable Funding Ratio (NSFR) is also prescribed at a minimum of 100%. Internally, the Bank has implemented a more stringent requirement for these ratios which is reviewed by ALCO on a monthly basis. 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 seeks to maintain a diversified funding base, and monitors 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 policy recognizes the inherent value of the Bank's longer term depositors. The Bank 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 Bank also recognizes that an over reliance on short dated inter-bank deposits can lead to difficulties in extreme market conditions. The Bank's 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 Bank 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 Bank assesses the convertibility of individual currencies, the timing of access to funds, the impact of potential disruptions to foreign exchange markets, and exchange risks before presuming that surplus liquidity in one currency can be used to meet a shortfall in another currency.

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

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

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

31 December 2021

7. LIQUIDITY RISK *(continued)*

Liquidity Contingency Plan:

It is imperative for the Bank to maintain an adequate amount of liquid assets as a protection against a possible loss in the event of emergency situation. The Bank's Liquidity Contingency Plan (LCP) is approved by Board and addresses the institution's strategy for handling any liquidity crisis. LCP will serve 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 at both solo and consolidated level.

The Bank has adopted quantitative and qualitative key warning indicators which is monitored by Market 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 Banking Group, DCEO – Support Services, Head of Finance, Head of Treasury and Head of Risk.

Quantitative disclosure

The maturity gaps are measured and reported as per CBO circular BM 955 dated May 7, 2003 and subsequent amendments including the CBO circular dated March 20, 2018 on Maturity of Assets and Liabilities. Disclosure pertaining to the maturity profile of assets and liabilities as at 31 December 2021 are provided in note 37.2.2 of financial statements. Following is the position of currency-wise cumulative gaps as % of cumulative liabilities as monitored against CBO prescribed maximum limits:

as of 31 December 2021

Currency	Upto 1 month	1 - 3 months	3 - 6 months	6 - 9 months	9 - 12 months
Aggregate	48.88%	37.74%	17.24%	0.57%	-12.04%
OMR	68.82%	43.39%	14.62%	-5.42%	-15.15%
USD	3.03%	20.59%	18.95%	13.28%	-5.61%
Others	203.64%	197.76%	150.24%	118.99%	14.08%

as of 31 December 2020

Currency	Upto 1 month	1 - 3 months	3 - 6 months	6 - 9 months	9 - 12 months
Aggregate	47.7%	29.0%	21.3%	-0.7%	-12.8%
OMR	40.6%	51.6%	37.1%	2.1%	-12.0%
USD	56.2%	-12.7%	-11.6%	-10.6%	-17.0%
Others	142.3%	103.3%	56.8%	52.7%	41.1%
CBO prescribed Limits	-15%	-15%	-20%	-25%	-25%

8. OPERATIONAL RISK

Operational Risk Framework

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

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

Operational risk is controlled through a series of strong internal controls and audits, well-defined segregation of duties and reporting lines, operational manuals and standards. Internal audit independently reviews the effectiveness of the Bank's internal controls and its ability to minimize the impact of operational risks. The Bank has an Operational Risk Management Framework elucidating the processes involved in the operational risk management. There is an Operational Risk Committee that is the owner of this Framework and holds responsibility.

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

31 December 2021

8. OPERATIONAL RISK *(continued)*

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

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

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

- Fraud Risk
- Process Risk
- Legal Risk
- People Risk
- Compliance Risk
- IT Risk
- Physical Security Risk

In order to effectively manage the risks arising from frauds, in line with the CBO Circular on Fraud Risk Management, the Bank has introduced separate Fraud Risk Management (FRM) Policy and FRM Process. The FRM unit forms part of the Operational risk management division of Risk Management functions and is independent of other departments.

Control and Mitigation of Operational Risk

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

Towards this, the Bank has implemented Operation Risk Self-Assessment (ORSA) procedure for each of its business segments, where operating risk related to each business area is identified; documented and corresponding control processes are defined and documented. The action points arising from ORSA are reviewed and reported at the Operational Risk Committee on a regular basis. The Bank also has Key Risk Indicators (KRIs) in place and monitors these on a regular basis.

The Bank ensures that there is appropriate segregation of duties and personnel are not assigned responsibilities that may create a conflict of interest or enable them to conceal losses, errors or inappropriate actions.

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

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

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

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

Reputation Risk

Reputation Risk is negative public opinion/reaction which could cause damage to the Bank's profitability or image. Reputation 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 Bank identifies, measures, monitors and controls reputation risk arising in the following areas:

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

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

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

31 December 2021

8. OPERATIONAL RISK *(continued)*

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

Business Continuity Risk

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

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

Business Continuity Test

During the year 2021, the Bank has carried out a comprehensive BCP test and an IT Control 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 results of the BCP/ volume tests were submitted to the Board. The Bank has in place a crisis management team, and the processes to be followed during a disaster scenario has been detailed out in the BCP documents of the Bank.

Fraud Risk Management

The Bank takes effective prevention and detection of fraudulent activities extremely serious and cooperate with the judicial and regulatory authorities and support national, regional and international initiatives to combat fraud. It endeavor to develop a culture of fraud awareness and prevention across all areas of its operations to limit possible financial losses and safeguard the brand and financial reputation of the 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 bank has adopted an Information Security Management System (ISMS) /process and a framework by which the Bank ensures, protects and secures information resources that process and maintain information which are vital to its operations. The main component of this framework is the Information Security Policy that provides direction for formulation, implementation, and management of Information Security Management System. Since protection of customer information is the top-most priority, the Bank strives to safeguard the confidentiality, availability and integrity of the data of its customers and business partners at all times.

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

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

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

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

31 December 2021

8. OPERATIONAL RISK *(continued)*

Model Risk

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

Other Risks

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

Operational risk capital charge and risk weighted amount

The Bank 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 is Net interest income (+) Non interest income (+) Provisions for unpaid interest (-/+ gain/ loss on sale of investments (-) extraordinary / irregular items of income.

Item (RO '000)	2021	2020	2019
Net interest income	65,564	60,094	57,039
Non-interest income	16,874	11,402	12,710
Provision for unpaid interest	2,951	2,391	747
Gain on sale of investment	(2,945)	(12)	-
Insurance and other irregular items	(61)	(49)	(80)
Gross income	82,383	73,826	70,416
Average Income			75,542
Gross Income times of Alpha (15%)			11,331
Operational risk based on Basic Indicator Approach			141,640

Capital Charge for Operational Risk under Basic Indicator Approach as per Basel II is RO 10.366 million as of 31 December 2021.

The Risk weighted assets for operational risk as per Basel II is RO 129.573 million with the capital charge of RO 15.873 million.

9. COMPENSATION POLICY

In line with the CBO guidelines on remuneration disclosures as part of Pillar III, the Bank is committed to fair, balanced, performance-oriented compensation practices that align long-term employee and shareholder interests. The policy is endeavored to attract, retain and motivate the best people in the industry. The Bank has a Board appointed Nomination and Remuneration Committee whose primary objective is to advise the Bank's Board Chairman on the remuneration of Board members, appointment and remuneration of senior management personnel.

Performance awards are based on the achievement of both financial and non-financial objectives. The Performance Management System is aimed at achieving the Bank's business plans and objective through continuous and focused performance of the employees. The objective of Performance Review process is to assess the employee on his/her performance against assigned key Performance Indicators and objectives. At senior management levels, the overall Bank's performance is the overriding criteria while awarding performance awards. The payout is based on consideration of all aspects governing performance including the stage of business, market conditions, and time horizon of risks, sustainable returns and the cyclical nature of certain businesses. The Bank is committed to responsible compensation practices which balance reward based on performance and promoting principled behavior and actions. The compensation is designed to contribute to the Bank's objectives and encourages prudent risk taking and adherence to applicable laws, guidelines and regulations.

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

31 December 2021

9. COMPENSATION POLICY *(continued)*

The compensation policy and arrangement for Senior Management, Material Risk takers and Control functions in regulated roles of the Bank are based on their responsibilities and authority levels and are governed by the instructions from CBO on the principles and standards of the Financial Stability Board and relevant CMA regulations.

The list of Senior Management and Material Risk Takers in regulated roles of the Bank is reviewed annually by the Board Nomination and Remuneration Committee (NRC) and takes into account changes in terms of internal organization and compensation levels.

The NRC review and approves all fixed and variable compensation including all benefits for the designated Senior Management and Material Risk Takers in regulated roles of the Bank to ensure that payments made are fair to the individual and the Bank, that failure is not rewarded and that the duty to maximize performance and mitigate loss is fully recognized.

In cases whereby the variable compensation for Senior Management and Material Risk Takers exceeds threshold, the balance is being deferred and paid equally over the period of 3 years, subject to certain conditions relating to Malus and Claw-back criterion.

The key management comprises of 5 members (2020: 5 members) of the management committee.

The below table provides details of key management compensation:

	2021	2020
	RO '000	RO '000
Salaries and allowances	1,140	1,127
End of service benefits	24	19
Total	<u>1,164</u>	<u>1,146</u>

10. SUBSIDIARIES AND SIGNIFICANT INVESTMENTS

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

11. BASEL III CAPITAL DISCLOSURE

The below capital disclosures are prepared in accordance with the requirements of the CBO Circular BM 1114 'Regulatory Capital and Composition of Capital Disclosure Requirements under Basel III' issued on 17 November 2013.

11.1 The 3 step approach to reconciliation

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

31 December 2021

11. BASEL III CAPITAL DISCLOSURE *(continued)*

11.1 The 3 step approach to reconciliation *(continued)*

BASEL III COMMON DISCLOSURE TEMPLATE

Common Equity Tier 1 capital: instruments and reserves		RO(000's)
1	Directly issued qualifying common share capital () plus related stock surplus/premium	194,966
2	Retained earnings (net of proposed cash dividend of 7.5%)	44,932
3	Accumulated other comprehensive income (and other reserves)	39,904
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-
6	Common Equity Tier 1 capital before regulatory adjustments	279,802
Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments	(4,853)
8	Goodwill (net of related tax liability)	-
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(4,871)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-
11	Cash-flow hedge reserve	-
12	Shortfall of provisions to expected losses	-
13	Securitization gain on sale (as set out in paragraph 14.9 of CP-1)	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-
15	Defined-benefit pension fund net assets	-
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-
17	Reciprocal cross-holdings in common equity	-
18	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than the issued share capital (amount above 10% threshold)	-
19	Significant investments in the common stock of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-
20	Mortgage servicing rights (amount above 10% threshold)	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
22	Amount exceeding the 15% threshold	-
23	of which: significant investments in the common stock of financials	-
24	of which: mortgage servicing rights	-
25	of which: deferred tax assets arising from temporary differences	-
26	National specific regulatory adjustments	-
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-
28	Total regulatory adjustments to Common equity Tier 1	(9,724)
29	Common Equity Tier 1 capital (CET1)	270,078
Additional Tier 1 capital: Instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus (31+32)	124,000
31	of which: classified as equity under applicable accounting standards	124,000
32	of which: classified as liabilities under applicable accounting standards	-

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

31 December 2021

11. BASEL III CAPITAL DISCLOSURE *(continued)*

11.1 The 3 step approach to reconciliation *(continued)*

33	Directly issued capital instruments subject to phase out from Additional Tier 1	-
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-
35	of which: instruments issued by subsidiaries subject to phase out	-
36	Additional Tier 1 capital before regulatory adjustments	<u>124,000</u>
Additional Tier 1 capital : regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	-
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-
39	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
41	National specific regulatory adjustments	-
	OF WHICH: [INSERT NAME OF ADJUSTMENT]	-
	OF WHICH:	-
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-
43	Total regulatory adjustments to Additional Tier 1 capital	-
44	Additional Tier 1 capital (AT1)	<u>124,000</u>
45	Tier 1 capital (T1 = CET1 + AT1)	<u>394,078</u>
Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-
47	Directly issued capital instruments subject to phase out from Tier 2	-
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-
49	of which: instruments issued by subsidiaries subject to phase out	-
50	Provisions (including gain on investments)	<u>20,264</u>
51	Tier 2 capital before regulatory adjustments	<u>20,264</u>
Tier 2 capital: regulatory adjustments		
52	Investments in own Tier 2 instruments	-
53	Reciprocal cross-holdings in Tier 2 instruments	-
54	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
56	Total National specific regulatory adjustments	-
	Of which: Investments in Tier 2 capital of unconsolidated banking and financial subsidiary companies, associates or affiliates etc.,	-
	Of which: shortfall in the Tier 2 regulatory capital in the unconsolidated entities	-
57	Total regulatory adjustments to Tier 2 capital	-

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

31 December 2021

11. BASEL III CAPITAL DISCLOSURE *(continued)*

11.1 The 3 step approach to reconciliation *(continued)*

58	Tier 2 capital (T2)	20,264
59	Total capital (TC = T1 + T2)	414,342
60	Total risk weighted assets	2,479,879
60a	Credit risk weighted assets	2,317,643
60b	Market risk weighted assets	32,663
60c	Operational risk weighted assets	129,573
Capital Ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	10.89%
62	Tier 1 (as a percentage of risk weighted assets)	15.89%
63	Total capital (as a percentage of risk weighted assets)	16.71%
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)	8.250%
65	of which: capital conservation buffer requirement	1.250%
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)	3.89%
National Minima (if difference from Basel 3)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	8.250%
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	10.250%
71	National total capital minimum ratio (if different from Basel 3 minimum)	12.250%
Amounts below the thresholds for deduction (before risk weighting)		
72	Non-significant investments in the capital of other financials	1,215
73	Significant investments in the common stock of financials	-
74	Mortgage servicing rights (net of related tax liability)	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	18,420
77	Cap on inclusion of provisions in Tier 2 under standardised approach	28,971
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-
82	Current cap on AT1 instruments subject to phase out arrangements	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-
84	Current cap on T2 instruments subject to phase out arrangements	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-

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

31 December 2021

11. BASEL III CAPITAL DISCLOSURE *(continued)*

11.1 The 3 step approach to reconciliation *(continued)*

Step 1: Balance sheet under Regulatory scope of consolidation

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

Year ended 31 December 2021	Published financial statements	Under regulatory scope of consolidation
Assets		
Cash and balances with Central Bank of Oman	114,703	114,703
Certificates of deposit	-	-
Due from banks	44,694	44,694
Loans and advances	2,401,979	2,401,979
Investments in securities	428,377	428,377
Loans and advances to banks	-	-
Property and equipment	26,649	26,649
Deferred tax assets	-	-
Other assets	36,154	36,154
Total assets	3,052,556	3,052,556
Liabilities		
Due to banks	262,340	262,340
Customer deposits	2,181,391	2,181,391
Borrowings	92,400	92,400
Tax Liability	8,643	8,643
Other liabilities	77,785	77,785
Subordinated Loans	3,000	3,000
Total liabilities	2,625,559	2,625,559
Shareholders' Equity		
Paid-up share capital	194,966	194,966
Share premium	-	-
Legal reserve	36,904	36,904
General loan loss reserve	-	-
Impairment reserve	10,127	10,127
Retained earnings	59,554	59,554
Special reserve	998	998
Cumulative changes in fair value of investments	(2,552)	(2,552)
Subordinated debt reserve	3,000	3,000
Total shareholders' equity	302,997	302,997
Tier 1 Perpetual subordinated bonds	124,000	124,000
Total equity	426,997	426,997
Total liability and shareholders' funds	3,052,556	3,052,556

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

31 December 2021

11. BASEL III CAPITAL DISCLOSURE *(continued)*

11.1 The 3 step approach to reconciliation *(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)

For the year ended 31 December 2021	2021 financial Statement	Under Regulatory scope of consolidation	Reference
Assets			
Cash and balances with CBO	114,703	114,703	
Balance with banks and money at call & short notice	44,694	44,694	
Balance with banks and money at call & short notice, of which:		44,730	
- Stage1 / 2 impairment allowance , of which	-	(36)	
- amount eligible for T2	-	-	
Investments, of which:	428,377	428,377	
Fair Value Through Other Comprehensive income (FVOCI)	-	427,505	
Fair Value Through Profit & Loss (FVTPL)	-	872	
- Stage1 / 2 impairment allowance , of which	-	-	
- amount eligible for T2	-	-	
Loans and advances – Net, of which:	2,401,979	2,401,979	
- Loans and advances to domestic banks	-	-	
- Loans and advances to domestic customers	-	1,920,055	
- Loans and advances to non-resident for operations abroad	-	7,117	
- Loans and advances to SMEs	-	147,069	
- Financing from Islamic banking window	-	404,614	
- Expected credit loss allowance , of which:	-	(76,876)	
- Stage 3 impairment allowance and Reserve interest & profit	-	(46,201)	
- Stage1 / 2 impairment allowance , of which	-	(30,675)	
- amount eligible for T2	-	18,420	h
- amount ineligible for T2	-	12,225	
Fixed assets	26,649	26,649	
- Intangibles(CET1 adjustment)	-	(4,871)	e
- Other fixed asset	-	(21,778)	
Other assets	36,154	36,154	
Other assets, of which		36,181	
- Stage1 / 2 impairment allowance , of which		(27)	
- amount eligible for T2		-	
- amount ineligible for T2		(27)	
Total Assets	3,052,556	3,052,556	
Capital & Liabilities			
Paid-up Capital, of which:	194,966	194,966	
- Amount eligible for CET1	-	194,966	a
Reserves & Surplus; of which	232,031	232,031	
- Amount eligible for CET1 (Legal reserve)		36,904	c
- Amount eligible for CET1 (Subordinated debt reserve)		3,000	d

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

31 December 2021

11. BASEL III CAPITAL DISCLOSURE *(continued)*

11.1 The 3 step approach to reconciliation *(continued)*

Step 2: Expansion of Balance sheet under Regulatory scope of consolidation *(continued)*

For the year ended 31 December 2021	2021 financial Statement	Under Regulatory scope of consolidation	Reference
- Amount eligible for CET1 (Retained earnings)		44,932	b
- Proposed cash dividend(removed from retained earnings)	-	14,622	b
- Proposed stock dividend(removed from retained earnings)	-	-	
- Amount ineligible for CET1 (Special Reserve)	-	998	
- Amount eligible for AT1	-	124,000	f
- Amount ineligible for T2 (Impairment reserve)	-	10,127	
- Amount eligible for T2 (Investments Fair value gains)	-	1,844	i
- FVOCI investments fair value loss (CET1 adjustment)	-	(4,853)	e
- Fair value reserve	-	457	
Total Capital	426,997	426,997	
Deposits from banks	262,340	262,340	
Customer deposits, of which	2,181,391	2,181,391	
- Deposits for customers	-	1,787,534	
- Deposits of Islamic Banking window	-	393,857	
Borrowings, of which:	92,400	92,400	
- From banks	92,400	92,400	
Borrowings in form of bonds, Debentures & sukuks, of which	3,000	3,000	
- Amount eligible for T2		-	g
- Amount ineligible for T2		3,000	
Other liabilities & provisions	86,428	86,428	
Other liabilities & provisions, of which		84,812	
- Stage 3 provision		-	
- Stage1 / 2 impairment allowance , of which		1,529	
- amount eligible for T2		-	
- amount ineligible for T2		1,529	
Total Capital & Liabilities	3,052,556	3,052,556	

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

31 December 2021

11. BASEL III CAPITAL DISCLOSURE *(continued)*

11.1 The 3 step approach to reconciliation *(continued)*

Step 3: Step Reconciliation of Regulatory Capital:

Common Equity Tier 1 capital: instruments and reserves (RO' 000)		Component of regulatory capital reported by Bank	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from step 2
For the year ended 31 December 2021			
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	194,966	a
2	Retained earnings	44,932	b
3	Accumulated other comprehensive income (and other reserves)	39,904	c+d
4	Common Equity Tier 1 capital before regulatory adjustments	279,802	
5	Prudential valuation adjustments	(9,724)	e
6	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
7	Total regulatory adjustments to Common equity Tier 1	(9,724)	
8	Common Equity Tier 1 capital (CET1)	270,078	
9	Additional Tier 1 capital (AT1)	124,000	f
	Tier 1 capital (T1 = CET1 + AT1)	394,078	
9	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	g
10	Expected credit loss allowance / Provisions	18,420	h
11	Fair value reserve of FVOCI investments	1,844	i
	Tier 2 capital before regulatory adjustments	20,264	
	Tier 2 capital: regulatory adjustments	-	
	Tier 2 capital (T2)	20,264	
	Total capital (TC = T1 + T2)	414,342	

* The Board of Directors have proposed cash dividend of 7.5%, which has been adjusted in the capital of the Bank.

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

31 December 2021

11. BASEL III CAPITAL DISCLOSURE *(continued)*

11.2 Main Features of regulatory capital

Table below discloses the key features of all the regulatory capital issued by the Bank;

1	ahlibank SAOG	Common Equity Share Capital	Subordinated debt (Basel III)	Perpetual Subordinated Bonds (Additional Tier1)	Perpetual Subordinated Bonds (Additional Tier1)	Perpetual Subordinated Bonds (Additional Tier1)
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA	NA	NA	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	The laws of Oman in the form of Royal Decrees, Ministerial Decisions and CMA and CBO Regulations	The laws of Oman in the form of Royal Decrees, Ministerial Decisions and CMA and CBO Regulations	The laws of Oman in the form of Royal Decrees, Ministerial Decisions and CMA and CBO Regulations	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	Tier II	Additional Tier I	Additional Tier I	Additional Tier I
5	Post-transitional Basel III rules	Common Equity Tier 1	Eligible	Eligible	Eligible	Eligible
6	Eligible at solo/group/group & solo	Solo	Solo	Solo	Solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Common Equity Share Capital	Private Placement of Subordinated debt	Rights Issue of Perpetual Subordinated bonds	Private placement	Private placement
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	RO 194.966 million	RO 3.000 million	RO 50 million	RO 54 million	RO 20 million
9	Par value of instrument	RO 194.966 million	RO 3.000 million	RO 50 million	RO 54 million	RO 20 million
10	Accounting classification	Shareholders' Equity	Liability amortised cost	Equity	Equity	Equity
11	Original date of issuance	Bank started operations in 1997	*Refer to the below table	11-October-2017	17-December-2018	13- June-2019
12	Perpetual or dated	Perpetual	Dated	Perpetual	Perpetual	Perpetual
13	Original maturity date	No maturity	**Refer to the below table	No maturity	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	No	No	Yes	Yes	Yes

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

31 December 2021

11. BASEL III CAPITAL DISCLOSURE *(continued)*

11.2 Main Features of regulatory capital *(Continued)*

15	Optional call date, contingent call dates and redemption amount	NA	NA	The Bank may, at the end of five years and every interest payment date thereafter, redeem all but not some, of the bonds at nominal value, subject to prior approval from CBO.	The Bank may, at the end of five years and every interest payment date thereafter, redeem all but not some, of the bonds at nominal value, subject to prior approval from CBO.	The Bank may, at the end of five years and every interest payment date thereafter, redeem all but not some, of the bonds at nominal value, subject to prior approval from CBO.
16	Subsequent call dates, if applicable	NA	NA			
	Coupons / dividends					
17	Fixed or floating dividend/ coupon	Floating	Fixed	Fixed	Fixed	Fixed
18	Coupon rate and any related index	NA	4%-5%	7.50%	7.50%	7.50%
19	Existence of a dividend stopper	NA	No	NA	NA	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Mandatory	Fully discretionary	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	No	No	NA	NA	NA
22	Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible	convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	NA	Statutory approach	NA	NA	NA
25	If convertible, fully or partially	NA	May convert fully or Partially	NA	NA	NA
26	If convertible, conversion rate	NA	Average price *	NA	NA	NA
27	If convertible, mandatory or optional conversion	NA	Optional	NA	NA	NA
28	If convertible, specify instrument type convertible into	NA	CET 1	NA	NA	NA

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

31 December 2021

11. BASEL III CAPITAL DISCLOSURE *(continued)*

11.2 Main Features of regulatory capital *(Continued)*

29	If convertible, specify issuer of instrument it converts into	NA	ahli Bank	NA	NA	NA
30	Write-down feature	Yes	Yes	Yes	Yes	Yes
31	If write-down, write-down trigger(s)	Statutory approach	Statutory approach	Statutory approach	Statutory approach	Statutory approach
32	If write-down, full or partial	Write down fully	May be written down partially	Full or partial	Full or partial	Full or partial
33	If write-down, permanent or temporary	Permanent	Permanent	Permanent	Permanent	Permanent
34	If temporary write-down, description of write-up mechanism	NA	NA	NA	NA	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA	Common Equity Share Capital	Subordinate to deposit holders, general creditors, holders of Tier 2 subordinated debt/bonds/sukuk of the bank	Subordinate to deposit holders, general creditors, holders of Tier 2 subordinated debt/bonds/sukuk of the bank	Subordinate to deposit holders, general creditors, holders of Tier 2 subordinated debt/bonds/sukuk of the bank
36	Non-compliant transitioned features	No	No	No	No	No
37	If yes, specify non-compliant features	NA	NA	NA	NA	NA

Number Of Subordinated debt (as per Basel III) (RO '000)	Par value of instrument	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	*Original date of issuance	**Original maturity date
Subordinated debt 10	3,000	3,000	10-Jun-15	13-Jun-22
Total	3,000	3,000		

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

31 December 2021

12. BASEL III LIQUIDITY DISCLOSURE

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

LIQUIDITY COVERAGE RATIO (LCR) Common Disclosure Template			
			(RO '000)
		Total Unweighted Value (average)	Total Weighted Value (average)
High Quality Liquid Assets			
1	Total High Quality Liquid Assets (HQLA)	355,437	355,437
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	648,101	39,114
3	Stable deposits	19,577	587
4	Less stable deposits	628,524	38,527
5	Unsecured wholesale funding, of which:	658,261	315,849
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	962	241
7	Non-operational deposits (all counterparties)	540,389	198,698
8	Unsecured debt	116,911	116,911
9	Secured wholesale funding	90,667	-
10	Additional requirements, of which		
11	Outflows related to derivative exposures and other collateral requirements	98,393	98,393
12	Outflows related to loss of funding on debt products		
13	Credit and liquidity facilities	9,483	948
14	Other contractual funding obligations		
15	Other contingent funding obligations	67,792	3,390
16	TOTAL CASH OUTFLOWS	1,572,714	457,694
Cash Inflows			
17	Secured lending (e.g. reverse repos)		
18	Inflows from fully performing exposures	173,996	122,355
19	Other cash inflows	114,870	98,393
20	TOTAL CASH INFLOWS	288,866	220,748
21	TOTAL HQLA		355,437
22	TOTAL NET CASH OUTFLOWS		236,947
23	LIQUIDITY COVERAGE RATIO (%)		150.01%

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

31 December 2021

12. BASEL III LIQUIDITY DISCLOSURE *(continued)*

NET STABLE FUNDING RATIO (NSFR)

Common Disclosure Template

The below Net Stable Funding Ratio (NSFR) disclosure is prepared in accordance with the requirements of the CBO letter vide circular reference 1147 issued on October 26, 2016.

NSFR disclosure is presented below based on positions as on 31 December 2021.

Bank has maintained NSFR levels of 101%-110% during the year.

Sr No.	Particulars	No Maturity	<6 Months	6 Months to < 1 Year	>=1 Year	Weighted Value
ASF ITEM						
1	Capital	425,964	-	-	-	425,964
2	Regulatory Capital	425,964				425,964
3	Other Capital Instruments					
4	Retail Deposits and Deposits from small Business Customers	430,988	84,947	126,026	54,308	638,362
5	Stable Deposit	125,779			54,308	173,798
6	Less Stable Deposit	305,209	84,947	126,026		464,564
7	Wholesale Funding	487,939	282,437	307,713	440,466	979,511
8	Operational	1,325				662
9	Other Wholesale Funding	486,615	282,437	307,713	440,466	978,849
10	Liabilities with matching interdependent Assets					
11	Other Liabilities	-	-	-	-	-
12	NSFR Derivative Liability	-	-	-	-	-
13	All other liabilities and equities not included in above categories	411,586	-	-	-	-
14	Total ASF					2,043,837
RSF ITEM						
15	Total NSFR high-quality liquid assets (HQLA)					18,803
16	Deposits held at other financial institutions for operational purposes	21,126	-	-	-	10,563
17	Performing Loans and Securities					
18	Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
19	Performing loans to financial institutions secured by non- Level 1 HQLA and unsecured performing loans to financial institutions	-	148,034	5,450	-	24,930
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which	118,908	434,573	62,107	1,566,609	1,639,412
21	With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk					-
22	Performing residential mortgages, of which:	-	-	-	-	-
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	-	-	56,942	37,012
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	28,647	24,350
25	Assets with matching interdependent liabilities					

BASEL II PILLAR III AND BASEL III Report (continued)

31 December 2021

12. BASEL III LIQUIDITY DISCLOSURE (continued)

26	Other Assets:					
27	Physical traded commodities, including gold	-	-	-	-	-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	-	-	-	-	-
29	NSFR derivative assets	-	400	204	60	664
30	NSFR derivative liabilities before deduction of variation margin posted	-	-	-	-	-
31	All other assets not included in the above categories	-	-	-	118,741	118,741
32	Off-balance sheet items	-	168,195	18,188	19,046	10,271
33	Total RSF	-	-	-	-	1,884,746
34	NET STABLE FUNDING RATIO	-	-	-	-	108.44%

LEVERAGE RATIO (LR)

Common Disclosure Template

The below Leverage Ratio disclosure is prepared in accordance with the requirements of the CBO letter BSD/2017/BKUP/Leverage/564 – Implementation of Basel III Leverage Ratio issued on 27 August 2017.

(All amounts in OMR'000)

Table 1: Summary comparison of accounting assets vs leverage ratio exposure measure			
	Item	Current Quarter	Previous Quarter
1	Total consolidated assets as per published financial statements	3,052,556	3,056,158
2	Adjustments for derivative financial instruments	5,155	4,660
3	Adjustment for securities financing transactions (i.e., repos and similar secured lending)	138,502	214,803
4	Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	79,897	82,482
5	Other adjustments	-	-
6	Leverage ratio exposure	3,276,110	3,367,102

Table 2: Leverage ratio common disclosure template			
	Item	Current Quarter	Previous Quarter
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	3,052,556	3,056,158
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	3,052,556	3,056,158
	Derivative Exposures		
4	Replacement cost associated with <i>all</i> derivatives transactions (i.e., net of eligible cash variation margin)	1,881	1,599
5	Add-on amounts for PFE associated with <i>all</i> derivatives transactions	3,274	3,061
11	Total derivative exposures (sum of lines 4 to 10)	5,155	4,660
	Securities financing transaction exposures		
12	Gross SFT <i>assets</i> (with no recognition of netting), after adjusting for sale accounting transactions	129,043	205,043

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

31 December 2021

12. BASEL III LIQUIDITY DISCLOSURE *(continued)*

Table 2: Leverage ratio common disclosure template *(continued)*

14	CCR exposure for SFT assets	9,458	9,759
16	Total securities financing transaction exposures (sum of lines 12 to 15)	138,501	214,803
	Other Off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	157,507	160,582
18	(Adjustments for conversion to credit equivalent amounts)	(77,611)	(78,099)
19	Off-balance sheet items (sum of lines 17 and 18)	79,896	82,483
	Capital and total exposures		
20	Tier 1 capital	394,078	386,011
21	Total exposures (sum of lines 3, 11, 16 and 19)	3,276,108	3,367,103
	Leverage Ratio		
22	Basel III leverage ratio (%)	12.0%	11.5%

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

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

Basel III capital and liquidity disclosures are prepared in accordance with CBO Circular BM 1114 'Regulatory Capital and Composition of Capital Disclosure Requirements under Basel III' issued on 17 November 2013, CBO circular dated March 20, 2018 and BM 1127 'Basel III – Framework on Liquidity Coverage Ratio (LCR) and LCR disclosure standard' issued on 24 December 2014, respectively. The NSFR disclosure has been prepared in accordance to CBO Circular reference BM 1147 dated 26 October 2016. The Bank's disclosure on leverage was prepared as per CBO circular on leverage ratio, issued on 27 August 2017 and CBO circular No. BM 1157 on Implementation of Basel III Leverage Ratio Standard dated 30 December 2018.

For ahlibank SAOG

Hamdan Ali Nasser Al Hinai

Chairman

Date: 26 January 2022



ahli islamic Financial Statements

For the year ended 31 December 2021

Ahli Islamic, Ahli Bank SAOG

Shari'a Supervisory Board Report

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

To the Board of Directors of Ahli Bank SAOG

Assalam Alikum wa Ramat Allah wa Barakatuh

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

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

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

In opinion of the Board:

1. The contracts, transactions and dealings entered into by the Bank during the year ended 2021 are in compliance with Shari'a rules and principles.
2. The distribution of profit and charging of losses relating to investment accounts conform to the base that had been approved by the Shari'a Supervisory Board of the Bank in accordance with rules and principles of Islamic Shari'a.
3. All earning that has been realized from sources or by means prohibited by rules and principles of Islamic Shari'a have been disposed of by the management of the Bank to charitable causes,
4. The calculation of *Zakah* is in compliance with Shari'a rules and principles.

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

Sharia Supervisory Board

Sheikh Dr. Mohammed Taher Al-Ibrahim (Chairman)



Sheikh Dr. Mustain Ali Abdul Hameed (Deputy Chairman)



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



Resolutions issued by SSB during the year 2021

FOR THE YEAR ENDED 31 DECEMBER 2021

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

Resolutions issued by SSB during the year 2021 (continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

SSB Meeting	Resolution No.	Subject of the Resolution	Brief of the SSB Resolution
	2 (SSB –34 – 2021)	<p>Apprise of Legal Documents for Financing and Deposit Products of ahli islamic:</p> <ol style="list-style-type: none"> 1 Diminishing Musharaka for Ready Asset <ol style="list-style-type: none"> I. Diminishing Musharaka Agreement II. Ijara Agreement IV. Service Agency Agreement V. Sale Undertaking 2. Diminishing Musharaka for Under Construction Asset <ol style="list-style-type: none"> I. Diminishing Musharaka Agreement II. Forward Lease Agreement IV. Management Agreement V. Sale Undertaking 3. Diminishing Musharaka for Vehicle Financing <ol style="list-style-type: none"> I. Diminishing Musharaka Agreement II. Ijara Agreement IV. Service Agency Agreement V. Sale Undertaking 4. Ijara MBT <ol style="list-style-type: none"> I. Purchase Undertaking II. Undertaking to Lease IV. Asset Sale and Purchase Agreement V. Ijarah Ending with Ownership VI. Undertaking to Transfer Ownership of Asset VII. Service Agency Agreement 5. Murabaha for Goods <ol style="list-style-type: none"> I. Murabaha Agreement (Goods Financing) II. Promise to Purchase IV. Letter of Purchase of Goods V. Goods Inspection Report VI. Delivery Order Goods VII. Confirmation of Receipt of Goods VIII. Offer to Sell and Acceptance of Offer 6. Murabaha for Vehicles <ol style="list-style-type: none"> I. Murabaha Agreement (Vehicle Financing) II. Promise to Purchase IV. Letter of Purchase of Vehicle VI. Vehicle Inspection Report VII. Delivery Order VIII. Offer to Sell and Acceptance of Offer 7. Services Ijara <ol style="list-style-type: none"> I. Memorandum of Understanding II. Offer to Purchase Services and IV. Acceptance of Offer V. Services Delivery Order VI. Service Ijara Agreement 8. Investment Wakala Agreement-Fixed Account 9. Wakala Agreement-Call Account 10. Investment Wakala Agreement-Al Qimmah Account 	<p>The SSB reviewed the subject documents of deposit and financing products of ahli islamic which were apprised in terms of updating the contents and improving the format. After making necessary changes in the documents, the SSB has opined as follows:</p> <p>SSB Opinion:</p> <p>After reviewing contents of the subject legal documents, the SSB has approved them and the SSB confirms that contents of these documents are in line with dictates of Sharia. The SSB advises that these documents are applicable for future transactions and the business contracts with the existing customers will remain under the old executed legal documents.</p>
	3 (SSB –34 – 2021)	<p>Shari'a Sharia Audit Reports of 4th Q. 2020</p> <ol style="list-style-type: none"> i. Retail Banking ii. Corporate Banking iii. SME iv. Treasury v. Trade Finance 	<p>The SSB reviewed the subject Shari'a Audit Reports and gave its opinion in Shari'a Audit reports to each observations.</p>

Resolutions issued by SSB during the year 2021 (continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

SSB Meeting	Resolution No.	Subject of the Resolution	Brief of the SSB Resolution								
	4 (SSB –34 – 2021)	Implementation Status of SSB’s Opinion in the Retail Banking Sharia Audit Report for 2nd Quarter 2020	The SSB members noted the status of implementation of SSB opinion on the subject Shari’a Audit observations and advised to make correction of the seven pending cases in the report.								
	6 (SSB –34– 2021)	New Retail Segment- Upper Mass	The SSB reviewed the subject proposal and approved it.								
Meeting No 15 July 2021 (SSB-35-2021)	1 (SSB –35 – 2021)	Ratification of Minutes of SSB 34th Meeting	The SSB signed Minutes of the 34th Meeting.								
	2 (SSB –35 – 2021)	Shari’a Approval of Retail Prepaid Card Proposal	<p>The SSB reviewed ahli islamic (Bank) proposal on Retail Prepaid Card and gave its opinion as follows:</p> <p>SSB Opinion:</p> <p>The SSB has approved the Retail Prepaid Card Proposal. The Retail Prepaid Cards product of the Bank entails the services which are based on the Sharia principles of Ujra. As per Ujra principle, for various services underlying to the Prepaid cards such as purchases (POS and online) by using the Prepaid card services and administration of the cards, the Bank may charge a fee to the customer. The Bank will communicate to the customer on services’ fees applicable to the cards through schedule of charge and agree with the customer by signing a formal contract.</p>								
	3 (SSB –35 – 2021)	Shari’a Approval of Clean Credit Cards Proposal	<p>The SSB reviewed ahli islamic (Bank) proposal on Clean Credit Cards, a brief of which is as follows:</p> <p>Brief Proposal:</p> <p>Existing and new high net worth Omani individuals who have high balances with the bank will be offered credit card, taking into consideration their account balances. Following criteria is proposed in this regard:</p> <p>1. Minimum balance of OMR 35,000 in any account with ahli islamic.</p> <p>Customer is Premium or Private Banking customer managed by an RM.</p> <p>Limits to be assigned upon issuing the card as per the following grid:</p> <table border="1" data-bbox="1025 1410 1509 1636"> <thead> <tr> <th>Deposit Balance</th> <th>Credit Card Limit</th> </tr> </thead> <tbody> <tr> <td>OMR 35,000 and above, or equivalent value of USD</td> <td>OMR 3,500</td> </tr> <tr> <td>OMR 50,000 - 150,000, or equivalent value of USD</td> <td>OMR 5,000</td> </tr> <tr> <td>Above OMR 150,000 , or equivalent value of USD</td> <td>OMR 10,000</td> </tr> </tbody> </table> <p>After reviewing the proposal and its related details the SSB has given its opinion as follows:</p> <p>Shari’a Opinion: Having reviewed the Clean Credit Cards proposal, the SSB has approved it. The credit cards product of the Bank is based on the Shari’a principles of Qard according to which the Bank cannot charge any over or excess on the Qard amount. The Customers are required to pay back Qard amount without any delay. The Bank can charge the Customers with a fee for the administrative services and not for any Qard amount.</p>	Deposit Balance	Credit Card Limit	OMR 35,000 and above, or equivalent value of USD	OMR 3,500	OMR 50,000 - 150,000, or equivalent value of USD	OMR 5,000	Above OMR 150,000 , or equivalent value of USD	OMR 10,000
Deposit Balance	Credit Card Limit										
OMR 35,000 and above, or equivalent value of USD	OMR 3,500										
OMR 50,000 - 150,000, or equivalent value of USD	OMR 5,000										
Above OMR 150,000 , or equivalent value of USD	OMR 10,000										
	4 (SSB –35 – 2021)	Change in Weightages of Mudaraba Based Accounts	The SSB reviewed ahli islamic proposal on Change in Weightages of Mudaraba Based Accounts and approved it as attached to this resolution.								

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

FOR THE YEAR ENDED 31 DECEMBER 2021

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

Resolutions issued by SSB during the year 2021 (continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

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

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

FOR THE YEAR ENDED 31 DECEMBER 2021

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

In the Name of Allah, the Merciful, the Compassionate

Fatwa of Sharia Supervisory Board

BancaTakaful with Al-Madinah Takaful

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

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

SSB Pronouncement

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

And all praise is due to Allah.

Sharia Supervisory Board



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



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



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

In the Name of Allah, the Merciful, the Compassionate

Fatwa of Shari'a Supervisory Board on

Children Account of Ahli Islamic

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

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

Shari'a Structure of the Product:

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

The SSB Opinion:

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

And all praise is due to Allah.

Shari'a Supervisory Board



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



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



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

In the Name of Allah, the Merciful, the Compassionate

Fatwa of Shari'a Supervisory Board on

Ladies Account of Ahli Islamic

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

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

Shari'a Structure of the Product:

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

The SSB Opinion:

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

And all praise is due to Allah.

Shari'a Supervisory Board



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



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



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

In the Name of Allah, the Merciful, the Compassionate

Fatwa of Shari'a Supervisory Board on

Youth Account of Ahli Islamic

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

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

Shari'a Structure of the Product:

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

The SSB Opinion:

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

And all praise is due to Allah.



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



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



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

In the Name of Allah, the Merciful, the Compassionate

Fatwa of Shari'a Supervisory Board on

Investment Wakala Account

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

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

SSB Opinion:

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

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

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

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

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

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

And Allah knows what is right.

Sharia Supervisory Board



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



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



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

Fatwa of Shari'a Supervisory Board on

Non-Salary Assigned Credit Cards Product

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

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

SSB Opinion:

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

And all praise is due to Allah.

Sharia Supervisory Board

Dr. Mohammed Taher Al-Ibrahim (Chairman)



Dr. Mustain Ali Abdul Hameed (Deputy Chairman)



Dr. Abdul Raouf Abdullah Al-Tobi (Member)



SSB Fatwa on Non-Salary Assigned Credit Cards Product

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

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

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

SSB Opinion:

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

And all praise is due to Allah.

Sharia Supervisory Board

Dr. Mohammed Taher Al-Ibrahim (Chairman)



Dr. Mustain Ali Abdul Hameed (Deputy Chairman)



Dr. Abdul Raouf Abdullah Al-Tobi (Member)



In the Name of Allah, the Merciful, the Compassionate

Fatwa of Shari'a Supervisory Board on

Wakala Bil Istithmar Financing Product

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

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

SSB Opinion:

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

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

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

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

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

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

And Allah knows what is right.

Sharia Supervisory Board

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

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

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

In the Name of Allah, the Merciful, the Compassionate

Fatwa of Shari'a Supervisory Board on

Investment Wakala Account

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

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

SSB Opinion:

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

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

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

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

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

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

And Allah knows what is right.

Sharia Supervisory Board

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



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



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





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

Report on the audit of the financial statements

Our opinion

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

What we have audited

The financial statements comprise:

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

Basis for opinion

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

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

Independence

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

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



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

Emphasis of matter

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

Other information

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

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

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

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

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

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

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

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

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



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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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



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

Report on other legal and regulatory and Shari'a requirements

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

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

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

Muscat, Sultanate of Oman
6 March 2022



STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

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

The financial statements and notes 1 to 34 were approved by the Board of Directors on 26 January 2022 and signed on their behalf by:



Hamdan Ali Nasser Al Hinai
Chairman



Said Abdullah Al Hatmi
Chief Executive Officer

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

FOR THE YEAR ENDED 31 DECEMBER 2021

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

The notes 1 to 34 and other explanatory information form an integral part of these financial statements.
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STATEMENT OF CHANGES IN OWNERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	Share capital	Investment fair value reserve	Impairment reserve	Special Reserve	Retained earnings	Total
		RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Balance at 1 January 2021		25,000	(198)	4,553	-	17,242	46,597
Profit for the year		-	-	-	-	4,021	4,021
Other comprehensive income		-	132	-	-	-	132
Allocation of capital		10,000	-	-	-	-	10,000
At 31 December 2021		35,000	(66)	4,553	-	21,263	60,750
At 31 December 2021 (US\$ '000)		90,909	(171)	11,826	-	55,229	157,793

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

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

FOR THE YEAR ENDED 31 DECEMBER 2021

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

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

FOR THE YEAR ENDED 31 DECEMBER 2021

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

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

FOR THE YEAR ENDED 31 DECEMBER 2021

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

ahli islamic (The Islamic Window) was licensed by Central Bank of Oman (CBO) to operate as an Islamic Banking Window of ahlibank SAOG (The Bank). The Islamic Window offers a full range of Islamic banking services and products. The principal activities of the Islamic Window include accepting Sharia compliant customer deposits, providing Sharia compliant financing based on Murabaha, Wakala, Musharaka, Ijarah, and undertaking investment activities and providing commercial banking services and other investment activities permitted under the Islamic Banking Regulatory Framework (IBRF) issued by the CBO. The Islamic Window was operating through a network of fifteen branches as at year end (31 December 2020: twelve branches).

The Islamic Window employed 136 employees as at 31 December 2021 (31 December 2020: 116 employees).

2 BASIS OF PREPARATION

2.1 Statement of compliance

The Islamic Window is not a separate legal entity, the separate financial statements of the Islamic Window has been prepared to comply with the requirements of Articles 1.5.1.2 to 1.5.1.4 of Title 2 'General Obligations and Governance' of IBRF issued by the CBO. These financial statements are prepared in accordance with Financial Accounting Standards (FAS) issued by Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the Sharia Rules and Principles as determined by the Sharia Supervisory Board of the Islamic Window and other applicable requirements of CBO. In accordance with the requirements of AAOIFI, for matters which are not covered by AAOIFI and other directives, the Islamic Window uses the relevant International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB).

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

2.2 Basis of measurement

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

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgements

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

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

3 STANDARDS, AMENDMENTS AND INTERPRETATIONS

3.1 FAS 30 Impairment, credit losses and onerous commitments

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

Prior to adoption of FAS 30, the Islamic Window has applied IFRS 9, "Financial Instruments" for calculation of expected credit losses which is similar to FAS 30 which is in compliance with Shari'a principles and rules as specified by Shari'a Supervisory Board. Central Bank of Oman (CBO) mandated the adoption of IFRS 9 for all banks including Islamic banks and Islamic windows as per Circular "BM 1149" dated 13 April 2017. In accordance with CBO circular BM 1149, Banks should continue to maintain and update the risk classification (i.e. standard, special mention, substandard, etc.) of accounts as per the extant regulations.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

3 STANDARDS, AMENDMENTS AND INTERPRETATIONS *(continued)*

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

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

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

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

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

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

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

Wakala Investment Accounting:

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

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

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

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

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

Wakala - Agency Accounting:

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

3 STANDARDS, AMENDMENTS AND INTERPRETATIONS *(continued)*

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

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

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

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

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

3.3 FAS 32 Ijarah and Ijarah muntahia bittamleek

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

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

- i. Operating Ijarah;
- ii. Ijarah muntahia bittamleek with expected transfer of ownership after the end of the Ijarah term – either through a sale or gift; and
- iii. Ijarah muntahia bittamleek with gradual transfer – with gradual transfer ownership during the Ijarah term including Diminishing Musharaka Ijarah;

b) New recognition and measurement principles for initial recognition for right-of-use asset, Ijarah liability and advance payments for lessee and lessor accounting. There is a new concept of recognizing right-of-use asset and Ijarah liability for lessee accounting which was previously accounted for under FAS 8 and recognized and classified as rent expense in income statement

c) Requirement to identify and separate Ijarah and non-Ijarah components, if needed

d) New recognition and measurement principles for an Ijarah muntahia bittamleek through gradual transfer / Diminishing Musharaka Ijarah, whereby the lessee shall recognize the 'combined asset' (including the right-of-use asset and the proportionate asset already owned by the lessee) whereas the lessor shall recognize the proportionate asset owned. FAS 8 requirements of recording monthly depreciation and gain and loss for such transactions are done away with

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

3 STANDARDS, AMENDMENTS AND INTERPRETATIONS *(continued)*

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

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

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

3.4 FAS 33 Investments in Sukuk, Shares and Similar Instruments

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

Categorization and classification

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

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

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

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

Changes to significant estimates and judgements

Investment Classification

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

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

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

Classification and measurement of investment securities

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

3 STANDARDS, AMENDMENTS AND INTERPRETATIONS *(continued)*

3.5 FAS 34 Financial Reporting for Sukuk-holders

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

3.6 FAS 35 Risk Reserves

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

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

3.7.1 FAS 38 Wa'ad, Khiyar and Tahawwut

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

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

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

3.7.3 FAS 39 Financial Reporting for Zakah

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

3.7.4 FAS 40 Financial Reporting for Islamic Finance Windows

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

4 SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Foreign currency translation

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.1 Foreign currency translation *(continued)*

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

4.2 Cash and cash equivalents

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

4.3 Murabaha receivable

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

4.4 Musharaka

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

4.5 Wakala bil Istithmar

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

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

4.6 Investments

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

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

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

4.6.1 Debt type instruments carried at amortised cost

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

4.6.2 Debt type instruments carried at fair value through equity

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.6.3 Equity type instruments carried at fair value through equity

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

4.6.4 Investments carried at fair value through income statement

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

4.7 Ijarah assets – Ijarah Muntahia Bittamleek

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

4.8 Credit Cards

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

4.9 Property and equipment

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.10 Customers' current accounts

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

4.11 Equity of investment account holders

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

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

4.12 Revenue recognition

4.12.1 Murabaha

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

4.12.2 Musharaka

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

4.12.3 Ijarah

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

4.12.4 Wakala bil Istithmar

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

4.12.5 Income from investments

Income from investments is recognised when earned.

4.12.6 Dividend

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

4.12.7 Fee and commissions

Fee and commission income recognised when earned.

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.12.8 Islamic Window share as a Mudarib

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

4.12.9 Profit suspension

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

4.13 Provisions

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

4.14 Taxation

Taxation is calculated and paid by the Bank on an overall basis. Taxation expense in these financial statements represents allocation of such taxation to the Islamic Window. The notional tax expense on the Islamic Window result for the year at the statutory effective tax rate would amount to RO 0.710 Mn (2020: (0.086 Mn)).

4.15 Impairment of Financial Contracts

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

Impairment assessment- ECL

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

Measurement of ECL

The measurement of ECL reflects:

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.15 Impairment of Financial Contracts *(continued)*

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

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

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

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

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

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

Details of these statistical parameters/inputs are as follows:

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

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

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

Presentation of allowance for ECL in the statement of financial position

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

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

Restructured financial assets

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

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

Write off

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.16 Fair value

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

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

4.17 De-recognition of financial assets and liabilities

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

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

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

4.18 Employee terminal benefits

4.18.1 Terminal benefits

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

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

4.18.2 Short term benefits

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

4.19 Earnings prohibited by Sharia

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

4.20 Zakah

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

4.21 Offsetting

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.22 Sharia Supervisory Board

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

4.23 Joint and self financed

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

4.24 Commingling of funds

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

4.25 Trade date accounting

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

4.26 Fiduciary Assets

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

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

5.1 Financial asset classification

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

5.2 Measurement of the expected credit loss allowance and provisions

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

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

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

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

5.3 Useful life of property and equipment and Ijarah Muntahia Bittamleek

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

6 CASH AND BALANCES WITH CENTRAL BANK OF OMAN

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

7 DUE FROM BANKS

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

8 MURABAHA RECEIVABLES

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

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

8.1 Deferred Profit

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

9 WAKALA BIL ISTITHMAR

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

10 MUSHARAKA RECEIVABLES

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

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

11 INVESTMENT SECURITIES

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

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

12 IJARAH ASSETS - IJARAH MUNTAHIA BITTAMLEEK

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

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

13 CREDIT CARD

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

14 SERVICE IJARAH

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

15. FINANCING ACTIVITIES

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

15. FINANCING ACTIVITIES *(continued)*

15.2 Restructured Loans

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

*Net of provisions and suspended profit as per CBO norms

15.3 Impairment charge and provisions held

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

15. FINANCING ACTIVITIES *(continued)*

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

15. FINANCING ACTIVITIES *(continued)*

15.5 Restructured Loans *(continued)*

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Carrying Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Carrying Amount as per CBO norms*	Net Carrying Amount as per IFRS 9	Profit recognised in P&L as per IFRS 9	Suspended profit as per CBO norms
		RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
Classified as performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	15,181	-	429	(429)	15,181	14,752	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		15,181	-	429	(429)	15,181	14,752	-	-
Classified as non-performing	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	8,925	2,671	1,626	1,045	6,254	7,299	-	659
Sub total		8,925	2,671	1,626	1,045	6,254	7,299	-	659
Total	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	15,181	-	429	(429)	15,181	14,752	-	-
	Stage 3	8,925	2,671	1,626	1,045	6,254	7,299	-	659
	Total	24,106	2,671	2,055	616	21,435	22,051	-	659

*Net of provisions and suspended profit as per CBO norms

15.6 Impairment charge and provisions held

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

16 PROPERTY AND EQUIPMENT

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

17 OTHER ASSETS

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

18 DUE TO BANKS

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

19 OTHER LIABILITIES

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

20 EQUITY OF INVESTMENT ACCOUNT HOLDERS

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

21 SHARE CAPITAL

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

22 CONTINGENT LIABILITIES AND COMMITMENTS

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

23 INCOME FROM FINANCING ACTIVITIES

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

24 INCOME FROM INVESTING ACTIVITIES

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

25 OTHER OPERATING INCOME

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

26 OTHER OPERATING INCOME FROM BANKING SERVICES

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

27 STAFF EXPENSES

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

28 OTHER OPERATING EXPENSES

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

29 ZAKAH

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

30 RELATED PARTY TRANSACTIONS

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

31 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

Valuation of financial instruments:

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

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

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

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

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

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

32 RISK MANAGEMENT

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

32 RISK MANAGEMENT *(continued)*

32.1 CREDIT RISK

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

32.1.1 TYPE OF CREDIT RISK

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

32.1.1.1 MURABAHA RECEIVABLE

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

32.1.1.2 MUSHARAKA

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

32.1.1.3 IJARAH - IJARAH MUNTAHIA BITTAMLEEK

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

32.1.1.4 SERVICE IJARAH

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

32.1.1.5 WAKALA BIL ISTITHMAR

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

32.1.2 Credit risk measurement

(a) Financings (including Loan commitments and guarantees)

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

(b) Credit risk grading

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

32 RISK MANAGEMENT *(continued)*

32.1 CREDIT RISK *(continued)*

b) Credit risk grading *(continued)*

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

32.1.3 Exposure to credit risk

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

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

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

IMPAIRED FINANCING

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

Overview of ECL principles

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

32 RISK MANAGEMENT *(continue)*

32.1 CREDIT RISK *(continue)*

Overview of ECL principles *(continued)*

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

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

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

Stage 1

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

Stage 2

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

Stage 3

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

Measurement of ECL

The key inputs into the measurement of ECL are given in note 4.15.

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

ECL Exposure of financial assets and off-balance sheet

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

Movement in Impairment allowance and provision

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

32 RISK MANAGEMENT *(continued)*

32.1 CREDIT RISK *(continued)*

Movement in Impairment allowance and provision *(continued)*

Closing balance as at 31 December 2021

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

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

32.1.5 Significant increase in credit risk (SICR)

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

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

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

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

32.1.6 Definition of default

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

32 RISK MANAGEMENT *(continue)*

32.1 CREDIT RISK *(continue)*

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

Impact on SICR

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

Covid 19 Impact on ECL allowance

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

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

Sensitivity analysis- ECL

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

32 RISK MANAGEMENT *(continued)*

32.1 Deferrals - Financings

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

32 RISK MANAGEMENT *(continued)*

32.2 LIQUIDITY RISK

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

32 RISK MANAGEMENT *(continued)*

32.2 LIQUIDITY RISK *(continued)*

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

32 RISK MANAGEMENT *(continued)*

32.2 LIQUIDITY RISK *(continued)*

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

32.3 MARKET RISK

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

32.3.1 PROFIT RATE RISK

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

32 RISK MANAGEMENT *(continued)*

32.3 MARKET RISK *(continued)*

32.3.2 FOREIGN EXCHANGE RISK

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

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

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

Changes in the non-parity foreign currency prices as at 31 December 2021 on net assets is considered negligible.

32.3.3 EQUITY PRICE RISK

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

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

32.4 OPERATIONAL RISK

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

32.5 CONCENTRATION RISK

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

32 RISK MANAGEMENT *(continued)*

32.5 CONCENTRATION RISK *(continued)*

	2021						
	Murabaha, gross	Wakala bil Istithmar gross	Musharaka, gross	Ijarah Muntahia Bittamleek	Other financings, gross	Due from banks	Investment securities
Concentration by industry	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Sovereign	-	-	-	-	-	-	33,886
Corporate	5,912	28,978	169,497	46,616	-	-	1,007
Personal	31,611	-	40,261	70,766	1,262	-	-
Banks	-	-	-	-	-	679	-
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Sovereign	-	-	-	-	-	-	88,018
Corporate	15,356	75,268	440,252	121,080	-	-	2,615
Personal	82,107	-	104,574	183,808	3,278	-	-
Banks	-	-	-	-	-	1,764	-
	2020						
<i>Concentration by industry</i>	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Sovereign	-	-	-	-	-	-	27,717
Corporate	6,429	-	145,984	53,865	-	-	1,179
Personal	36,935	-	30,332	75,308	1,060	-	-
Banks	-	-	-	-	-	3,488	-
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Sovereign	-	-	-	-	-	-	71,994
Corporate	16,699	-	379,179	139,909	-	-	3,062
Personal	95,935	-	78,785	195,605	2,754	-	-
Banks	-	-	-	-	-	9,060	-

	2021						
	Murabaha, gross	Wakala bil Istithmar gross	Musharaka, gross	Ijarah Muntahia Bittamleek	Other financings, gross	Due from banks	Investment securities
Concentration by location	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Oman	37,523	28,978	209,758	117,382	1,262	-	34,893
Other GCC countries	-	-	-	-	-	134	-
Unites States of America	-	-	-	-	-	515	-
OECD countries	-	-	-	-	-	30	-
Others	-	-	-	-	-	-	-
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Oman	97,462	75,268	544,826	304,888	3,278	-	90,633
Other GCC countries	-	-	-	-	-	349	-
Unites States of America	-	-	-	-	-	1,338	-
OECD countries	-	-	-	-	-	77	-
Others	-	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

32 RISK MANAGEMENT *(continued)*

32.5 CONCENTRATION RISK *(continued)*

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

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

33 CAPITAL MANAGEMENT

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2021

33 CAPITAL MANAGEMENT *(continued)*

Any increase in the Stage 2 provisioning compared to December 31, 2019 will be added back to regulatory capital while these provisions will be gradually phased-in during a five-year period ending 31 December 2024. The risk asset ratio is calculated in accordance with the capital adequacy guidelines of the Basel Committee on Banking Supervision, ICBF and CBO Circular BM 1114 'Regulatory Capital and Composition of Capital Disclosure requirements under Basel III' effective from 31 December 2013. The Capital buffers are maintained at the Bank level in accordance with BM 1140 'Concept paper on capital buffer requirements under Basel III' dated 30 December 2015.

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

33 CAPITAL MANAGEMENT *(continued)*

Covid 19 impact on Capital adequacy:

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

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

34 SOCIAL RESPONSIBILITY

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

Report of the independent Auditors - page 187 - 190



ahli islamic
BASEL II PILLAR III AND
BASEL III Report

For the year ended 31 December 2021



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

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

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

We report our findings as follows:

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

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

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties other than CBO. This report relates only to the accompanying Islamic window’s disclosures and does not extend to any financial statements of the Islamic window or the Bank taken as a whole or to any other reports of the Islamic window or the Bank.

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

Muscat, Sultanate of Oman
06 March 2022



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

Basel II Pillar III and Basel III Report

31 December 2021

1. INTRODUCTION

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

The following report presents the qualitative and quantitative disclosures related to capital adequacy, risk profile and control process of the Islamic Window on a standalone basis as per the requirements of CBO. These disclosures are intended to complement the minimum capital requirements and supervisory review process of Basel framework. They should be read in conjunction with the financial statements as of 31st December 2021.

Outbreak of Coronavirus (Covid-19)

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

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

2. SCOPE

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

3. CAPITAL STRUCTURE

Qualitative Disclosure

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

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

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

31 December 2021

3 CAPITAL STRUCTURE *(continued)*

Quantitative Disclosure

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

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

CAPITAL ADEQUACY

Qualitative disclosures

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

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

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

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

In addition to Pillar I minimum capital requirements under the base case, the Bank also determines additional capital requirements for Pillar II risks (i.e. liquidity risk, Rate of Return Risk, concentration risk and other risks including strategic, reputational, legal risks, Shariah non-compliance risk, etc.), utilizing quantification methodologies and stress testing scenarios. The ICAAP is an integral part of capital adequacy assessment and is a bi-annual comprehensive exercise, whereby, the Bank re-evaluates its capital adequacy in regards to material risks, internal organization and business plans. The Bank has completed the ICAAP exercise for years 2021-2024 and has determined that it is adequate capitalized to undertake its planned business activities.

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

31 December 2021

3 CAPITAL STRUCTURE *(continued)*

Capital adequacy disclosures – RO '000

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

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

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

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

31 December 2021

3 CAPITAL STRUCTURE *(continued)*

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

Computation of Capital adequacy ratio – RO '000

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

I. iCapital adequacy ratio (RO '000)

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

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

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

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

31 December 2021

3 CAPITAL STRUCTURE *(continued)*

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

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

4 RISK MANAGEMENT OF THE BANK

Risk Management Principles

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

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

Risk Management Structure

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



Risk framework

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

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

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4 RISK MANAGEMENT OF THE BANK *(continued)*

Board Committees:

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

Management Committees:

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

Policies and Procedures:

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

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

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

31 December 2021

4 RISK MANAGEMENT OF THE BANK *(continued)*

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

The Islamic Window has exposure to the following risks:

5 CREDIT RISK

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

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

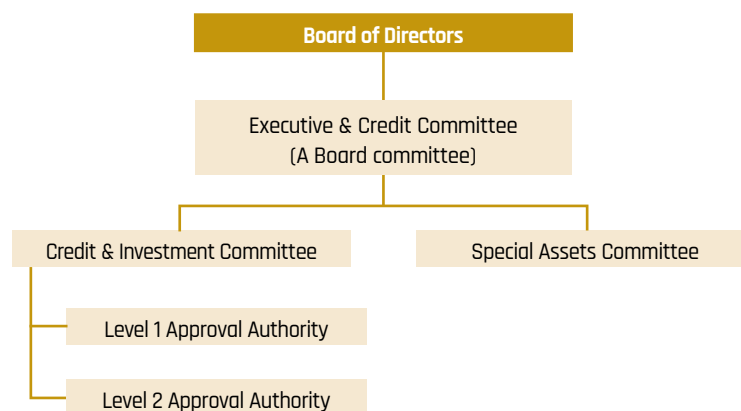
The Islamic Window has a comprehensive due diligence system for approving credit facilities, and well- defined policies on controlling credit risk at the counter-party, group, economic sector, and country levels.

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

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

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

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



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

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

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

31 December 2021

5 CREDIT RISK *(continued)*

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

Impairment policy

As a matter of policy, Islamic Window creates allowance for impairment of financing contracts promptly and in a consistent manner. The Islamic Window has implemented FAS 30 "Impairment credit losses and onerous commitments" accounting norm, based on which impairment is assessed on a forward-looking expected credit loss (ECL) basis, as required by CBO.

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

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

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

Stage 1:

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

Stage 2:

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

Stage 3:

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

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

Basel II Pillar III and Basel III Report (continued)

31 December 2021

5 CREDIT RISK (continued)

Quantitative Disclosure:

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

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

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

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

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

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

31 December 2021

5 CREDIT RISK *(continued)*

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

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

As of 31 December 2020;

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

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

31 December 2021

5 CREDIT RISK *(continued)*

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

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

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

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

31 December 2021

5 CREDIT RISK *(continued)*

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

As of 31 December 2021

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

As of 31 December 2020

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

Basel II Pillar III and Basel III Report (continued)

31 December 2021

5 CREDIT RISK (continued)

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

As of 31 December 2021

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

As of 31 December 2020

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

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

As of 31 December 2021

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

* Stage 3 ECL include suspended profit of RO 1.676 mn

* above ECL includes additional overlays of 1.222MN

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

31 December 2021

5 CREDIT RISK *(continued)*

As of 31 December 2020

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

* Stage 3 ECL include suspended profit of RO 1.024 mn

* above ECL includes additional overlays of RO 0.330 mn

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

As of 31 December 2021

Countries	Gross financings	Of Which NPLs	ECL stage 1 & 2	ECL stage 3*	As of 31 December 2021	
					Impairment charge during the Year	Financings written off during the year
Oman	394,903	16,937	2,331	5,939	2,622	-
Other GCC Countries	-	-	-	-	-	-
OECD Countries	-	-	-	-	-	-
India	-	-	-	-	-	-
Pakistan	-	-	-	-	-	-
Others	-	-	-	-	-	-
Total	394,903	16,937	2,331	5,939	2,622	-

* Stage 3 ECL include suspended profit of RO 1.676 mn

* above ECL includes additional overlays of 1.222MN

As of 31 December 2020;

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

* Stage 3 ECL include suspended profit of RO 1.024 mn

* above ECL includes additional overlays of RO 0.330 mn

Basel II Pillar III and Basel III Report (continued)

31 December 2021

5 CREDIT RISK (continued)

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

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

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

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

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

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

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

31 December 2021

5 CREDIT RISK *(continued)*

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

Qualitative disclosure

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

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

Financing receivables are principally divided into following Islamic products:

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

Credit Risk Mitigation (CRM)

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

The Islamic Window normally accepts the following types of collateral:

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

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

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

31 December 2021

5 CREDIT RISK *(continued)*

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

The simplified approach for collateral recognition under the standardized approach is applied where 0% risk weight is assigned for the exposure covered by Cash collateral. All other financing exposures to corporates and retail are assigned 100% risk weight (except retail mortgage financings, which are assigned 35% risk weight). The Islamic Window stands in possession of cash collateral of RO 0.514 mn; after application of haircut (0%) to the collateral the exposure stands at RO NIL. The Islamic Window has not considered any financial guarantee under credit risk mitigation as of 31 December 2021.

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

Quantitative Disclosures:

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

6 MARKET RISK

Qualitative disclosure

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

Rate of Return risk in banking book (RRRBB)

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

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

31 December 2021

6 MARKET RISK *(continued)*

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

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

As of 31 December 2020

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

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

31 December 2021

6 MARKET RISK *(continued)*

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

Foreign Exchange Risk

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

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

The Net open position in all foreign currencies stands at OMR 5.405 mn (OMR 4.448 mn position is in effectively pegged currencies) as on 31 December 2021.

Investment Price Risk

Price risk is the risk of losses from decrease in the market value of individual investments. Each investment is approved after rigorous due diligence and exposures are monitored against prudent exposure limits. The Islamic Window does not maintain any trading positions in its portfolio as of 31 December 2021.

The Islamic Window's investments in non-trading instruments are monitored within the overall limits and restrictions prescribed by CBO from time to time, and only in Sharia compliant product categories. The fair value of equity investments as of 31 December 2021 is RO 0.269 mn with cost amounts to RO 0.334 mn. The Islamic Window also has invested in sukuks carried at fair value through equity. The fair value of investments as of 31 December 2021 is RO 34.624 mn with a cost amounts to RO 34.635 mn.

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

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

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

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

31 December 2021

6 MARKET RISK *(continued)*

Capital Charge:

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

Table showing capital charge for profit Rate, Equity and foreign exchange risk as on 31 December 2021 is given below:

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

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

Price Risk

Impact of 10% change in price

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

7 LIQUIDITY RISK

Qualitative Disclosure

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

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

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

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

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

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

31 December 2021

7 LIQUIDITY RISK *(continued)*

Liquidity and Funding Policy

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

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

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

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

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

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

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

The CBO also restricts the limits on lending by the commercial banks. The maximum lending ratio permissible as at 31 December 2021 was 92.5%.

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

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

Stock of Liquid Assets

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

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

31 December 2021

7 LIQUIDITY RISK *(continued)*

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

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

Diversification of liabilities

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

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

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

Multi-currency liquidity

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

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

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

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

Limit Breaches

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

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

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

Liquidity Contingency Plan:

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

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

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

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

31 December 2021

8 OPERATIONAL RISK

Operational Risk Framework

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

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

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

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

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

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

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

Control and Mitigation of Operational Risk

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

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

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

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

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

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

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

31 December 2021

8 OPERATIONAL RISK *(continued)*

Fraud Risk Management

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

Reputation Risk

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

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

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

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

Business Continuity Risk

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

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

Business Continuity Test

During the year 2021, the Bank has carried out a comprehensive BCP test including a volume test on a working day in order to test the resilience of the bank's business systems at the DR site. The scope of the test was arrived at based on the Business Impact Analysis (BIA) carried by the Bank and the volume test results were submitted to the Board. The Bank has in place a Crisis Management Team (CMT), and the processes to be followed during a disaster scenario has been detailed out in the BCP documents of the Bank.

Concentration Risk

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

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

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

31 December 2021

8 OPERATIONAL RISK *(continued)*

Information Security Risk

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

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

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

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

Model Risk

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

Other Risks

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

Operational risk capital charge and risk weighted amount

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

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

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

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

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9. DISPLACED COMMERCIAL RISK

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

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

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

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

During the year ended 31 December 2021 there were no appropriations made towards Profit equalization and Investment risk reserve.

10 INVESTMENT ACCOUNT HOLDERS

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

Equity of investment account holders

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

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

Profit Distribution Mechanism between Shareholders & Depositors under the Common Pool

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

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

31 December 2021

10 INVESTMENT ACCOUNT HOLDERS *(continued)*

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

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

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

Mudaraba fee

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

Investment Risk Reserve (IRR)

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

Transfer to or from Profit Equalization reserve (PER)

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

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

Transfer to or from (IRR)

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

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

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

Assignment of a portion of shareholders' profit to depositors

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

No assignment of shareholder profit to depositors has been made during the year ended December 2021.

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

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

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

31 December 2021

10 INVESTMENT ACCOUNT HOLDERS *(continued)*

II. Equity of Investment Accountholders – Ratios

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

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

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

31 December 2021

10 INVESTMENT ACCOUNT HOLDERS *(continued)*

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

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

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

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

11 CONTRACT SPECIFIC RISK

The Bank closely monitors the total risk exposures in each type of financing asset including the relative risk of carried. Following is the total Risk Weighted Assets classified by type of financing as of 31 December 2021

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

12 ZAKAH

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

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

31 December 2021

13 EARNINGS PROHIBITED BY SHARIAH

The Islamic Window is committed to avoid recognizing any income generated from non-Islamic sources. Accordingly all non-Islamic income is credited to the charity account where the Islamic Window uses these funds for charitable purposes. During the year ended 2021, no income has been credited to charity account being prohibited by Sharia. Sources and use of charity by fund has been disclosed in statement of sources and uses of charity fund in Financial Statements. With regard to undistributed funds under charity account as of year ended 2021, Islamic Window has taken approval from SSB for deferment of disbursement to next year.

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

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

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

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

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

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

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

15 GENERAL DISCLOSURES

Shari'a governance

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

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

Shari'a audit and compliance department

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

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

Trainings

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

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

31 December 2021

15 GENERAL DISCLOSURES

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

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

Complaints

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

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

Awareness

The Bank has trained customer services representatives in all the branches and call center staff who provide appropriate guidance to customers with regard to Islamic Banking. Furthermore, product brochures are available at all the branches. Product feature and related SSB Fatawa and glossary of Islamic banking are also available on the website for public information. Additionally, during 2021 Sharia Audit and Compliance team has regularly been meeting with customers and clients and explaining them about Islamic banking products and their conditions.

Related Party

Disclosures related to related party and transactions during 2021 are disclosed in note 30 of Islamic Window financial statements.

16 SUBSIDIARIES AND SIGNIFICANT INVESTMENTS

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

17 BASEL III REGULATORY CAPITAL DISCLOSURES

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

BASEL III common disclosure template (RO '000)

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

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

31 December 2021

17 BASEL III REGULATORY CAPITAL DISCLOSURES *(continued)*

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

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

31 December 2021

17 BASEL III REGULATORY CAPITAL DISCLOSURES *(continued)*

Step 1: Balance sheet under Regulatory scope of consolidation

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

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

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

31 December 2021

17 BASEL III REGULATORY CAPITAL DISCLOSURES *(continued)*

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

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

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

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

31 December 2021

17 BASEL III REGULATORY CAPITAL DISCLOSURES *(continued)*

Step 3: Step Reconciliation of Regulatory Capital:

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

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

31 December 2021

17 BASEL III REGULATORY CAPITAL DISCLOSURES *(continued)*

17.1 MAIN FEATURES OF REGULATORY CAPITAL

Year ended 31 December 2021

1	ahli islamic	Common Equity Share Capital
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA
3	Governing law(s) of the instrument Regulatory treatment	The laws of Oman in the form of Royal Decrees, Ministerial Decisions and CMA and CBO Regulations
4	Transitional Basel III rules	Common Equity Tier 1
5	Post-transitional Basel III rules	Common Equity Tier 1
6	Eligible at solo/group/group & solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Common Equity Share Capital
8	Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date)	35 million
9	Par value of instrument	-
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	RO 25 Million allocated in 2013 and RO 10 Million allocated in 2021.
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	NA
31	If write-down, write-down trigger(s)	Yes
32	If write-down, full or partial	Statutory approach
33	If write-down, permanent or temporary	Write down fully
34	If temporary write-down, description of write-up mechanism	Permanent
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA
36	Non-compliant transitioned features	NA
37	If yes, specify non-compliant features	No

Basel II Pillar III and Basel III Report *(continued)*

31 December 2021

18 Basel III LIQUIDITY DISCLOSURE

The below liquidity disclosure is prepared in accordance with the requirements of the CBO Circular BM 1127 'Basel III – Framework on Liquidity Coverage Ratio (LCR) and LCR disclosure standard' issued on 24 December 2014. The disclosure is based on average of three-monthly data points.

LIQUIDITY COVERAGE RATIO (LCR)

Common Disclosure Template

Year ended 31 December 2021

		Total Unweighted Value (average)	Total Weighted Value (average)
(RO '000)			
High Quality Liquid Assets			
1	Total High-Quality Liquid Assets (HQLA)		82,386
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	268,550	16,626
3	Stable deposits	3,432	103
4	Less stable deposits	265,118	16,523
5	Unsecured wholesale funding, of which:	53,399	18,742
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	93	23
7	Non-operational deposits (all counterparties)	53,305	18,718
8	Unsecured debt	1	1
9	Secured wholesale funding		-
10	Additional requirements, of which		
11	Outflows related to derivative exposures and other collateral requirements	281	281
12	Outflows related to loss of funding on debt products		
13	Credit and liquidity facilities	2,426	243
14	Other contractual funding obligations		
15	Other contingent funding obligations	4,424	221
16	TOTAL CASH OUTFLOWS		36,113
Cash Inflows			
17	Secured lending (e.g. reverse repos)		
18	Inflows from fully performing exposures	2,322	1,661
19	Other cash inflows	55,732	281
20	TOTAL CASH INFLOWS	58,054	1,942
			Total Adjusted Value
21	TOTAL HQLA		82,386
22	TOTAL NET CASH OUTFLOWS		34,171
23	LIQUIDITY COVERAGE RATIO (%)		241.10%

Basel II Pillar III and Basel III Report *(continued)*

31 December 2021

19 NET STABLE FUNDING RATIO (NSFR): Common Disclosure Template

The below Net Stable Funding Ratio (NSFR) disclosure is presented for year ended 31 December 2021 and prepared in accordance with the requirements of the CBO letter vide circular reference 1147 issued on October 26, 2016.

Sr No.	Particulars	31 December 2021				Weighted Value
		No Maturity	<6 Months	6 Months to < 1 Year	>= 1 Year	
ASF ITEM						
1	Capital	57,050	-	-	-	57,050
2	Regulatory Capital	57,050	-	-	-	57,050
3	Retail Deposits and Deposits from small Business Customers		33,276	65,537	9,892	
4	Stable Deposit	170,829			9,892	253,612
5	Less Stable Deposit	20,847	33,276	65,537		29,696
6	Wholesale Funding	149,982	37,642	18,910	21,948	223,915
7	Operational	51,875				76,161
7	Other Wholesale Funding	76	37,642	18,910	21,948	38
8	All other liabilities and equities not included in above categories	8,409	-	-	-	-
9	Total ASF					386,822
RSF ITEMS						
10	Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	1,345
11	Deposits held at other financial institutions for operational purposes	679	-	-	-	340
12	Performing loans to financial institutions secured by non- Level 1 HQLA and unsecured performing loans to financial institutions	-	-	-	-	450
13	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which	8,675	29,802	889	346,761	314,430
13	With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk	-	-	-	-	-
	Performing residential mortgages, of which:					
14	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	-	-	-	-
15	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	6,954	5,911
16	All other assets not included in the above categories	-	-	-	13,142	13,142
17	Off-balance sheet items	-	21,730	914	69.00	1,136
18	Total RSF					336,354
19	NET STABLE FUNDING RATIO					115.00%

Basel II Pillar III and Basel III Report *(continued)*

31 December 2021

19 NET STABLE FUNDING RATIO (NSFR): Common Disclosure Template *(continued)*

The financial statements and other related disclosures are also available on the ahlibank's website, to view it on the website refer the link <http://ahlibank.om/investor-relations/financial-reports/>.

The Basel II Pillar III disclosures are prepared in accordance with the requirements of Basel II Pillar III disclosures as set out in the CBO circulates BM1009 and BM1027.

Basel III capital and liquidity disclosures are prepared in accordance with CBO Circular BM 1114 'Regulatory Capital and Composition of Capital Disclosure Requirements under Basel III' issued on 17 November 2013, CBO circular dated March 20, 2018 and BM 1127 'Basel III – Framework on Liquidity Coverage Ratio (LCR) and LCR disclosure standard' issued on 24 December 2014, respectively. The NSFR disclosure has been prepared in accordance to CBO Circular reference BM 1147 dated October 26, 2016.

For ahli islamic



Hamdan Ali Nasser Al Hinai

Chairman

Date: 26 January 2022

Contact Centre: 24577177

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