البنك الأهلي
ahlibank

15
عاما من التميز
YEARS OF EXCELLENCE

2022
ANNUAL REPORT

REDEFINING BANKING EXPERIENCE

His Majesty Sultan Haitham bin Tarik

Contents

SECTION I
AHLIBANK

2022 At a glance

البنك الأهلي
ahlibank

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 23 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.

الأهلي الإسلامي
ahli islamic

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 2022, ahli islamic has 19 dedicated branches across the Sultanate. In addition, ahli Islamic has a dedicated Treasury, SME, Trade, Corporate Banking and Shari'a Audit and Compliance departments.

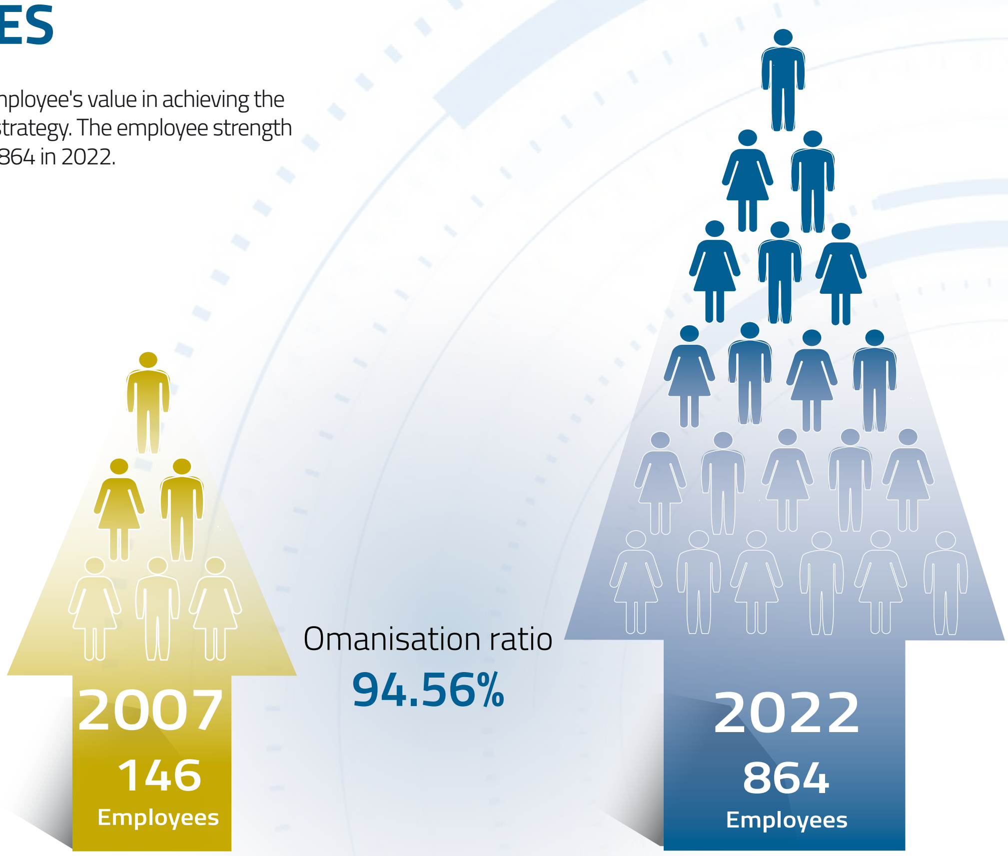
It is worth noting that ahli islamic objective is to abide by the ethics and values of Islamic finance, and help customers, communities and people to prosper and grow. ahli islamic facilitates customers to operate their business under Shari'a Principles by way of providing wide array of Shari'a-based 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

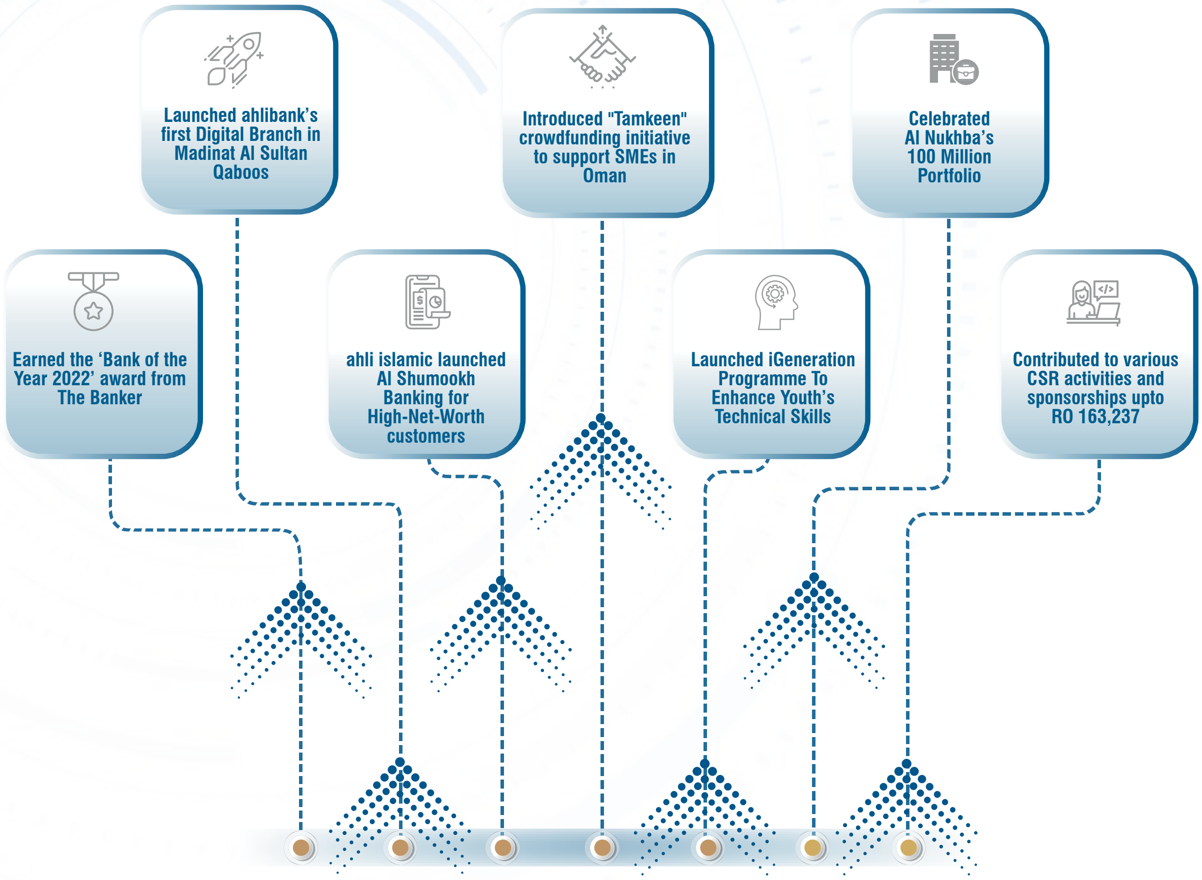
ahlibank, through job creation and skill development of the local population, especially the young national workforce, has always believed in effectively contributing to the national agenda as outlined in Oman Vision 2040 of meeting the needs of the labor market. The focus of the Bank has always been 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 864 in 2022.



KEY HIGHLIGHTS AND ACHIEVEMENTS



EXPRESS Banking Services

ahlibank's newly launched Madinat al Sultan Qaboos branch is home to the bank's first multi-functional device. Named "ahliExpress", this multi-functional device caters to the demand for express banking services, aims to expedite banking processes, and present a quick and efficient avenue to serve its existing and new customers at their own time.

تمكين Tamkeen

As part of its endeavour to support Oman's Small and Medium Enterprises (SMEs) and bolster the national economy, ahlibank has launched its first-of-its-kind "Tamkeen" Crowd Funding initiative.

This pioneering initiative comes after signing a Strategic Partnership Agreement between ahlibank and Beehive to offer this unique online financial lending solution specifically for Oman's SMEs to support their business endeavours and create a sustainable ecosystem that allows the country's economic diversification efforts to flourish.

AWARDS 2022

Bank of the Year Award
The Banker

Best Performing Company - Large Cap
Alam Al-Iktisaad

Highest Trading Broker At Muscat Stock Exchange
Arabian Federation of Capital Markets

Top Omani Brand Award
Alam Al-Iktisaad

Talent Management Institute of the Year
Alam Al-Iktisaad

Leadership in Youth Development Award
Sustainability Leadership Awards

Excellence in Corporate Banking
New Age Banking Summit Awards

Excellence in Islamic Retail Banking
Islamic Banking & Finance Summit Awards

The Best Bank in the Sultanate 2022
The World Union of Arab Bankers

BRANCH EXPANSION

With an aim to offer the best in class services to their customers in Oman, ahlibank and ahli islamic expanded their branch network by opening 5 new branches in 2022

2022
42 Branches all over Oman

2021
37 Branches

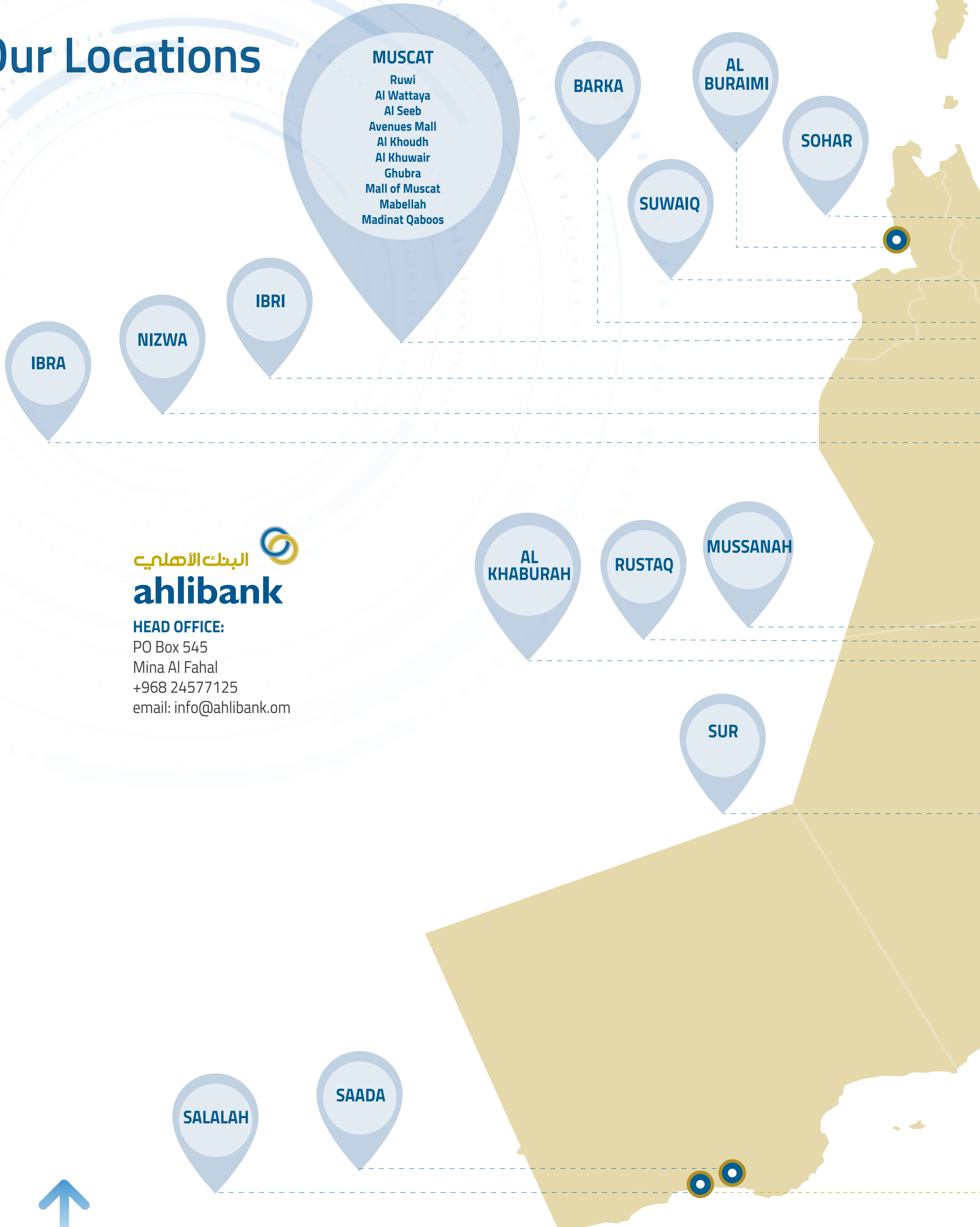
البنك الأهلي
ahlibank

New branches
- Madinat Al Sultan Qaboos (Digital Branch)

الأهلي الإسلامي
ahli islamic

New branches
- Al Hail
- Mabellah
- Nizwa
- Sur

Our Locations



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ahlibank

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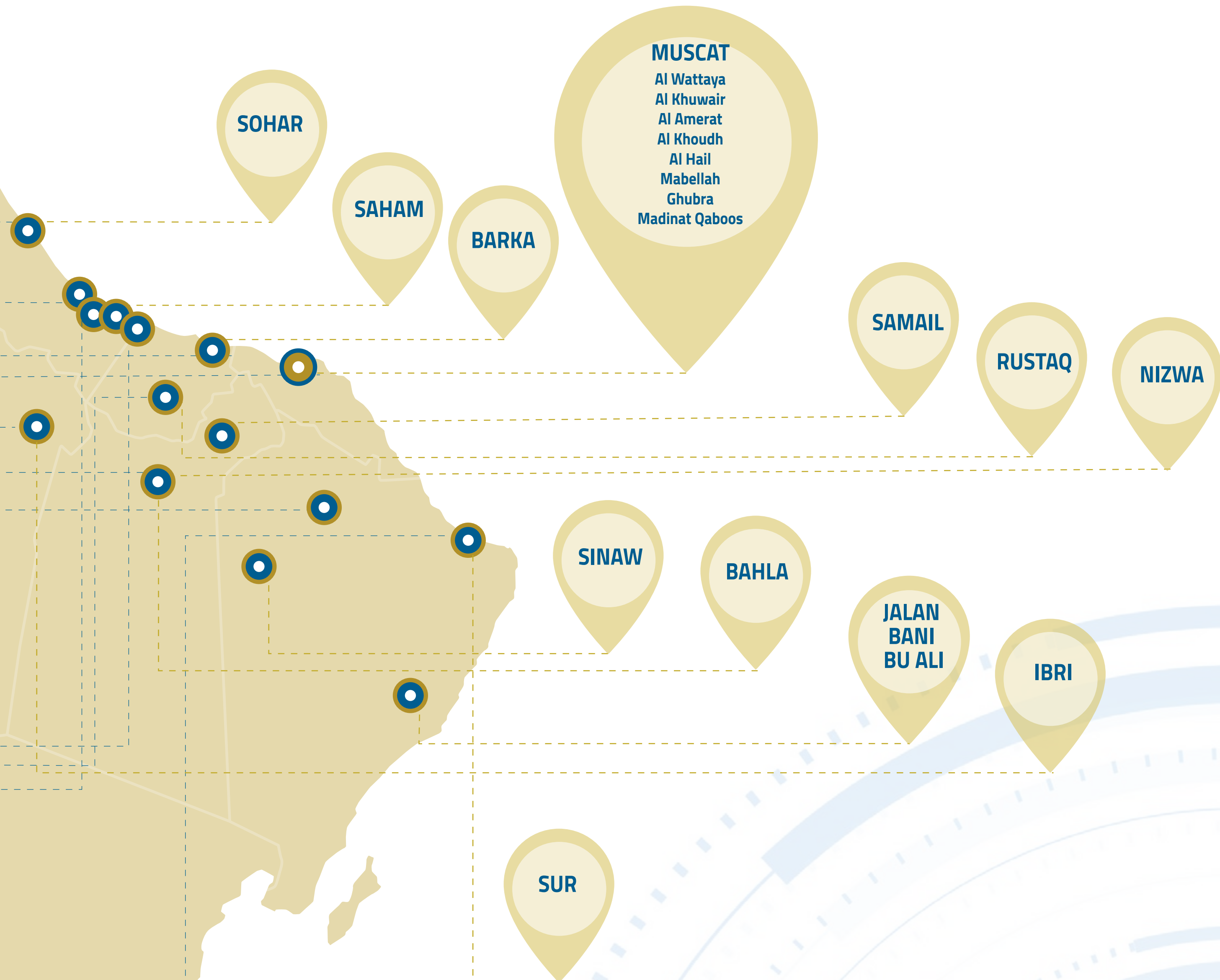

الأهلي الإسلامي
ahli islamic

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email: info@ahlibank.om

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Unfolding Our Tale - A Journey Worth Sharing

INCEPTION AND EXPANSION

The beginning of **ahlibank's journey**

2008

Launch of **Commercial Banking activities**

2009

Launched **SME banking services**

2012

Launch of **Asset Management and Brokerage Services RO 25 Million** Capital raised **- Rights Issue RO 1 Billion Assets**

2013

Launch of Islamic banking - **7 branches in the first year**

Shift to the **iconic HO Building**

DIVERSIFICATION & STRATEGIC GROWTH

2018

RO 54 Million AT 1 - Capital

Formation of **'#ahliCares' team**

2019

Launched the **ahli islamic brand**

Start of ahli Digital connected experience

2020

Supported the **Sultanate's Covid-19 relief efforts**

Launched **youth account 'MyChoice'**

CONSOLIDATION FOR GROWTH

2014

Introduced **Signature and infinite cards for private customers**

2015

Launch of **Graduate Development Program (Himam)**

Expanded to **20 branches across Oman**

2016

First bank in Oman to be certified for Payment Card Industry Data Security Standards

2017

RO 50 Million AT 1 - Capital **Rights Issue**

RO 2 Billion Assets

2021

First Islamic bank to launch **on boarding through mobile app**

Launched **ahliGlobal Equity Fund**

RO 30 Million Rights Issue

RO 3 Billion Assets

2022

EXPRESS

Launched **first digital branch with multifunctional device**

تمكين Tamkeen

Launched **Tamkeen SME Crowd Funding initiative**

islamiNET

Launched **'IslamiNET'** for corporate customers

RO 75 Million capital raised via AT 1 Bonds

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

SECTION II
AHLIBANK

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 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).

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.

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.

Qais Abdullah Moosa Al Kharusi

Director

Certified Chartered Financial Analyst (CFA), Financial Risk Manager (FRM) and Chartered Alternative Investment Analyst (CAIA); Holds an MBA degree in Value Investing & Finance from Columbia Business School, New York, USA and a BSE degree in Industrial and Operation Engineering from the University of Michigan, USA; Chief Executive Officer of Al Hosn Investment Company; Board Member of A'Saffa Foods SAOG and Asyad National Logistics Group; Having more than 13 years of diversified investment experience.

Rajeev Gogia

Director

Member of the Institute of Chartered Accountant, India and Bachelor in Commerce, India; Deputy Group CEO – Finance & Strategy, Ahli United Bank BSC, Bahrain; Previously served as a Board Member of ahlibank SAOG; Ahli United Bank (Egypt) SAE; Ahli United Bank KSCP (Kuwait), Al Hilal Life (Bahrain) and Al Hilal Takaful (Bahrain). Mr. Rajeev has Over 24 years of industry and advisory experience in the Financial Services Sector.

Executive Management

Said Abdullah Al Hatmi
Chief Executive Officer

Abdullah Salim Al Jabri
Deputy CEO
Support Services

Bilal Anwar
Deputy CEO
Business Group

Hanaa Mohammed Al Kharusi
Senior General Manager
Wholesale Banking

Ghada AbdulLatif Al Balushi
General Manager
Head of Risk Management

Taher Albakhsh Al Balushi
General Manager
Strategy & Transformation and
Project Management

Zaliya Lal Bakhsh Al Balushi
GM - Head of Corporate Banking

Sriram Balakrishnan
DGM – Head of Finance (CFO)

Yousuf Salim Al Rawahi
DGM – Head of Ahli Islamic

Fahad Freish Al Shuaili
DGM - Head of Internal Audit

Muneer Ahmed Al Balushi
AGM - Head of Retail Distribution

Zainab Mustafa Al Lawati
AGM - Head of Corporate Banking in ahli islamic

Noora Sabah Jawad Sultan
AGM - Head of Retail Banking ahli islamic

Hassan Maqbool Al Lawati
AGM - Head of SME

Ibrahim Abdullah Al Maamari
AGM – Head of Compliance

Said Ahmed Al Mahrooqi
AGM – Head of Information Security

Khalid Al Hamhami
AGM - Head of Credit Risk

Farid Mohammed Al Bahri
AGM– Deputy Head of Internal Audit

Najla Murtadha Al Lawati
AGM- Head of Private Banking & Wealth Management

Mohammed Abdul Qadir Al Balushi
AGM- Head of Treasury

Mohammed Mohsin Al Mufargi
AGM– Head of Human Resources

Sultan Khamis Al Balushi
AGM - Head of Central Operations

Habib Murtadha Al Hamaid
AGM - Corporate Secretary and Investor Relations Officer

Abdullah Nasser Al Hinai
AGM - Head of IT

Chairman's Report

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 2022.

The global economic activity is experiencing a broad-based and sharper-than-expected slowdown, with increasing inflation levels. The cost-of-living crisis, tightening financial conditions in most regions, Russia-Ukraine conflict, and the lingering COVID-19 pandemic all weigh heavily on the outlook. As per IMF's World Economic outlook, global growth is forecast to slow from 6.0 percent in 2021 to 3.2 percent in 2022 and 2.7 percent in 2023. To avoid inflationary pressures from becoming entrenched, central banks confronting stubbornly high inflation have had to accelerate monetary policy tightening. This will reflect in tightening margins of the Banking sector in the short to medium term.

"For ahlibank, what began as a natural transition from traditional banking practices to digitalization of services, with fully integrated banking solutions under a single platform, has shaped its leadership role in Oman's digital transformation journey. Customers today can enjoy banking experiences that are on par with global standards."

Hamdan Ali Nasser Al Hinai

Chairman's Report

In the light of this changing financial landscape, ahlibank is focused on delivering innovative products and services to adopt a leadership stance in Oman's digitalization journey. It continues to actively partner with the government in its farsighted Vision 2040, setting newer paradigms of sustainable economy. This approach has enabled ahlibank's footprints in the Sultanate and established its credentials as a customer-centric entity.

In line with the long-term strategy, ahlibank has ended 2022 on a high note. Apart from sustainable results, Fitch Ratings recently upgraded Bank's Long-Term Issuer Default Ratings (IDRs) to 'BB-' from 'B+' with a stable Outlook. Fitch has also upgraded the Banks' Government Support Ratings (GSRs) to 'bb-' from 'b+', along with Short-Term IDRs at 'B'. S&P and Moody's have also upgraded the sovereign rating to BB (Stable) and Ba3 (positive) during the year.

The Bank's Net Loans, Advances & Financing witnessed a 4.1% growth, reaching to RO 2,500.4 million at end of 31st December 2022, over the corresponding period in 2021. Customer deposits increased by 5.3% to reach RO 2,296.2 million, compared to the corresponding period last year; Total Assets increased marginally by 0.8%, reaching to RO 3,075.5 million. Operating Income increased by 11.2% to reach RO 91.7 million. Operating Expenses, increased by 13.0% to reach RO 40.2 million due to digitalization initiatives and branch expansion. Profit for the period grew by 19.9% to reach RO 33.1 million, demonstrating the Bank's sustained growth strategy.

Financial Performance

	31-Dec-22	31-Dec-21	% Growth
	RO Million		
Net Loans, Advances & Financing	2,500.4	2,402.0	4.1%
Total Assets	3,075.5	3,052.6	0.8%
Customers' Deposits	2,296.2	2,181.4	5.3%
Equity	460.9	427.0	7.9%
Operating Income	91.7	82.4	11.2%
Operating Expenses	40.2	35.6	13.0%
Profit for the Period	33.1	27.6	19.9%

Indicator	31-Dec-22	31-Dec-21	Change
Net Loans, Advances & Financing	2,500.4	2,402.0	4.1%
Customers' Deposits	2,296.2	2,181.4	5.3%
Total Assets	3,075.5	3,052.6	0.8%
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Equity	460.9	427.0	7.9%
Operating Expenses	40.2	35.6	13.0%
Profit for the Period	33.1	27.6	19.9%

Achievement Highlights

ahlibank' has earned the most prestigious award - 'Bank of the Year 2022' - from The Banker, the monthly international financial affairs publication from The Financial Times. This coveted award is bestowed on only the best banks that meet a set list of stringent criteria (product mix, financial performance, asset and revenue quality, customer satisfaction, and digital offerings, among others). This recognition is a testament of the bank's outstanding performance, and its outlook for the new year.

The year 2022 has been a validation of ahlibank's core Mission and Vision. From creating unrivaled avenues to meet customer needs, to becoming a vibrant and innovative center of banking, ahlibank has augmented its growth trajectory with a strategic digital transformation journey. Its multifunctional kiosk at the recently opened branch in Madinat Sultan Qaboos is named "ahliExpress". This unique avenue, open to both existing and new customers, is designed to expedite banking processes, with round-the-clock digital transaction services. The interactive device is equipped to issue new and supplementary debit cards and enable debit card activation/replacement, and increase daily withdrawal limit, while ensuring that the customers can avail the freedom to carry out all their banking needs at any time.

Further, adding to the impressive portfolio of products and services under the umbrella of 'ahliDigital' with an 'anytime, anywhere' business credo, it has revamped its mobile banking app to bolster its 'Digital first' strategy, which has proven to be a boon for tech-savvy customers. It has also added an 'instant' savings option to its e-channels and has made business banking easy and convenient to its growing customer base.

For ahlibank, what began as a natural transition from traditional banking practices to digitalization of services, with fully integrated banking solutions under a single platform, has shaped its leadership role in Oman's digital transformation journey. Customers today can enjoy banking experiences that are on par with global standards.

Chairman's Report

Corporate Social Responsibility (CSR)

While ahlibank has demonstrated its standing as a responsible business organization across various platforms, what comes as a corroboration of its continuous CSR initiatives is the recent 'Talent Management Initiative of the Year' Award from Alam Al-Iktisaad Awards for its sustainable human resource development initiative, Himam.

It continues to engage with the community it operates in through proactive measures that are in accordance with the nation's developmental goals and the larger objectives of Oman Vision 2040, which are focused on diversifying and building a sustainable economy - one that enhances the standard of living and generates employment opportunities for all. Towards this end, ahlibank has committed its social responsibility program for strengthening and developing the nation's human resources. It has tailored its graduate training program to enhance the competitiveness of young candidates enlisted in the program, thereby training them and shaping their career goals in the banking and financial sectors.

It has, at various forums, demonstrated its commitment to lead from the front through its corporate social responsibility initiatives.

Looking Ahead

The year 2023 does looks optimistic, with reports affirming that the Central Bank of Oman's gross foreign reserves will strengthen (2022-2023) due to current account surpluses. Additionally, the state budget for 2023 has estimated oil price at $55 per barrel, all of which augurs well for the business community in the country, bolstering the role of the banking sector in achieving fiscal sustainability, it will substantiate its successes in 2022 by building consumer confidence through products and services that are tailored for different segments of the society, with the target of enhancing every customer's banking experience.

As is customary, ahlibank continues to expand its existing suite of products and services with newer ones that encapsulate its role in the nation's digitalization process. The launch of Tamkeen, Oman's first crowd funding platform for SMEs is a true reflection of its digital strategy. The bank will continue to nurture mutually beneficial partnerships with various local entities to promote financial literacy and financial inclusion, thereby assuring right banking products and services to customers from all walks of life.

2023 will mark a new phase in ahlibank's growth chart, completing 15 years of its successful journey, as it builds on its past and recent successes to enhance its customer base while incorporating better customer experiences for its patrons.

Acknowledgments

On my behalf and the Board of Directors, I would like to thank our stakeholders for their continued faith in us and in our businesses and their confidence in our sustained progress. Their support has been instrumental in helping us meet and exceed our customers' expectations and retain the confidence of our employees.

I would also like to thank the Bank's Executive Management team and the employees for their dedication and contribution to the continued success. My sincere thanks also go to our clients and customers for their staunch belief in our commitment to serve them better.

ahlibank has and will continue to pledge its undivided support to His Majesty Sultan Haitham bin Tarik in upholding Sultanate's Renewed Renaissance journey and in realizing the objectives of Oman Vision 2040.

Hamdan Ali Nasser Al Hinai
Chairman

Management Discussion and Analysis

Economic Review

The Sultanate of Oman has demonstrated a strong economic resilience and positive growth in the year 2022, post removal of pandemic restrictions, on the back of strong oil price and increased economic activity in the country. Oman's Economy is estimated to have registered a real GDP growth of 4.3% in 2022 compared to 3.0% in 2021 and has achieved a budget surplus of RO 1.1 billion for the first time since 2013. This resulted in all the major rating agencies upgrading the sovereign credit rating of Oman. The upgrade reflects significant improvements in Oman's fiscal metrics, a lessening of external financing pressures and ongoing efforts to reform public finances. We expect the economic growth momentum in Oman will continue to be supported by oil prices in 2023, which are expected to average around USD85/bbl.

On the other hand, the authorities recently released an outline of the general budget for 2023, which aims to maintain financial and economic stability, continue economic diversification, encourage growth of private investment and increase non-oil revenues, which largely is in line with the medium-term fiscal plan and Oman Vision 2040. In the 2023 budget, oil and gas revenues are forecasted at around OMR 6.7 billion, or 67% of overall receipts, down from OMR 7.2 billion from 2022. Oman's projected revenue figures are based on an assumed oil price of $55 per barrel, up from an expectation of $50 per barrel in the 2022 budget. Current budget also estimates 67% oil & gas revenue and 33% non - oil & gas revenue. The budget is based on ensuring the sustainability of basic social services such as health, housing, education and social security. Further, the government will continue building the infrastructure required to spur economic growth, and continue giving priority to critical projects that serve economic and social objectives.

Financial Sector

Omani banks' credit fundamentals are recovering as pressures on the operating environment have eased and economic activity is gradually picking up amid higher oil prices. Omani bank's preliminary financial statements indicated that the total assets of the banks increased to RO 38.9 billion as of December 31, 2022, registering an increase of about RO 295.0 million over the levels recorded at the end of 2021. On the other hand, the total net profits of Omani banks listed on the Muscat Stock Exchange jumped by 20.6 per cent to RO 409.0 million for the full year 2022 as compared to RO 338.9 million net profits reported in 2021.

The sharp rise in banking sector profits reflects the state of recovery of the Omani economy from the Covid-19 pandemic as well as the government's efforts to mitigate the effects of the pandemic on various economic activities. The banks' improved financial results also reflect the efforts made by banks to diversify their lending and financing portfolios and their contributions to financing projects implemented by the government and the private sector. However, rising interest rates continue to be a cause of concern for the banks, which could have potential impact on the net interest margin and credit recovery process in 2023.

The MSM Index at the end of this year 2022 stood at 4,857 points compared to 4,129 points at the end of 2021, recording an annual growth of 728 points, representing an increase of 17.6 percent compared to last year. The value of traded securities during this year reached RO 940.0 million with an increase of 14.9 percent as compared to last year. The market capitalization increased this year by 7.5 per cent and reached RO 23.74 billion, compared to RO 22.09 billion last year.

The Bank's Performance

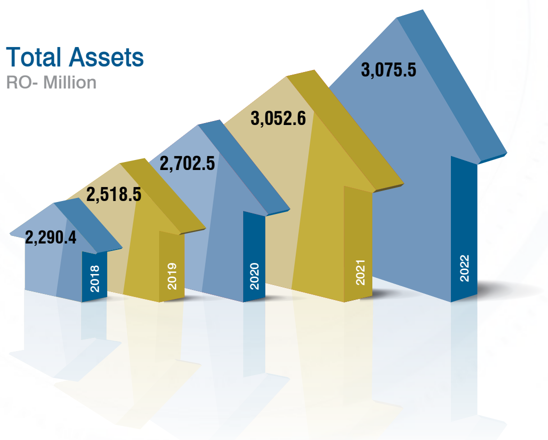
The Bank has completed 15 successful years since its conversion to a full-fledged commercial bank and has enhanced its commitment to provide financial services that go beyond the conventional mode and espouse sustainable business practices going forward. ahlibank's total assets grew by 0.8 per cent in 2022, reaching RO 3.08 billion, compared to RO 3.05 billion in 2021. Customer deposits went up by 5.3 per cent to reach RO 2.30 billion compared to RO 2.18 billion. Loans & advances and financing grew by 4.1 per cent, reaching RO 2.50 billion. The Bank's operating income increased by 11.2 per cent, reaching RO 91.7 million in 2022. The operating expenses increased by 13.0 per cent, while the profit for the period grew by 19.9 per cent.

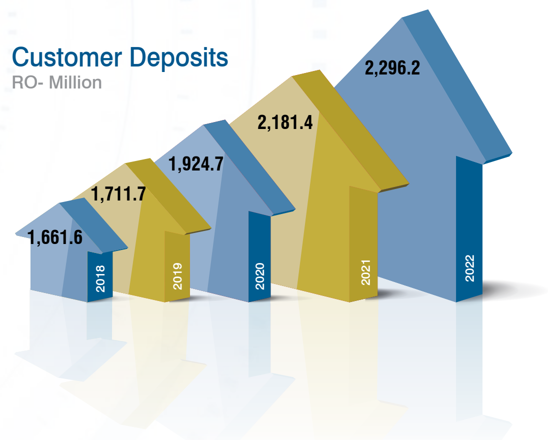
Capital and Reserves: The capital and reserves of the Bank as of 31 December 2022 stood at RO 460.9 million compared to RO 427.0 million as of 31 December 2021. The Bank maintained sufficient capital buffers and remained highly capitalized. The capital adequacy ratio of the bank stood at 16.31 per cent, comfortably above the regulatory requirement of 12.25 per cent (including capital conversion buffer).

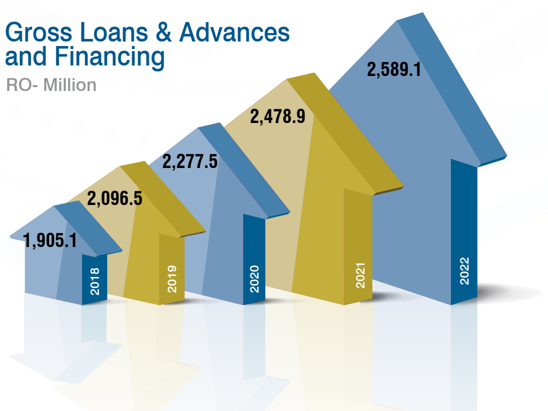
Loans and Financing: The increase in gross loans and financing in 2022 reflects the Bank's strategy of active balance sheet management, to position the Bank for sustainable profitable growth in the coming years. The Bank's gross loan and financing increased by RO 110.2 million to RO 2.589 billion as of 31 December 2022 from RO 2.479 billion as of 31 December 2021. The focus in 2022 was to maintain high-asset quality, which reflected in the low non-performing loans to gross loans ratio of 3.77 per cent, comparably the lowest amongst its industry peers.

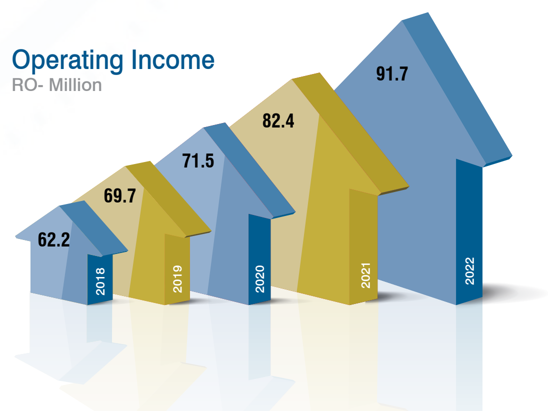
Customer Deposits: Customer deposits of RO 2.296 billion at year-end 2022 reflected an increase of 5.3 per cent compared to 2021, which is mainly on account of the increase in low-cost deposits. The Bank maintains its strategy to focus on expanding a lower cost-funding base through new product launches and retail branch expansions.

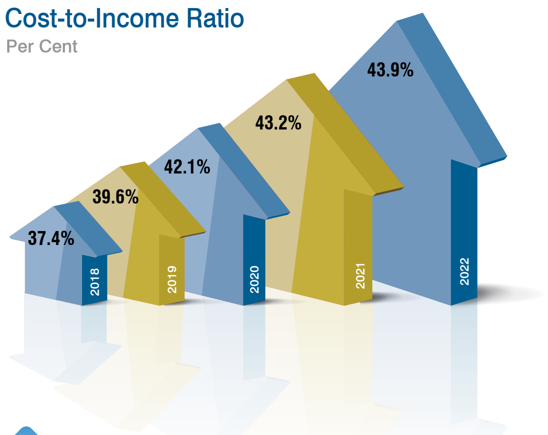
Profitability: The net profit after tax increased by 19.9 per cent to RO 33.09 million as compared to 2021, mainly due to the increase in net interest income and net fees and commission income in 2022 as compared to 2021. The return on equity was at 10.8 per cent, notably one of the best amongst its industry peers.

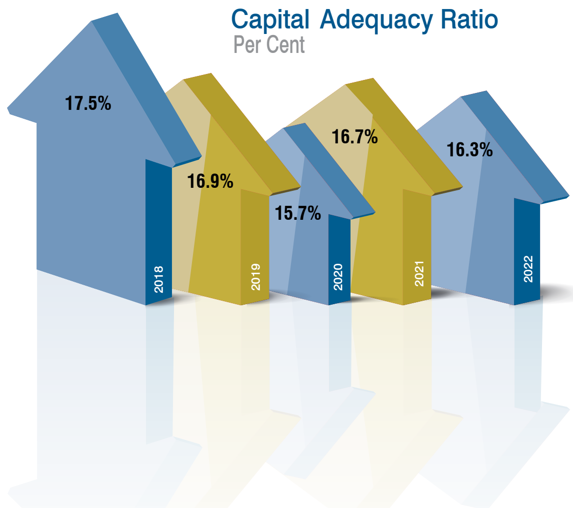










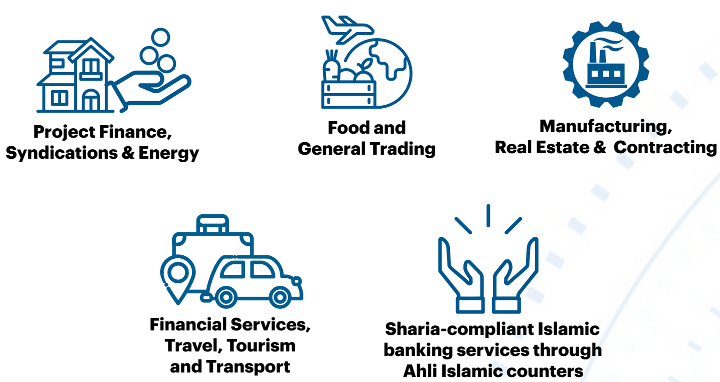


Business Units

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:



The Bank has aligned the teams in a way that will allow them to focus on the sectors that form a 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 ESG 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. ahlibank Launched "Tamkeen", a Crowdfunding initiative during FY 2022 in collaboration with Beehive, as the first of its kind in Oman.

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 addresses the needs of their employees and are able to provide attractive customized packages that align with their requirements.

Transaction Banking (Corporate E-channels):

To complement the business and create new revenue stream lines, 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 (B2B) and corporate internet banking (CIB) continue to be enhanced with state-of-the-art features that give the users an unmatched experience in terms of managing their accounts (payables and receivables) and liquidity 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 network expansion and digitalization strategy, ahlibank has opened its first digital branch in 2022 "ahli express", with more network enhancement in the pipeline for 2023. This strategy 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.

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.

BENEFITS

- 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

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. All the dedicated RM's offer personalized services to clients through its various branches and Premium service centres.

BENEFITS

- 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

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 ahlirewards app and VOX cinema, and many more.

Istqrar: 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 also offers 'ahlirewards', 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 Plus: This is a daily growth account that offers interest on the daily balance maintained by the customers. Interest is compounded and credited to the customer account on a daily basis at the end of each day.

MySaver: With My Saver Plan, customers can invest small amounts on a monthly basis, which multiplies with regular bonuses over a period. Attractive interest is paid monthly to the account based on the daily available balance. Free life insurance coverage up to RO 50,000 is also 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 a 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 recently launched "ahli express", its first digital branch where customers can enjoy a bouquet of services through Multi-Functional Kiosks.

ahlibank's free 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, 24×7 call centre, ATMs, CDMs, service centres 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 products 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 the 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 funding requirements of ahlibank both locally and internationally in order to meet regulatory and liquidity requirements at the most competitive Terms & Conditions.

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 a track record to realize its strategic vision to be one of the leading investment management firms in 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 its Fixed Income Solutions offering the clients the ability to take advantage of attractive bond yields offered by the markets today. The Fixed Income Solutions offered by ahlibank cater to clients across the risk spectrum including Investment Grade, High Yield and Sukuk Strategies. The flagship, Ahli Global Equity Fund, also continues to gain traction with clients and offers investors' international diversification. The Asset Management team also manages several discretionary strategies including thematic and regional equites.

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 a proven track record across products including Equity/Debt capital markets, debt syndications, refinancing/restructurings, M&A, private equity, Islamic finance and structured finance. It develops innovative, customized solutions for its clients backed by deep understanding and specialized domain knowledge of major industry sectors through a team of dedicated experts. It continues to build its reputation as an advisor of choice and has executed quality equity and debt transactions in FY 2022 across marquee corporate and GRE clients. During FY 2022, the division successfully managed the Additional Tier I offering for the Bank which was oversubscribed, private placement of unsecured non-convertible subordinated bonds of Taageer Finance Co. SAOG for the second year in a row which was oversubscribed. It was also mandated for the IPO of Abraj Energy Services which is part of the privatization initiative by Oman Investment Authority (OIA), mandated for the financial advisory services for Sohar Titanium and Be'ah and continues to offer bespoke advisory and fund-raising services for its clients.

The division continues to have a 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$ 600mn across sectors covering manufacturing, logistics, Oil & Gas, 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 strengthened its 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:

The brokerage division generated a turnover of c. OMR 131 million representing c.8% of the market. It is ranked 5th in Oman (7th in 2021) in terms of the market share. It acted as the buy & sell side broker for the divestment of Octal Petrochemicals. It has launched a sell-side research initiative in 2022 which is well-received by the clients. The brokerage services covers both Oman and other GCC regions by providing differentiated and focused services through dedicated professional brokers+.

Wealth Management

ahlibank Wealth Management provides financial solutions to its High Net Worth Individuals ("HNWI") to manage and grow their wealth. It aspires to be a one stop shop for clients when it comes to investment options, hence always strives to continuously bring new opportunities and stories to the Wealth clients. It provides access to International Fixed Income Securities Bonds & Sukuk, listed in major global exchanges and denominated in currencies like USD, GBP and EUR. It also provides access to diversified asset classes including Equities, Bonds and other alternative investments through investments in Global Mutual Funds and ETFs.

The Bank also provides the option for "Systematic Investment Plans – SIPs" for clients looking to invest in regular amounts. Investing in Mutual Funds through ahlibank's online banking channel has been made available . The Bank through the wealth management arm also provides Income Protection solution in life insurance space as a Wealth Management tool. The Wealth business has been scaling up to new levels and look forward for continuous evolvement.

ahli Islamic

ahli Islamic has demonstrated a remarkable growth trajectory since its inception in 2013, and has established itself as a prominent player in the domain of Islamic banking in the Sultanate of Oman. Over the years, ahli Islamic has significantly contributed towards the development of the market by offering superior financial services and fostering financial inclusion amongst prospective customers. The Bank has earned the confidence of all its stakeholders by virtue of its unwavering commitment to Sharia-compliant practices. ahli Islamic offers a diverse range of Sharia-compliant products and services that cater to a wide spectrum of customer segments including institutional, corporate, SME, and retail customers. The Bank's network of nineteen dedicated branches, located in strategically important locations such as AlKhoudh, Wattaya, AlGhubra, AlKhuwair, AlAmerat, AlHail, AlMabaillah, Saham, Rustaq, Barka, Sohar, Samail, Bahla, Nizwa, Sinaw, Jalaan Bani Bu Ali, Sur, Salalah, and Ibri, enables it to serve its customers effectively and efficiently.

In order to further extend its reach and cater to its premium, private, and wealth management customers, ahli islamic launched the Al Shumookh segment. The segment offers a suite of new services and benefits that are exclusively designed for its esteemed customers, including a dedicated relationship manager, specialized service centers, handpicked offers from select merchants, 1% cashback on credit cards, and other exciting perks.ahli Islamic offers a range of innovative Shari'a-compliant products in their deposits and liabilities portfolio. Further details regarding these products are given below.

Products & Services:

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 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. This account features 10% cash back offer from the bank on salary transfer.
6.	**Al Qimmah Wakala Account** – Profit paying, non-transactional account based on Wakala mode allowing customers to earn high profit on monthly basis.
7.	**Special Offers:** Many attractive offers on different accounts are also offered on regular basis to attract new customers.
8.	Branchless Banking
9.	Priority Banking
10.	Cash Management Services
11.	Alternate Distribution Channels (ahli Islamic net, SMS alerts, SMS banking, ahli Islamic debit & credit cards).

Financing Products

Corporate Banking

ahli Islamic offers a comprehensive array of Shariah-compliant financing solutions cater to the working capital finance, commodity operations financing, long term finance, and project based financing needs of a large number of corporate clientele comprising private and public sector entities. A focused business strategy to diligently build a high quality and well-diversified portfolio has enabled the Bank to grow its Corporate Banking portfolio from RO 260.6 million in 2021 to RO 345.6 million in 2022, a substantial growth of 32.6%.

Shariah Advisory Services:

ahli islamic regularly facilitates corporate entities by providing Shariah advisory and Shariah technical services and support for development of Shariah-compliant products for their business needs.

Corporate Islamic financing and related assets

Murabaha Finance

Murabaha is a sale contract, wherein the first party (bank) sells a Shari'a-compliant asset/good to the customer at cost, along with a pre-agreed profit.

Diminishing Musharka

Diminishing Musharaka (DM) is a form of co-ownership, in which two or more parties take ownership of a tangible asset in an agreed proportion; one of the co-owners undertakes to buy in periodic installments the proportionate share of the other co-owner, until the title of asset is completely transferred to the purchasing co-owner. Furthermore, during the entire tenor of facility, one of the co-owners can rent out its undivided share in the asset to the other co-owner.

Ijarah MBT:

Ijara MBT or financial lease is a rental arrangement, whereby the owner of the asset allows use of the asset against specified rentals. It includes a promise from the lessor to transfer to the lessee the title of the leased asset, at the end of the lease term, through a sale for an agreed price. During the entire tenor of financial lease, the Bank must retain ownership of the asset, along with relevant risks and rewards.

Wakalah Bil Istithmar (WBI)

In Wakalah Bil Istithmar financing, the Bank enters into investment agency transaction with customer acting as an agent of the Bank. Under this mechanism, the funds disbursed are invested by the customer on behalf of the Bank and are recorded as financing upon their investment in the business. At the end of each quarter / half year / other defined period, the customer pays the profit.

Retail Islamic financing and related assets

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.

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 also offers mortgage-free auto financing for salaries customers to add more convenience and freedom in owning their vehicles.

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.

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 Ijarah.

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.

Credit Cards - Visa Gold, Platinum, Signature and infinite, socially responsible Islamic credit cards, bundled with the benefits of global airport lounge access, Chauffer service, 1% cash back, Takaful insurance protection, travel and lifestyle deals. Many discounts and offers are available for credit card customers.

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 predetermined 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

Management Committees:

- Executive Management Committee
- Credit & Investment Committee
- Assets and Liabilities Committee
- Credit Risk Management Committee
- Operational Risk Committee
- Products and Consumer Protection Committee Committee
- Special Assets Committee
- Technology Delivery Committee
- Technology and 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
39.	Treasury & Investment Policy
40.	Whistle Blowing Policy
41.	Cloud Policy

Islamic Banking Related Policies

1.	Profit Distribution Policy
2.	Charity Policy
3.	Zakah Policy
4.	Cost-Sharing Policy
5.	Segregation of Funds Policy
6.	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).

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)

Technology is the enabler for how we transform our operations, revamp systems and services to meet the needs of customers. The launch of Multi-Functional Kiosks, new gen ATMs and FFMs, instant card issuance, the rich and growing features on mobile and internet banking just to name a few of the digital initiatives is a testimony to the bank's commitment to provide best-in-class digital offerings to its customers translating from the bank's digital first agenda.

The Bank's application landscape has been modernized with major upgrades involving core banking systems for conventional and Islamic banking, middleware migration to a more stable platform, BPM application upgrade, payment systems enhancements, data warehouse upgrade to deliver superior customer experience across the various customer touch points. The number of processes that have been automated in BPM, Core Banking, Trade Systems, Payment systems makes business processes simpler and effective aligning operational processes with business objectives and strategy.

The bank's payment offerings have been further enhanced by re-engineering of services in ACH, B2B, call centre systems.

To realize value from data, a data-driven culture has been adopted by the bank to better tailor our offerings to our customers. With the help of data analytics, Bank has been monetizing data assets for key business decisions and risk management. With the launch of business dashboard's up-to-date information and context is provided to help the management make more informed business decisions.

The infrastructure landscape is getting future ready while we are re-architecting our applications in line with business growth plans, giving us greater efficiency and nimbleness at the same time ensuring secure operations. The existing infrastructure has been upgraded to a hyper convergence infrastructure along with investments in critical layers within this domain like network, servers, database and IT operations. A strategy for cloud migration is in place and its execution is planned with local partners to migrate services to cloud for improved efficiency. The investments into our security architecture by upgrading existing technologies and engaging with consultants and vendors to implement a secure and at the same time a seamless interface for the end user reflects the bank's commitment to simple and easy banking. Continuous improvements in the bank's IT policies, control processes, DR and BCP management, risk mitigation programmes help to improve IT governance, ensure regulatory compliance and increase value of the technology investments.

People are at the core of the organization and the bank's culture encourages deep dives and knowledge-share to create space and time for innovation and research. In doing so, broader ideas, creativity, and innovation will naturally surface creating a shared, enduring and positive environment for the team which operates 24/7. Technical and soft skills training, team off-sites, staff representation at international seminars and conferences are just a few of the initiatives towards building a unique and engaged workforce that reflects the bank values and the communities we serve.

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 behaviours and 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.

As an integral part of its digital transformation strategy, 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 recent years introduced sustainable alternative delivery channels like internet banking, mobile banking, multi-functional kiosks, SMS banking, phone banking and B2B solutions to satisfy the needs of its customers. An example of this are the bank's multi-function kiosks, enabling customers to open accounts instantly including the provision of debit cards, cheque books, together with a virtual teller accessible from the kiosk – demonstrating how the bank is leading the innovation in Oman's banking sector.

With more than 48% of Oman's population being less than 24 years and further, customer preference shifting towards digital channels post COVID pandemic, the bank will continue to enhance and invest in its digital channels by adopting a mobile first strategy, which includes significant enhancement to our mobile application.

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 introduction of digital on boarding of new to bank customers both on Islamic and Conventional banking is just one of many such digital initiatives implemented by the bank. Further during the year, the bank launched Tamkeen, the first of its kind crowdfunding platform in Oman focused on SMEs, in partnership with a leading Fintech in UAE, which exemplifies the bank's approach to pioneering new products.

Like any progressive organisation, the bank is keen to capitalize and adopt the 4th industrial revolution driven by digital transformation to further strengthen its market position and enhance its overall market share by providing best-in-class digital offerings leading to instant digital fulfilment, improved TAT, enhanced customer experience, improved customer stickiness. As part of the bank's focus on creating a sustainable long term workforce to enable and support its digital transformation, it has designed the iGeneration program to attract fresh and tech savvy entry level graduates, who will be equipped with the emerging technology skills and knowledge to build on our digital credentials. This focus demonstrates banks commitment to the objectives of Oman Vision 2040.

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 79 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.

In 2022, ahlibank has created 126 jobs consistently exceeding its Omanization targets (as of December 2022 reached 94.56%). 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.

During the year 2022, the Bank contributed to various CSR activities and sponsorships amounting to RO 163,237 (which included an amount of RO 51,500 paid to Oman Charity Association)

Investing in Local Communities:

Over the past few years ahlibank has demonstrated great support towards local societal events that have affected various segments of the community. In 2022 ahlibank has visited the Oncology ward at the Royal Hospital to show moral support to oncology patient and their families, the visit also involved a contribution from employees under the ahli care's initiative. ahlibank has also continued its annual support to the Oman Cancer Association by taking part in the 18th Cancer Walkathon. The walk was attended by a large number of volunteers from the Bank's employees and Senior Management who believe in the importance of raising awareness on the cause.

Furthermore, ahlibank has participated in supporting seasonal events such Ramadan food items distribution and "Kiswat Eid"Eid celebration initiative. Both initiatives fall under the ahli cares umbrella, which is lead by the bank's employee volunteers. Such initiatives not only add value to the community, but also demonstrate the employees' awareness on social work and involvement in their local community.

In addition to its CSR initiatives, ahlibank has also financially supported various sectors contributing to the overall social and economic development of the country and working towards achieving the Oman Vision 2040. For example, it has sponsored a number of Education development projects and school renovations that contribute to the betterment of the education system in different Governorates. Moreover, the bank has also supported the Health sector in various Governorates by financing a number of healthcare conferences and other projects that involve the development of the Health sector in the country.

Sustainable Results

An Overview

FIVE YEARS SUMMARY

	RO' Million				
	Dec 22	Dec 21	Dec 20	Dec 19	Dec 18
Net profit	33.1	27.6	24	31	28.8
Less: AT1 Interest	(9.3)	(9.3)	(9.3)	(8.6)	(3.8)
Profit attributable to equity shareholders	23.8	18.3	14.7	22.5	25
Total assets	3,075.5	3,052.6	2,702.5	2,518.5	2,290.4
Loans & advances and financings, net	2,500.4	2,402	2,218.9	2,055	1,870.7
Total Deposits	2,296.2	2,181.4	1,924.7	1,711.7	1,661.6
Total liabilities	2,614.5	2,625.6	2,314.1	2,129.3	1,931.4
Total Equity	460.9	427	388.3	389.2	359
Return on average assets (ROAA)	1.1%	1%	0.9%	1.3%	1.3%
Return on average equity (ROAE)	10.8%	9.7%	9.1%	11.9%	11.3%
Cost to income ratio	43.9%	43.2%	42.1%	39.6%	37.4%
Capital Adequacy Ratio	16.3%	16.7%	15.7%	16.9%	17.5%
Net Interest Margin	2.2%	2.2%	2.1%	2%	2.2%
Earnings per share (Baiza)	12.2	9.7	8.9	13.6	15.2
Total Number of branches	42	37	31	25	22
- Conventional	23	22	19	16	14
- Islamic	19	15	12	9	8
ATMs	57	55	41	36	33
Multi functional Kiosks (MFKs)	2	-	-	-	-
Number of Staff	864	795	730	656	598

SECTION III
AHLIBANK

Agreed-upon procedures report on factual findings in connection with the Corporate Governance report

To the Board of Directors of Ahli Bank SAOG

Purpose of this Agreed-upon Procedures Report

Our report is solely for the purpose of assisting the directors of Ahli Bank SAOG (the "Bank") in determining whether their Corporate Governance Report is in compliance with the Code of Corporate Governance (the "Code") of the Capital Market Authority of the Sultanate of Oman ("CMA"), as prescribed in the CMA Circular No. E/10/2016 dated 1 December 2016 (together the "Governance Code") and may not be suitable for another purpose.

Responsibilities of the directors

The directors of the Bank have prepared the Corporate Governance Report ("the Report") and remain solely responsible for it, and are also responsible for identifying and ensuring that the contents of the Report comply with the Code. The directors are also responsible for determining that the scope of the agreed-upon procedures is appropriate and sufficient for the purposes of the engagement.

Our Responsibilities

We have conducted the procedures agreed with the Bank, and set out below, in accordance with the International Standard on Related Services (ISRS) 4400 (Revised), *Agreed-Upon Procedures Engagements*. An agreed-upon procedures engagement involves performing the procedures that have been agreed with the Bank, and reporting the findings, which are the factual results of the agreed-upon procedures performed. We make no representation regarding the appropriateness or sufficiency of the agreed-upon procedures.

This agreed-upon procedure engagement is not an audit or assurance engagement made in accordance with generally accepted auditing or assurance standards, the objective of which would be the expression of assurance on the contents of the Report. Accordingly, we do not express such assurance.

Had we performed additional procedures, or had we performed an audit or assurance engagement on the Report, other matters might have come to our attention that would have been reported.

Professional Ethics and Quality Control

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

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

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Agreed-upon procedures report on factual findings in connection with the Corporate Governance report (continued)

Procedures and Findings

We have performed the procedures described below, which were agreed with the Bank in the terms of our engagement letter dated 25 December 2022, on the compliance of the Report with the Code for the year ended 31 December 2022.

No.	Procedures	Findings
(a)	We obtained the Corporate Governance Report issued by the Board of Directors and compared its contents to the minimum requirements of the CMA as set out in Annexure 3 of the Code.	No Exceptions noted.
(b)	We obtained from the Bank details of the areas of non-compliance with the Code identified by the Bank, as set out in its Board minutes and in its non-compliance checklist, and compared these with those included in the Report in the section "Details of non-compliance and penalties, together with the reasons for such non-compliance for the year ended 31 December 2022". Additionally, we obtained written representations from the directors that there were no other areas of non-compliance with the Code for the year ended 31 December 2022, of which they were aware.	No Exceptions noted.

Our report is intended 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.

This report relates only to the accompanying Corporate Governance Report of the Bank to be included in its annual report for the year ended 31 December 2022 and does not extend to the Bank's financial statements taken as a whole.

Muscat, Sultanate of Oman
06 March 2023

CORPORATE GOVERNANCE REPORT-2022

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 running 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.

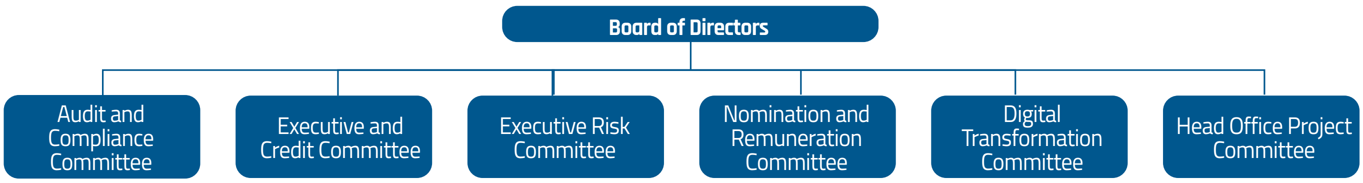
CORPORATE GOVERNANCE IMPLEMENTATION INITIATIVES AT AHLI BANK SAOG

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



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 23 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); Chairman, 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; Senior Advisor to Group Chief Executive Officer: Ahli United Bank B.S.C., Previous experience as Deputy Group Chief Executive Officer, Finance & Strategic Development – Ahli United Bank B.S.C.; Group Head of Finance, Ahli United Bank B.S.C., Bahrain; Financial Controller, Al-Ahli Commercial Bank, Bahrain. Held various positions at Ernst & Young, Bahrain and Price Waterhouse in India. (Total years of experience: 38 years).

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 31 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 19 years of experience in different sectors including, Telecommunication, Oil & Gas and Financial & Investments; Held different leadership roles in Finance & Investment Operations.

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 20 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 banking experience of 29 years.

Qais Abdullah Moosa Al Kharusi

Director

Certified Chartered Financial Analyst (CFA), Financial Risk Manager (FRM) and Chartered Alternative Investment Analyst (CAIA); Holds an MBA degree in Value Investing & Finance from Columbia Business School, New York, USA and a BSE degree in Industrial and Operation Engineering from the University of Michigan, USA; Chief Executive Officer of Al Hosn Investment Company; Board Member of A'Saffa Foods SAOG and Asyad National Logistics Group; Having more than 13 years of diversified investment experience.

Rajeev Gogia

Director

Member of the Institute of Chartered Accountant, India and Bachelor in Commerce, India; Deputy Group CEO – Finance & Strategy, Ahli United Bank BSC, Bahrain; Previously served as a Board Member of ahlibank SAOG; Ahli United Bank (Egypt) SAE; Ahli United Bank KSCP (Kuwait), Al Hilal Life (Bahrain) and Al Hilal Takaful (Bahrain). Mr. Rajeev has Over 24 years of industry and advisory experience in the Financial Services Sector.

Corporate Governance Report-2022 *(continued)*

Executive Powers of the Board:

1. Approving financial objectives, business and financial policies of the Bank.
2. Approving internal regulations as well as specifying the powers, responsibilities and authorities of the executive management.
3. Reviewing and monitoring the disclosures and compliance with regulatory requirements.
4. Nominating the members of the sub-committees, CEO and key employees.

Details of the Number of Board meetings held during the year 2022:

Sl. No.	Board Meeting
1.	26-Jan-2022
2.	27-Apr-2022
3.	27-Jul-2022
4.	15-Sep-2022
5.	26-Oct-2022
6.	29-Nov-2022

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 Baijal	Second Deputy Chairman	Non-Independent/ Representing Ahli United Bank	5	ACC	No
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	No
Salim Ali Hamed Al Hasni	Director	Independent/Representing Ministry of Defense Pension Fund	6	ERC	Yes
Wajid Ali Khan	Director	Non-Independent	6	ECC, DTC	Yes
Qais Abdullah Moosa Al Kharusi*	Director	Independent	5	ACC	N/A
Rajeev Gogia**	Director	Non-Independent	2	ERC, NRC, HOPC	N/A
Juma Rashid Saif Al Jahwari***	Director	Independent	1	ACC	Yes
Keith Henry Gale****	Director	Non-Independent	3	ERC, NRC, HOPC	Yes

*Appointed as Board Member on 13 April 2022. **Appointed as Board Member on 8 September 2022. *** Resigned from the Board on 13 April 2022. **** Resigned from the Board on 8 September 2022.

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:

A Audit and Compliance Committee

B Executive and Credit Committee

C Executive Risk Committee

D Nomination and Remuneration Committee

E Digital Transformation Committee

F Head Office Project Committee

Corporate Governance Report-2022 *(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 2022:

Composition of Audit and Compliance Committee		Meeting Dates			
Director's Name	**Position**	**26-Jan-22**	**27-Apr-22**	**25-Jul-22**	**26-Oct-22**
Qais Abdullah Moosa Al Kharusi*	Chairman	N/A	Yes	Yes	Yes
Sanjeev Baijal	Member	Yes	Yes	Yes	Yes
Abdul Hameed Ahmed Mohamed Al Bulushi	Member	Yes	Yes	Yes	Yes
Juma Rashid Saif Al Jahwari**	Chairman	Yes	N/A	N/A	N/A
Attendance		**3**	**3**	**3**	**3**

* Appointed as Board Member on 13 April 2022. ** Resigned from the Board on 13 April 2022.

Internal Audit External Quality Assurance review:

The IIA Standards requires internal audit division to have a Quality Assessment Review conducted at least once every five years by a qualified, independent reviewer. The external Assessments will appraise and express an opinion about the Internal Audit Department's conformance with the IIA Standards, Definition of Internal Auditing and Code of Ethics and include recommendations for improvement, as appropriate. ahlibank appointed one of the Big Four Audit firm to perform the External Quality Assurance Review of the Internal Audit Department during December 2022. The assessment of the Internal Audit Department was carried out in line with IIA standards and leading practices. Overall, based on the Quality Assurance Review (QAR), ahlibank SAOG's IAD has been rated as generally conforms to the Institute of Internal Auditors' (IIA) International Professional Practices Framework (IPPF) standards and Code of Ethics.

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 2022:

Composition of Executive and Credit Committee		Meeting Dates			
Director's Name	**Position**	**25-Jan-22**	**26-Apr-22**	**24-Jul-22**	**25-Oct-22**
Anwar Hilal Al Jabri	**Chairman**	Yes	Yes	Yes	No
Ibrahim Said Badar Al Eisri	**Member**	Yes	Yes	Yes	Yes
Wajid Ali Khan	**Member**	Yes	Yes	Yes	Yes
Attendance		**3**	**3**	**3**	**2**

Corporate Governance Report-2022 *(continued)*

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.

Composition of Executive Risk Committee and Details of Meetings and Attendance Record of Members During the Year 2022:

Composition of Executive Risk Committee		Meeting Dates			
Director's Name	**Position**	**25-Jan-22**	**26-Apr-22**	**24-Jul-22**	**25-Oct-22**
Rajeev Gogia*	Chairman	N/A	N/A	N/A	Yes
Abdul Hameed Ahmed Mohamed Al Bulushi	Member	Yes	Yes	Yes	Yes
Salim Ali Hamed Al Hasni	Member	Yes	Yes	Yes	Yes
Keith Henry Gale**	Chairman	Yes	Yes	Yes	N/A
Attendance		**3**	**3**	**3**	**3**

* Appointed as Board Member on 8 September 2022. ** Resigned from the Board on 8 September 2022.

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.
- 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 2022:

Composition of Nomination and Remuneration Committee		Meeting Dates	
Director's Name	**Position**	**25-Jan-22**	**27-Jul-22**
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**

* Resigned from the Board on 8 September 2022

Corporate Governance Report-2022 *(continued)*

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 2022:

Composition of Digital Transformation Committee		Meeting Dates			
Director's Name	**Position**	**24-Feb-22**	**24-May-22**	**31-Aug-22**	**23-Nov-22**
Ibrahim Said Al Eisri	**Chairman**	Yes	Yes	Yes	Yes
Abdul Hameed Ahmed Mohamed Al Bulushi	**Member**	Yes	Yes	Yes	Yes
Wajid Ali Khan	**Member**	Yes	No	Yes	Yes
Attendance		**3**	**2**	**3**	**3**

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 2022:

Composition of Head Office Project Committee		Meeting Dates	
Director's Name	**Position**	**11-May-22**	**26-Sep-22**
Hamdan Ali Nasser Al Hinai	**Chairman**	Yes	Yes
Abdul Hameed Ahmed Mohamed Al Bulushi	**Member**	Yes	Yes
Rajeev Gogia*	**Member**	N/A	No
Keith Henry Gale**	**Member**	Yes	N/A
Attendance		3	2

*Appointed as Board Member on 8 September 2022. **Resigned from the Board on 8 September 2022.

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 least 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.

Corporate Governance Report-2022 *(continued)*

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 scholar in the field of Islamic finance, and holds a doctorate degree in Constitutional Jurisprudence from Edinburgh University, U.K.; he has extensive research and teaching experience in Islamic law and its application. Dr. Mohammed held several senior positions in academics and judiciary, including the post of Assistant Professor at Sultan Qaboos University (SQU) and that of a judge and lawyer at High Court Oman.

Dr. Mustaien Ali Abdulhamid

Deputy Chairman

Dr. Mustaien Ali Abdulhamid has previously worked as Shari'a Supervisor at Al Rajhi Bank and as Shari'a Senior Adviser at Bank Albilad, Riyadh, Kingdom of Saudi Arabia – a position he held continuously for approximately twenty years, between summer 1995 and late spring 2016. He holds PhD in Islamic Economics from Um Al-Qura University in Mecca, Kingdom of Saudi Arabia. During the course of his respective duties in several Islamic financial institutions in the region, a key part of his job was to ensure compliance with Shari'a requirements. Dr. Mustaien is well known for his detailed knowledge and understanding of Islamic banking, and has been instrumental in elucidating various Islamic based decisions handled down by banks' Shari'a scholars in a number of professional institutions and consultancy firms in Saudi Arabia and Sudan. He has also contributed and supervised various Shari'a auditing programs.

Dr. Abdulraouf Abdullah Hamood Al-Tobi

Member

Dr. Abdulraouf Al Tobi has a PhD in Law from International Islamic University Malaysia, Master of Law (LLM) from UK, and a Bachelor Degree in Shari'a Judicial Science. Dr. Abdulraouf has conducted extensive research and has practical experience in the legal and Shari'a departments.

Composition of SSB and Details of Meetings and Attendance Records of Members During the Year 2022:

Composition of the Sharia Supervisory Board		Meeting Dates			
Member Name	**Position**	**10-Apr-22**	**4-July-22**	**22-Aug-22**	**29-Nov-22**
Dr. Mohammed Taher Al-Ibrahim	Chairman	Yes	Yes	Yes	Yes
Dr. Mustaien Ali Abdulhamid	Deputy Chairman	Yes	Yes	Yes	Yes
Dr. Abdulraouf Abdullah Hamood Al-Tobi	Member	Yes	Yes	Yes	Yes
Attendance		**3**	**3**	**3**	**3**

SSB Remuneration and Sitting Fee Expenses:

The shareholders of the Bank in the AGM held on 27 March 2022 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

Corporate Governance Report-2022 *(continued)*

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	1,540
Dr. Mustaien Ali Abdulhamid	Deputy Chairman	6,738	1,540
Dr. Abdulraouf Abdullah Hamood Al-Tobi	Member	6,738	1,540
Total		**23,101**	**4,620**

EXECUTIVE MANAGEMENT COMMITTEE MEMBERS OF AHLI BANK

Said Abdullah Al Hatmi

Chief Executive Officer

Holds a Bachelor Degree in Finance from Sultan Qaboos University and a Master's Degree in Business Administration from The University of Strathclyde, UK. 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 22 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 24 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 26 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.

Hanaa Mohammed Al Kharusi

Senior General Manager - Wholesale 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; Ahli Global Equity Fund , Director; Nama Holding (SAOC) and chairperson of the Board Audit Committee. Having over 22 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". Board Member and Chairperson-Audit Committee and Risk Management Committee of Credit Oman SAOC. Chairperson of the Chief Risk Officers Committee under Oman Bank Association. Having more than 23 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".

Taher Al Bakhsh Al Balushi,

General Manager – Strategy & Transformation and Project Management

Holds Master in Business Administration from University of Strathclyde and Bachelors with Honors in Accounting from the University of Bedfordshire, UK; Certified Fraud Examiners from the Association of Certified Fraud Examiners, USA and Certified Islamic Professional Accountant from AAOIFI, Bahrain. Successfully completed 'High Performance Leadership Program' at Said Business School at Oxford University and 'Advanced Leadership Program' at Judge Business School at Cambridge University. Taher has over 19 years of banking experience across strategy, finance, risk, operations and transformation functions in leading Omani Banks.

Corporate Governance Report-2022 *(continued)*

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 50,000 by Central Bank of Oman over the last three years based on CBO examination report observations.

2022: No penalty imposed by CBO for year.

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.

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 2022. The details of sitting fees paid are below:

Name of Director	Sitting Fees Paid (RO)
Hamdan Ali Nasser Al Hinai	5,600
Anwar Hilal Hamdoon Al Jabri	5,100
Sanjeev Baijal	3,700
Abdul Hameed Ahmed Mohamed Al Bulushi	7,200
Ibrahim Said Badar Al Eisri	6,400
Salim Ali Hamed Al Hasni	4,200
Wajid Ali Khan	5,100
Qais Abdullah Moosa Al Kharusi*	4,000
Rajeev Gogia**	1,500
Juma Rashid Saif Al Jahwari***	1,000
Keith Henry Gale****	3,900
Total	**47,700**

*Appointed as Board Member on 13 April 2022. **Appointed as Board Member on 8 September 2022. *** Resigned from the Board on 13 April 2022. **** Resigned from the Board on 8 September 2022.

The total remuneration paid to the top executives (top five) of the Bank amounted to RO 1,460,011 during the year 2022, 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 2022

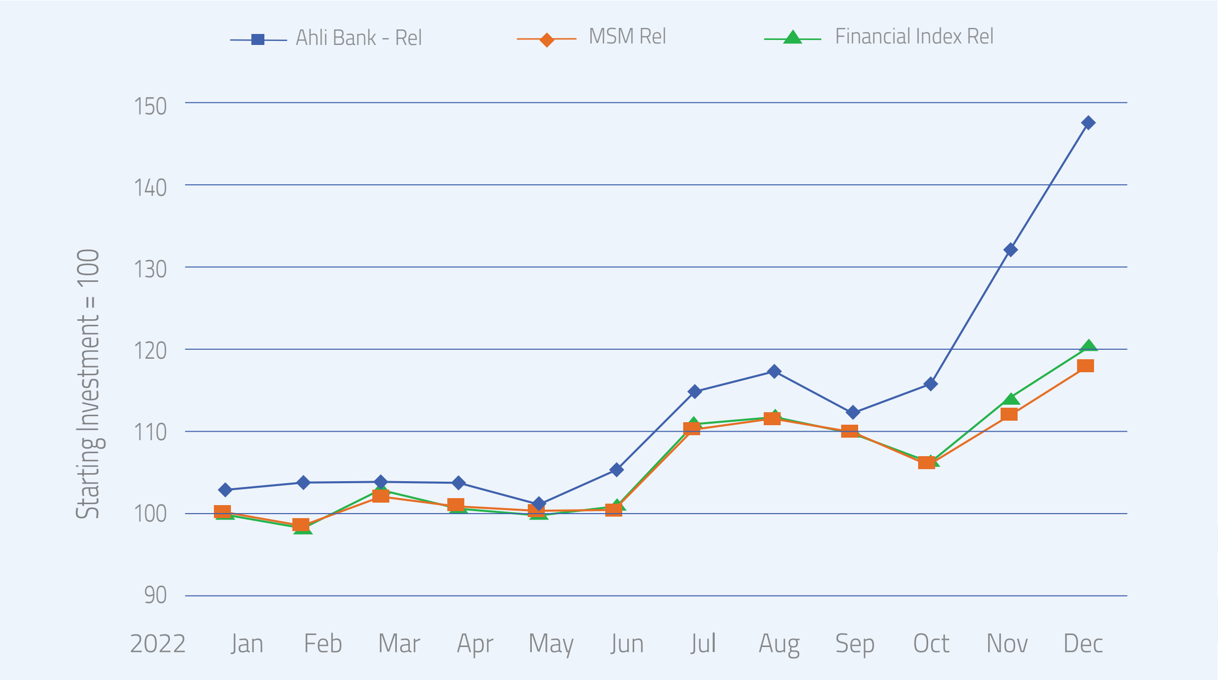
The table below shows the high / low prices of the Bank's shares in Rial Omani in 2022.

Month	High	Low
Jan-22	0.123	0.115
Feb-22	0.122	0.117
Mar-22	0.130	0.119
Apr-22	0.122	0.116
May-22	0.120	0.117
Jun-22	0.124	0.117
Jul-22	0.133	0.121
Aug-22	0.138	0.130
Sep-22	0.136	0.127
Oct-22	0.137	0.128
Nov-22	0.154	0.131
Dec-22	0.171	0.153

Corporate Governance Report-2022 *(continued)*

Performance of ahlibank SAOG Vs MSX and Banking Indices

Relative performance of ahlibank Vs. Indices



The Bank has outstanding Tier1 perpetual subordinated bonds as follows:

Issue Date	RO	First Recall Option
17 December 2018	54 million	17 December 2023
13 June 2019	20 million	13 June 2024
11 August 2022	75 million	11 August 2027

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

Distribution of Share Ownership Among Shareholders as of 31 December 2022:

Name	Country of incorporation	Number of shares	%
Ahli United Bank B.S.C.	Bahrain	682,380,099	35.00
Al Hosn Investment Company SAOC	Oman	276,065,080	14.16
Al Hosn Business Development LLC	Oman	188,551,154	9.67
Ubhar Capital SAOC - Asset Management	Oman	175,301,972	8.99
Civil Service Employees - Pension Fund	Oman	167,139,447	8.57
Ministry of Defense - Pension Fund	Oman	111,691,673	5.73
Others		348,528,041	17.88
Total		1,949,657,466	100.00

Corporate Governance Report-2022 *(continued)*

EXTERNAL AUDITOR'S PROFILE – PwC

PwC is a network of firms with more than 327,947 people operating from 152 countries in 688 cities across the globe, making us the largest professional services provider in the world. We are committed to delivering quality services in Assurance, Tax and Advisory (which includes our Consulting, Deals and Strategy& practices). In doing so we help to build trust in society, enable our clients to make the most of opportunities and solve important business problems.

PwC has operated in the Middle East region for more than 40 years. Collectively, our Middle East network employs in the region of almost 8,000 people including over 367 partners and 549 directors working from 24 offices (in 23 locations) across 12 countries: Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, the Palestinian territories, Qatar, Saudi Arabia and the United Arab Emirates and 40% of our Middle East workforce is female. We are one of the fastest growing PwC member firms worldwide and the largest professional services firm in the Middle East. (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 8 partners, 1 of whom is Omani and 7 directors, 1 of whom is Omani and approximately 166 other members of staff operating from our office in the Sultanate.

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 2022.

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

Qais Abdullah Moosa Al Kharusi
Chairman
Audit and Compliance Committee

Financial Statements of the Bank

For the year ended 31 December 2022

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 2022, 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 2022;
- 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.

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

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

Our audit approach

Overview

Key audit matter	• 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.

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 judgment, 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
Expected credit losses on loans, advances and financing to customers At 31 December 2022, the loans, advances and financing to customers of the Bank were RO 2,500 million which is net of expected credit loss (ECL) allowance of RO 88.6 million. ECL charge for the year ended 31 December 2022 amounted to RO 13.1 Million. The Bank applies the requirements of International Financial Reporting Standard 9 'Financial Instruments' (IFRS 9) to determine ECL on loans, advances and financing to customers. The ECL allowance represents the directors best estimate of the expected credit losses as at the date of the statement of financial position. 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:	We updated our understanding of management's assessment of ECL allowance of loans, advances and financing to customers including the Bank's internal rating model,ECL allowance policy and the ECL modelling methodology. We assessed and tested the design and operating effectiveness of the key controls over the credit processes such as loan origination, ongoing monitoring and ECL allowance of loans and advances. We performed the following substantive procedures: • understanding the Bank's IFRS 9 based ECL allowance 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;

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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
Expected credit losses on loans, advances and financing to customers (continued) • 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; • establishing the number and relative weightings of forward-looking scenarios for each type of product / market and the associated ECL; • judgments in calculation of management overlays and other post-model adjustments;	• 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 credit 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. We involved our specialists in areas that required specific expertise (e.g. ECL model) including: • testing the 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; • 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
Expected credit losses on loans, advances and financing to customers (continued) • judgment to determine when a default event has occurred; • assessing the recoverability of financial assets; and • determining disclosure requirements in accordance with accounting standards. Information on the accounting policy and credit risk management is included in notes 4 and 36.1 to the financial statements respectively. Disclosures relating to the ECL allowance are included in notes 7 and 28 to the financial statements.	• 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 Base III Reports of the Bank, Shari'a Compliance Report of Shari'a Supervisory Board, resolutions issued by Shari'a Supervisory Board, Financial Statements of Ahli Islamic and Basel II Pillar III and Basel III Reports of the 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.

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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 judgment and maintain professional scepticism throughout the audit. We also:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- 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.

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

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

- 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.

PricewaterhouseCoopers LLC
C.R. No 1230865

Kashif Kalam
Muscat, Sultanate of Oman
06 March 2023

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2022

2021	**2022**		Note	**2022**	2021
US$ '000	**US$ '000**			**RO '000**	RO '000
		ASSETS			
297,930	**343,408**	Cash and balances with Central Bank of Oman	5	**132,212**	114,703
116,088	**195,187**	Due from banks	6	**75,147**	44,694
1,112,668	**761,462**	Investment securities	8	**293,163**	428,377
6,238,907	**6,494,635**	Loans & advances and financing, net	7	**2,500,435**	2,401,979
93,906	**102,351**	Other assets	12	**39,405**	36,154
69,219	**91,180**	Property, equipment and intangibles	9	**35,104**	26,649
7,928,718	**7,988,223**	**TOTAL ASSETS**		**3,075,466**	3,052,556
		LIABILITIES AND EQUITY			
681,403	**580,137**	Due to banks	13	**223,353**	262,340
5,665,952	**5,964,237**	Customers' deposits	14	**2,296,231**	2,181,391
240,000	**-**	Borrowed funds	15	**-**	92,400
22,450	**29,725**	Tax liability	11	**11,444**	8,643
202,041	**216,879**	Other liabilities	16	**83,499**	77,785
7,792	**-**	Subordinated loans	17	**-**	3,000
6,819,638	**6,790,978**	**TOTAL LIABILITIES**		**2,614,527**	2,625,559
		EQUITY			
506,405	**506,405**	Share capital	18	**194,966**	194,966
95,854	**104,450**	Legal reserve	19	**40,213**	36,904
7,792	**-**	Subordinated loan reserve	17	**-**	3,000
(6,629)	**(6,397)**	Fair value reserve		**(2,463)**	(2,552)
2,592	**2,592**	Special reserve	7	**998**	998
26,303	**26,303**	Impairment reserve	7	**10,127**	10,127
154,685	**176,879**	Retained earnings		**68,098**	59,554
787,002	**810,232**	**TOTAL NET EQUITY ATTRIBUTABLE TO THE OWNERS OF THE BANK**		**311,939**	302,997
322,078	**387,013**	**Tier 1 Perpetual subordinated bonds**	21	**149,000**	124,000
1,109,080	**1,197,245**	**TOTAL EQUITY**		**460,939**	426,997
7,928,718	**7,988,223**	**TOTAL LIABILITIES AND NET EQUITY**		**3,075,466**	3,052,556
40	**42**	Net assets value per share (US cents/baizas)	22	**160**	155
552,954	**613,817**	Contingent liabilities and commitments	23	**236,319**	212,887

The financial statements and accompanying notes were approved by the Board of Directors on 25 January 2023 and signed on their behalf by:

Hamdan Ali Nasser Al Hinai
Chairman

Said Abdullah Al Hatmi
Chief Executive Officer

The accompanying notes form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

2021 US$ '000	2022 US$ '000		Note	2022 RO '000	2021 RO '000
310,411	**328,405**	Interest income	24	**126,436**	119,509
(170,803)	**(166,186)**	Interest expense	25	**(63,982)**	(65,759)
139,608	**162,219**	**NET INTEREST INCOME**		**62,454**	53,750
55,840	**64,045**	Income from Islamic financing and investments	24	**24,657**	21,498
(26,158)	**(34,459)**	Unrestricted investment account holders' share of profit and profit expense	25	**(13,267)**	(10,071)
29,682	**29,586**	**NET INCOME FROM ISLAMIC FINANCING AND INVESTMENTS**		**11,390**	11,427
30,143	**37,306**	Fees and commission income	27	**14,363**	11,605
(2,244)	**(2,347)**	Fees and commission expense	27	**(904)**	(864)
27,899	**34,959**	**Net fees and commission income**		**13,459**	10,741
16,936	**11,414**	Other operating income	26	**4,395**	6,520
214,125	**238,178**	**OPERATING INCOME**		**91,698**	82,438
(38,130)	**(33,931)**	Net impairment on financial assets	28	**(13,064)**	(14,680)
175,995	**204,247**	**NET OPERATING INCOME**		**78,634**	67,758
(56,513)	**(63,048)**	Staff expenses	29	**(24,273)**	(21,757)
(7,125)	**(8,617)**	Depreciation and amortisation	9	**(3,317)**	(2,743)
(28,825)	**(32,835)**	Other operating expenses	30	**(12,642)**	(11,098)
(92,463)	**(104,500)**	**OPERATING EXPENSES**		**(40,232)**	(35,598)
83,532	**99,747**	**PROFIT BEFORE TAXATION**		**38,402**	32,160
(11,829)	**(13,798)**	Tax expense	11	**(5,312)**	(4,554)
71,703	**85,949**	**PROFIT FOR THE YEAR**		**33,090**	27,606
		OTHER COMPREHENSIVE (LOSS)/INCOME			
		Items that will not be reclassified to profit or loss			
(1,374)	**2,220**	Equity investments at FVOCI - net changes in fair value		**855**	(529)
		Items that will be reclassified to profit or loss			
4,358	**549**	Cash flow hedge - net changes in fair value		**211**	1,678
(3,049)	**(3,356)**	Changes in fair value of FVOCI debt investments		**(1,292)**	(1,174)
7,001	**-**	Transfer to consolidated statement of income arising on sale of debt instruments held as fair value through OCI		**-**	2,695
6,936	**(587)**	**OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR**		**(226)**	2,670
78,639	**85,362**	**TOTAL COMPREHENSIVE INCOME FOR THE YEAR**		**32,864**	30,276
3	**3**	Basic and diluted earnings per share (US cents/baizas)	31	**12**	10

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

		Attributable to the owners of the Bank									
		Share capital	Legal reserve	Subor-dinated loan reserve	Fair value reserve	Special reserve	Impair-ment reserve	Retained earnings	Total	Tier 1 Perpetual subor-dinated 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 2022		194,966	36,904	3,000	(2,552)	998	10,127	59,554	302,997	124,000	426,997
Profit for the year		-	-	-	-	-	-	33,090	33,090	-	33,090
Other comprehensive income		-	-	-	(226)	-	-	-	(226)	-	(226)
Transactions within equity											
Transfer to legal reserve	19	-	3,309	-	-	-	-	(3,309)	-	-	-
Transfer from subordinated loan reserve	17	-	-	(3,000)	-	-	-	3,000	-	-	-
Issue of Tier 1 Perpetual bonds		-	-	-	-	-	-	-	-	75,000	75,000
Redemption of Tier 1 perpetual bonds	21	-	-	-	-	-	-	-	-	(50,000)	(50,000)
Loss on sale of equity investments at FVOCI	8	-	-	-	315	-	-	(315)	-	-	-
Interest paid on Tier 1 perpetual subordinated bonds	21	-	-	-	-	-	-	(9,300)	(9,300)	-	(9,300)
		-	3,309	(3,000)	315	-	-	(9,924)	(9,300)	25,000	15,700
Transactions with owners recognised directly in equity											
Cash dividends	20	-	-	-	-	-	-	(14,622)	(14,622)	-	(14,622)
Total transactions with owners		-	-	-	-	-	-	(14,622)	(14,622)	-	(14,622)
At 31 December 2022		194,966	40,213	-	(2,463)	998	10,127	68,098	311,939	149,000	460,939
At 31 December 2022 (US$ '000)		506,405	104,450	-	(6,397)	2,592	26,303	176,879	810,232	387,013	1,197,245

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

		Attributable to the owners of the Bank									
	Note	Share capital RO '000	Legal reserve RO '000	Subordinated loan reserve RO '000	Fair value reserve RO '000	Special reserve RO '000	Impairment reserve RO '000	Retained earnings RO '000	Total RO '000	Tier 1 Perpetual subordinated bonds RO '000	Total equity RO '000
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	19	-	2,761	-	-	-	-	(2,761)	-	-	-
Transfer to subordinated loan reserve	17	-	-	450	-	-	-	(450)	-	-	-
Transfer from subordinated loan reserve	17	-	-	(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	8	-	-	-	1,539	-	-	(1,539)	-	-	-
Interest paid on Tier 1 perpetual subordinated bonds	21	-	-	-	-	-	-	(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	20	-	-	-	-	-	-	(9,749)	(9,749)	-	(9,749)
Rights issue of shares		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 CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022

2021 US$ '000	2022 US$ '000		Note	2022 RO '000	2021 RO '000
		CASH FLOWS FROM OPERATING ACTIVITIES			
83,532	**99,747**	Profit before taxation		**38,402**	32,160
		Adjustments for:			
7,125	**8,617**	Depreciation and amortisation	9	**3,317**	2,743
38,130	**33,931**	Net impairment on financial assets	28	**13,064**	14,680
649	**355**	End of service benefits provision	16	**137**	250
(8,085)	**(1,627)**	Gain of investments	26	**(626)**	(3,113)
121,351	**141,023**	**Operating profit before working capital changes**		**54,294**	46,720
(10,000)	**10,000**	Decrease/(Increase) in due from banks		**3,850**	(3,850)
(513,667)	**(289,662)**	Increase in loans & advances and financing		**(111,519)**	(197,762)
(18,182)	**(8,444)**	Increase in other assets		**(3,251)**	(7,000)
330,120	**(101,266)**	(Decrease)/Increase in due to banks		**(38,988)**	127,096
666,849	**298,286**	Increase in customers' deposits		**114,840**	256,737
5,702	**7,824**	Increase in other liabilities		**3,011**	2,195
582,173	**57,761**	**Cash generated from operations**		**22,237**	224,136
(6,491)	**(6,209)**	Tax paid		**(2,390)**	(2,499)
(472)	**(192)**	End of service benefits paid	16	**(74)**	(182)
575,210	**51,360**	**Net cash generated from operating activities**		**19,773**	221,455
		CASH FLOWS FROM INVESTING ACTIVITIES			
(14,523)	**(21,401)**	Purchase of property and equipment	9	**(8,240)**	(5,591)
(1,537,665)	**(92,033)**	Purchase of investments		**(35,431)**	(592,001)
1,410,595	**68,237**	Proceeds from sale / maturity of investments		**26,271**	543,080
(141,593)	**(45,197)**	**Net cash used in investing activities**		**(17,400)**	(54,512)
		CASH FLOWS FROM FINANCING ACTIVITIES			
50,000	**-**	Proceeds from borrowed funds		**-**	19,250
(225,000)	**(240,000)**	Repayments of borrowed funds		**(92,400)**	(86,625)
(23,377)	**(7,792)**	Repayment of subordinated loans		**(3,000)**	(9,000)
(3,327)	**(3,221)**	Repayment of principal of lease liabilities		**(1,240)**	(1,281)
(25,321)	**(37,979)**	Dividend paid	20	**(14,622)**	(9,749)
78,222	**-**	Net Proceeds from rights issue		**-**	30,115
-	**194,805**	Net Proceeds from issue of Tier 1 perpetual bonds		**75,000**	-
-	**(129,870)**	Redempton of Tier 1 perpetual bonds		**(50,000)**	-
(24,156)	**(24,156)**	Interest paid on Tier 1 perpetual subordinated bond	21	**(9,300)**	(9,300)
(172,959)	**(248,213)**	**Net cash used in financing activities**		**(95,562)**	(66,590)
260,658	**(242,050)**	**NET CHANGE IN CASH AND CASH EQUIVALENTS**		**(93,189)**	100,353
518,620	**779,278**	Cash and cash equivalents at 1 January		**300,022**	199,669
779,278	**537,228**	**CASH AND CASH EQUIVALENTS AT 31 DECEMBER**		**206,833**	300,022

CASH AND CASH EQUIVALENTS COMPRISE OF THE FOLLOWING

2021 US$ '000	2022 US$ '000		Note	2022 RO '000	2021 RO '000
296,567	**342,041**	Cash and balances with Central Bank of Oman	5	**131,686**	114,178
106,088	**195,187**	Due from banks	6	**75,147**	40,844
376,623	**-**	Treasury bills with three months maturity or less		**-**	145,000
779,278	**537,228**	**Cash and cash equivalents**		**206,833**	300,022

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

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 forty two branches as at year end with twenty three conventional and nineteen Islamic branches. (2021 - twenty two conventional and fifteen 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. It offers a full range of Islamic banking services and products. The principal activities of ahli islamic include accepting Sharia compliant customer deposits, providing Sharia compliant financing based on Murabaha, Mudaraba, Musharaka, Ijarah, Wakala 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 864 employees as at 31 December 2022 compared to 795 as at 31 December 2021

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 Window 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 Islamic Window 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 Islamic Window 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.

2.5 Standards, amendments and interpretations effective in 2022 and relevant for the Bank's operations

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. This amendment has no material impact on the Bank's financial statements.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

2 BASIS OF PREPARATION (continued)

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 2022:

2.6.1 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.

2.6.2 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.

2.6.3 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.

2.6.4 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 this amendments to IAS 12 on its financial statements

2.6.5 Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

The IASB amended IAS 1 to require entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. The Bank is currently assessing the impact of this amendment and will be applicable from annual periods beginning on or after 1 January 2023

2.6.6 Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28

The IASB has made limited scope amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures. Since the Bank does not have any such investments, the amendment will not have an impact on the Bank when it becomes applicable

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

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.

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 loans 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 fair value through profit & loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

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 by 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 irrecovably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVPTL 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Financial assets and financial liabilities (continued)

Financial assets

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 .

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

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

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.

For financial guarantee contracts and loan commitments, the loss allowance is recognised as a provision as described in note 3.3.5. 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 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 loans

Deposits and subordinated loans 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 neither 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Financial assets and financial liabilities (continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Financial assets and financial liabilities (continued)

3.3.5 Impairment (continued)

ii) Overview of ECL principles (continued)

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.

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 occuring 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 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Financial assets and financial liabilities (continued)

3.3.5 Impairment (continued)

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.

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 assets 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. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in the statement of profit or loss and other comprehensive income.

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, financing and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, certain financial assets that are technically written off and held through memorandum accounts could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due. If, in a subsequent year, writen off loans & advances and financings receivable is recovered, the recovery is credited to the statement of comprehensive income.

viii) Forward looking information

Forward-looking information is incorporated into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. A 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios is formulated. This process involves developing additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by various entities for the country where Bank operates. The base case represents a most-likely outcome and is aligned with information used by the Bank for other purposes. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios. The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk along credit losses. For computation of ECL, the Bank considers three scenario viz. base case, Good case and bad case. Disclosures relating different scenarios together with sensitivity testing is provided under note 36.1.7

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Financial assets and financial liabilities (continued)

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 deterioation 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.

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 it 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 34 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Financial assets and financial liabilities (continued)

3.3.10 Fair value measurement (continued)

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.

3.3.11 Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognizing 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. The Bank designates certain derivatives as either:

- hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or
- hedges of a particular risk associated with a recognized 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).

The Bank makes use of derivative instruments to manage exposures to interest rate, foreign currency risks, including exposures arising from highly probable forecast transactions and firm commitments. In order to manage particular risks, the Bank applies hedge accounting for transactions which meet specified criteria. Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any such derivative instruments are recognized immediately in the statement of comprehensive income.

Hedge documentation, effectiveness assessment, and discontinuation

At the inception of the hedge, the Bank formally designates and documents the hedging relationship to which the Bank wishes to apply hedge accounting, and the risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements (including its analysis of the sources of hedge ineffectiveness and how it determines the hedge ratio). Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis at each reporting date or upon a significant change in the circumstances affecting the hedge effectiveness requirements, whichever comes first. The assessment relates to expectations about hedge effectiveness and is therefore only forward-looking.

When the hedging instrument or instruments have been sold or terminated, or when a hedging relationship no longer meets the risk management objective or the criteria for hedge accounting, any cumulative gain or loss that has been recognized in other comprehensive income at that time remains in other comprehensive income and is recognized when the hedged forecast transaction is ultimately recognized in the profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the statement of comprehensive income.

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 2022

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Property, equipment and intangibles

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 2022

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 intangibles' 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 2022

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 bonds & subordinated bond

Perpetual 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.

Subordinated bonds are considered as a part of the Bank's Tier 2 capital instruments of the Bank and are recognised under equity in the statement of financial position.

Subordinated Loan Reserves are made 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 as an appropriation from retained earning. All Subordinated loans are repayable at par on maturity. These reserves are not available for distribution to shareholders. On repayment of subordinated loans, the related subordinated loan reserve balance is released to retained earnings.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

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 36.1.7, 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.

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 Bank, 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 bank as not being substantive for the purpose of determining the debt vs equity classification.The Bank has 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 2022, the Bank has recognised a net profit after tax of RO 33.090 million. The Bank's high quality liquid assets were RO 362.956 million as at 31 December 2022 with the liquidity coverage ratio of 144.10%.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

5 CASH AND BALANCES WITH CENTRAL BANK OF OMAN

2021	2022		2022	2021
US$ '000	US$ '000		RO '000	RO '000
47,198	46,057	Cash	17,732	18,171
1,299	1,299	Capital deposit with Central Bank of Oman	500	500
65	65	ATM deposit with Central Bank of Oman	25	25
249,368	295,987	Clearing account and placement with Central Bank of Oman	113,955	96,007
297,930	343,408		132,212	114,703

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 74.645 million (2021: RO 72.587 million)

6 DUE FROM BANKS

2021	2022		2022	2021
US$ '000	US$ '000		RO '000	RO '000
60,000	-	Placements	-	23,100
56,183	195,216	Nostro account balances	75,158	21,630
(95)	(29)	Less: Impairment loss allowance - Refer note 36.1.7	(11)	(36)
116,088	195,187		75,147	44,694

7 LOANS & ADVANCES AND FINANCING, NET

2021	2022		2022	2021
US$ '000	US$ '000		RO '000	RO '000
		Conventional Banking		
3,840,532	3,898,977	Corporate lending	1,501,106	1,478,605
1,547,108	1,531,374	Retail lending	589,579	595,636
5,387,640	5,430,351	Loans & advances, gross	2,090,685	2,074,241
		Islamic Banking		
676,895	897,584	Corporate financing	345,570	260,605
374,050	396,909	Retail financing	152,810	144,009
1,050,945	1,294,493	Financing, gross	498,380	404,614
6,438,585	6,724,844	Loans & advances and financing, gross	2,589,065	2,478,855
(199,678)	(230,209)	Loans and financing impairment (including reserve interest and profit)* - Refer note 36.1.7	(88,630)	(76,876)
6,238,907	6,494,635		2,500,435	2,401,979

*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:

2021	2022		2022	2021
US$ '000	US$ '000		RO '000	RO '000
1,921,155	1,928,283	Personal loans	742,389	739,645
987,266	1,056,391	Construction	406,711	380,097
610,896	608,619	Wholesale and retail trade & other trade	234,318	235,195
712,614	888,306	Services	341,998	274,357
450,611	436,845	Financial institutions	168,185	173,485
631,287	628,128	Manufacturing	241,829	243,045
209,128	192,118	Electricity, gas and water	73,966	80,514
84,027	27,898	Mining and quarrying	10,741	32,350
452,860	539,146	Transport and communication	207,571	174,351
18,485	3,299	Non-resident lending	1,270	7,117
120,393	199,708	Government	76,888	46,351
239,863	216,103	Other	83,199	92,348
6,438,585	6,724,844		2,589,065	2,478,855

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 the regulatory reporting purposes.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

7 LOANS & ADVANCES AND FINANCING, NET (continued)

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

Disclosure requirements for the year ended 31 December 2022, 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 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)
	Stage 1	2,060,340	23,445	7,837	15,608	2,036,895	2,052,503	-	-
	Stage 2	250,025	2,840	10,204	(7,364)	247,185	239,821	-	-
Standard	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**2,310,365**	**26,285**	**18,041**	**8,244**	**2,284,080**	**2,292,324**	**-**	**-**
	Stage 1	-	-	-	-	-	-	-	-
Special Mention	Stage 2	181,127	2,057	11,823	(9,766)	179,070	169,304	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**181,127**	**2,057**	**11,823**	**(9,766)**	**179,070**	**169,304**	**-**	**-**
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
Substandard	Stage 3	17,415	4,525	7,839	(3,314)	12,890	9,576	-	223
Subtotal		**17,415**	**4,525**	**7,839**	**(3,314)**	**12,890**	**9,576**	**-**	**223**
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
Doubtful	Stage 3	4,903	2,167	2,078	89	2,736	2,825	-	371
Subtotal		**4,903**	**2,167**	**2,078**	**89**	**2,736**	**2,825**	**-**	**371**
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
Loss	Stage 3	75,255	64,528	48,849	15,679	10,727	26,406	-	11,140
Subtotal		**75,255**	**64,528**	**48,849**	**15,679**	**10,727**	**26,406**	**-**	**11,140**
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	663,011	-	539	(539)	663,011	662,472	-	-
	Stage 2	52,536	-	2,045	(2,045)	52,536	50,491	-	-
	Stage 3	207	-	35	(35)	207	172	-	-
Subtotal		**715,754**	**-**	**2,619**	**(2,619)**	**715,754**	**713,135**	**-**	**-**
	Stage 1	**2,723,351**	**23,445**	**8,376**	**15,069**	**2,699,906**	**2,714,975**	**-**	**-**
	Stage 2	**483,688**	**4,898**	**24,072**	**(19,174)**	**478,790**	**459,616**	**-**	**-**
	Stage 3	**97,780**	**71,220**	**58,801**	**12,419**	**26,560**	**38,979**	**-**	**11,734**
Total	**Total**	**3 ,304,819**	**99,563**	**91,249**	**8,314**	**3,205,256**	**3,213,570**	**-**	**11,734**
	Total (US $'000)	**8 ,583,945**	**258,605**	**237,010**	**21,594**	**8,325,341**	**8,346,935**	**-**	**30,478**

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 2022

7 LOANS & ADVANCES AND FINANCING, NET (continued)

7.2 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	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)
	Stage 1	171,191	386	2,469	(2,083)	170,805	168,722	-	-
Classified as performing	Stage 2	271,785	612	16,919	(16,307)	271,173	254,866	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**442,976**	**998**	**19,388**	**(18,390)**	**441,978**	**423,588**	**-**	**-**
	Stage 1	-	-	-	-	-	-	-	-
Classified as non-performing	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	23,435	15,026	12,080	2,946	8,409	11,355	-	3,138
Sub total		**23,435**	**15,026**	**12,080**	**2,946**	**8,409**	**11,355**	**-**	**3,138**
	Stage 1	**171,191**	**386**	**2,469**	**(2,083)**	**170,805**	**168,722**	**-**	**-**
	Stage 2	**271,785**	**612**	**16,919**	**(16,307)**	**271,173**	**254,866**	**-**	**-**
	***Stage 3**	**23,435**	**15,026**	**12,080**	**2,946**	**8,409**	**11,355**	**-**	**3,138**
Total	**Total**	**466,411**	**16,024**	**31,468**	**(15,444)**	**450,387**	**434,943**	**-**	**3,138**
	Total (US $'000)	**1,211,457**	**41,620**	**81,735**	**(40,115)**	**1,169,837**	**1,129,722**	**-**	**8,151**

*Net of provisions and reserve interest as per CBO norms

7.3 Impairment charge and provisions held

	As per CBO norms	As per IFRS 9	Difference
Impairment loss charged to SOCI	13,064	13,064	-
Provisions required as per CBO norms/ held as per IFRS 9	99,563	91,249	8,314
Gross NPL ratio (percentage)	3.77%	3.77%	-
Net NPL ratio (percentage)	1.02%	1.50%	-0.48%

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 had temporarily discontinued the application of two track approach as per BM 1149. This was continued for 2022 through CBO circular BSD/CB & FLCs/2022/001 dated January 12, 2022, hence there will be no change in Impairment Reserve during the year 2022

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

7 LOANS & ADVANCES AND FINANCING, NET (continued)

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

Disclosure requirements for the year ended 31 December 2021, containing the risk classification-wise gross and net amount outstanding, provision required as per CBO norms, allowance made as per IFRS 9, 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)
	Stage 1	1,931,317	22,159	8,873	13,286	1,909,158	1,922,444	-	-
	Stage 2	329,414	3,780	9,927	(6,147)	325,634	319,487	-	-
Standard	Stage 3	-	-	-	-	-	-	-	-
Subtotal		2,260,731	25,939	18,800	7,139	2,234,792	2,241,931	-	-
	Stage 1	-	-	-	-	-	-	-	-
Special Mention	Stage 2	139,710	1,603	11,875	(10,272)	138,107	127,835	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		139,710	1,603	11,875	(10,272)	138,107	127,835	-	-
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
Substandard	Stage 3	1,121	313	501	(188)	808	620	-	44
Subtotal		1,121	313	501	(188)	808	620	-	44
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
Doubtful	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
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
Loss	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	12,783	2,569,339	2,582,122	-	-
	Stage 2	508,994	-	22,916	(17,533)	503,611	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 2022

7 LOANS & ADVANCES AND FINANCING, NET (continued)

7.5 Restructured loans

Asset classification as per CBO norms	Asset classification as per IFRS 9	Gross carrying amount	Provision required as per CBO norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Carrying amount as per CBO norms*	Net carrying amount as per IFRS 9	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)
	Stage 1	53,019	525	818	(293)	52,494	52,201	-	-
Classified as performing	Stage 2	47,742	473	3,431	(2,958)	47,269	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
	Stage 1	53,019	-	818	(293)	52,494	52,201	-	-
	Stage 2	47,742	998	3,431	(2,958)	47,269	44,311	-	-
	Stage 3	29,423	20,233	13,701	6,533	9,190	15,722	-	2,514
Total	**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.

7.6 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. These reserves are non-distributable in nature

Special reserve:

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. There was no appropriation to this reserve in 2022 as a non distributable special reserve in its statement of changes in equity for the current year. (2021: RO 0.998 million, equivalent to US$ 2.59 million)

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

8 INVESTMENT SECURITIES

2021	2022		2022	2021
US$ '000	US$ '000		RO '000	RO '000
		Equity investments:		
2,265	**22,810**	Measured at FVTPL	**8,782**	872
38,377	**48,117**	Designated at FVOCI	**18,525**	14,775
40,642	**70,927**		**27,307**	15,647
		Debt investments:		
1,072,026	**690,535**	Designated at FVOCI	**265,856**	412,730
1,112,668	**761,462**	**Total investment securities**	**293,163**	428,377

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

2021	2022		2022	2021
US$ '000	US$ '000		RO '000	RO '000
		Equity investments:		
		A. Measured at FVTPL		
		Quoted investments - Foreign		
155	**22,173**	Banking and investment sector	**8,536**	60
196	**121**	Manufacturing	**47**	76
655	**-**	Construction	**-**	252
1,259	**516**	Service sector	**199**	484
2,265	**22,810**		**8,782**	872
		B. Designated at FVOCI		
		Quoted investments - Oman		
1,791	**1,280**	Manufacturing	**493**	690
27,158	**29,747**	Banking and investment sector	**11,453**	10,456
3,078	**6,063**	Service sector	**2,334**	1,185
32,027	**37,090**		**14,280**	12,331
		Quoted investments - Foreign		
1,715	**1,124**	Manufacturing	**432**	660
2,110	**3,777**	Banking and investment sector	**1,454**	812
2,265	**6,126**	Service sector	**2,359**	872
260	**-**	Trading	**-**	100
6,350	**11,027**		**4,245**	2,444
38,377	**48,117**	**Total**	**18,525**	14,775

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

8 INVESTMENT SECURITIES (continued)

2021	2022	Debt investments:	2022	2021
US$ '000	US$ '000	Designated at FVOCI	RO '000	RO '000
		Quoted investments - Oman		
464,323	427,502	Government development bonds	164,588	178,764
54,465	46,260	Government bonds	17,810	20,969
81,613	126,873	Government sukuks	48,846	31,421
45,243	66,229	Services	25,498	17,419
2,657	5,230	Banking and investment	2,014	1,023
648,301	672,094		258,756	249,596
		Quoted investments - Foreign		
2,114	2,099	Government bonds	808	814
45,256	16,342	Banking and investment	6,292	17,423
47,370	18,441		7,100	18,237
376,355	-	Unquoted Oman Government Treasury bills	-	144,897
1,072,026	690,535		265,856	412,730
1,112,668	761,462	Total investments	293,163	428,377

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 0.315 million equivalent to US$ 0.82 million (2021: RO 1.539 million equivalent to US$ 3.99 million)

9 PROPERTY, EQUIPMENT & INTANGIBLES

	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 2022	7,091	5,884	3,982	6,227	10,084	206	1,055	5,198	3,997	43,724
Additions	-	-	396	619	205	33	75	3,536	6,911	11,775
Transfers	-	1,750	13	238	287	-	9	-	(2,297)	-
Disposals / scrapped	-	-	-	(12)	-	(59)	(13)	(231)	-	(315)
At 31 December 2022	7,091	7,634	4,391	7,072	10,576	180	1,126	8,503	8,611	55,184
Accumulated depreciation and amortization:										
At 1 January 2022	-	1,901	2,368	3,801	5,215	165	789	2,836	-	17,075
Charge for the year	-	276	501	551	797	19	43	1,130	-	3,317
Disposals / scrapped	-	-	-	(12)	-	(58)	(11)	(231)	-	(312)
At 31 December 2022	-	2,177	2,869	4,340	6,012	126	821	3,735	-	20,080
Net book value as at 31 December 2022										
RO '000	7,091	5,457	1,522	2,732	4,564	54	305	4,768	8,611	35,104
US$ '000	18,418	14,175	3,954	7,096	11,855	141	793	12,384	22,365	91,180

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

9 PROPERTY, EQUIPMENT & INTANGIBLES (continued)

	Freehold land	Building	Leasehold improvements	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)	-	-	(213)
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
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

10 LEASES

The Bank has taken various branch premises on lease rental basis which falls 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 9 for the detailed breakup of those assets.

II. Amounts recognised in statement of comprehensive income

2021	**2022**		**2022**	2021
US$'000	**US$'000**	Particulars	**RO'000**	RO'000
171	**561**	Interest on lease liabilities	**216**	66
465	**322**	Expenses relating to short-term leases	**124**	179
60	**119**	Expenses relating to leases of low-value assets	**46**	23
696	**1,002**	Total	**386**	268

III. Amounts recognised in statement of cash flows

Refer to the cash flow statement for the payment made towards lease liabilities in the year 2022 and 2021

IV. Lease Liabilities

Refer note 36.2.2 for maturity analysis of liabilities as at 31 December 2022 and 31 December 2021

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

11 TAXATION

a) Recognised in the statement of comprehensive income

2021	2022		2022	2021
US$ '000	US$ '000		RO '000	RO '000
		Current tax		
11,873	14,313	- Current year	5,511	4,571
(619)	(460)	- Prior years	(178)	(238)
575	(55)	Deferred tax	(21)	221
11,829	13,798		5,312	4,554

b) Tax liability

2021	2022		2022	2021
US$ '000	US$ '000		RO '000	RO '000
		Current tax		
11,873	14,313	- Current year	5,511	4,571
10,577	15,412	- Prior years	5,933	4,072
22,450	29,725		11,444	8,643

c) Deferred tax liability

2021	2022		2022	2021
US$ '000	US$ '000		RO '000	RO '000
(743)	(1,319)	At 1 January	(507)	(286)
(575)	55	Charged during the year	21	(221)
(1,318)	(1,264)	At 31 December	(486)	(507)

d) Movement in Tax Liability

2021	2022		2022	2021
US$ '000	US$ '000		RO '000	RO '000
16,774	22,450	At 1 January	8,643	6,458
11,829	13,797	Charge for the year	5,312	4,554
(6,491)	(6,209)	Payments during the year	(2,390)	(2,499)
338	(313)	Additional provision/(reversal) made	(121)	130
22,450	29,725	At 31 December	11,444	8,643

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

11 TAXATION (continued)

e) Relationship between tax expense and accounting profit

The Bank is liable to income tax for the year 2022 in accordance with the income tax laws of the Sultanate of Oman at the rate of 15% (2021: 15%) on taxable profits.

2021	2022		2022	2021
US$ '000	US$ '000		RO '000	RO '000
83,532	**99,747**	Accounting profit for the year	**38,402**	32,160
12,530	**14,962**	Tax charge @ 15% on accounting profit	**5,760**	4,824
		Add / (less) tax effects of:		
(607)	**(1,052)**	Income not taxable	**(405)**	(234)
93	**112**	Non deductible expense / (income)	**43**	36
(187)	**(225)**	Others	**(86)**	(72)
11,829	**13,797**	Tax expense	**5,312**	4,554

The effective tax rate of the Bank for 2022 was 13.83% (2021: 14.21%)

The Bank's tax assessments have been completed by the Tax Authorities upto the year 2018. The Bank already filed an objection with the tax authorities for the disallowance of interest of Tier-1 perpetual bonds for the assessment year 2018 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 2022

12 OTHER ASSETS

2021	2022		2022	2021
US$ '000	US$ '000		RO '000	RO '000
70,843	**75,421**	Acceptances	**29,037**	27,274
3,315	**3,122**	Prepaid expenses	**1,202**	1,276
8,701	**8,481**	Interest and profit receivable on investments	**3,265**	3,350
4,885	**10,418**	Derivatives - positive mark-to-market (note 34)	**4,011**	1,881
6,233	**5,111**	Other receivables	**1,968**	2,400
(71)	**(202)**	Less: Impairment loss allowance	**(78)**	(27)
93,906	**102,351**		**39,405**	36,154

13 DUE TO BANKS

2021	2022		2022	2021
US$ '000	US$ '000		RO '000	RO '000
342,982	**535,404**	Inter-bank deposits	**206,131**	132,048
3,244	**3,382**	Vostro account balances	**1,302**	1,249
335,177	**41,351**	Borrowings under repurchase agreements	**15,920**	129,043
681,403	**580,137**		**223,353**	262,340

Borrowings from financial institutions under repurchase agreements are secured by collateralisation of OmGrid bonds, Oztel bonds and Oryx bonds. The carrying values of collateralized bonds as of 31 December 2022 amounted to RO 24.692 million equivalent to US$ 64.14 million (31 December 2021: RO 138.500 million equivalent to US$ 359.74 million) and these values approximates to their market values. 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 2022, the fair value of collaterized assets are higher than the borrowings under repurchase agreements.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

14 CUSTOMERS' DEPOSITS

2021	2022		2022	2021
US$ '000	US$ '000		RO '000	RO '000
		Conventional Banking		
2,801,880	2,545,720	Time deposits	980,102	1,078,723
1,242,678	1,465,857	Demand deposits	564,355	478,431
598,390	707,894	Savings deposits	272,539	230,380
4,642,948	4,719,471		1,816,996	1,787,534
		Islamic Banking		
447,037	506,122	Time deposits	194,857	172,109
162,921	397,426	Demand deposits	153,009	62,725
413,046	341,218	Savings deposits	131,369	159,023
1,023,004	1,244,766		479,235	393,857
5,665,952	5,964,237		2,296,231	2,181,391

15 BORROWED FUNDS

2021	2022		2022	2021
US$ '000	US$ '000		RO '000	RO '000
240,000	-	Financial institutions	-	92,400

16 OTHER LIABILITIES

2021	2022		2022	2021
US$ '000	US$ '000		RO '000	RO '000
70,843	75,421	Acceptances	29,037	27,274
74,512	68,738	Interest and profit payable	26,464	28,687
15,226	22,010	Accrued expenses	8,474	5,862
4,802	11,117	Lease liability	4,280	1,849
8,187	9,390	Staff related liabilities	3,615	3,152
7,360	8,614	Derivatives - negative mark-to-market (note 34)	3,316	2,834
3,971	6,392	Impairment allowance on off balance sheet items	2,461	1,529
1,318	1,264	Deferred Tax Liability (Note 11 (c))	486	507
15,822	13,933	Others	5,366	6,091
202,041	216,879		83,499	77,785

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

2021	2022		2022	2021
US$ '000	US$ '000		RO '000	RO '000
1,280	1,457	At 1 January	561	493
649	355	Provided during the year (note 29)	137	250
(472)	(192)	Payments made during the year	(74)	(182)
1,457	1,620	At 31 December	624	561

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 0.02 million equivalent to US$ 0.06 million was transferred to the 'Investors' Trust Fund" (2021: RO 0.01 million equivalent to US$ 0.04 million).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

17 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.

2021	**2022**		**2022**	2021
US$ '000	**US$ '000**		**RO '000**	RO '000
7,792	**-**	Subordinated loans	**-**	3,000

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 loans 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 3.00 million equivalent to US$ 7.79 million was repaid on maturity. The maturity profile and interest rate of these liabilities are disclosed in note 36.2.2.

18 SHARE CAPITAL

The authorised share capital of the Bank is 2,500,000,000 shares amounting to RO 250.000 million (31 December 2021: 2,500,000,000 shares amounting to RO 250.000 million) out of which 1,949,657,466 (31 December 2021: 1,949,657,466 shares) are issued and fully paid up amounting to RO 194.966 million (31 December 2021: RO 194.966 million) .

Ahli United Bank B.S.C (AUB) and Al Hosn Investment Company SAOC are the shareholders who own 10% or more of the Bank's shares. On 31 December 2022, shareholding of AUB was 682,380,099 shares equivalent to 35% (31 December 2021: 682,380,099 shares equivalent to 35%) and Al Hosn Investment Company SAOC was 276,065,080 shares equivalent to 14.16% (31 December 2021: 188,551,154 equivalent to 9.67%). During the year, AUB became a 100% subsidiary of Kuwait Finance House ("KFH") through a share swap agreement between KFH and AUB. KFH is a public shareholding company incorporated in the State of Kuwait on 23 March 1977 and listed in the Boursa Kuwait and Bahrain Bourse. KFH is regulated and supervised by Central Bank of Kuwait.

19 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 3.309 million equivalent to US$ 8.59 million (31 December 2021: RO 2.761 million equivalent to US$ 7.17 million) was transferred to legal reserve.

20 DIVIDEND PAID AND PROPOSED

The Board of Directors have recommended cash dividend of 9 baizas per share which is subject to approval of the shareholders at the ensuing Annual General Meeting and the regulatory authorities (31 December 2021: cash dividend of 7.5 baizas per share). The cash dividend 2021 was approved by the shareholders in Annual General Meeting and was paid in 2022.

21 TIER 1 PERPETUAL SUBORDINATED BONDS

2021	**2022**		**2022**	2021
US$ '000	**US$ '000**		**RO '000**	RO '000
322,078	**387,013**	Tier 1 perpetual subordinated bonds	**149,000**	124,000

In 2018, the Bank 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 had 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.

During the year, the Bank raised additional Tier I Capital of RO 75 million pursuant to the CBO's Basel III Regulations through an issue of Non-Convertible Unsecured Perpetual Additional Tier 1 Bonds. They are redeemable by the Bank at its sole discretion on 11 August 2027 (the "First Call Date") or on any interest payment date thereafter subject to prior consent of CBO. The Bank redeemed the Tier-1 Capital of RO 50 million issued in October 2017 in line with terms and conditions.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

21 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 subordindated 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).

22 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.

2021 US$ '000	**2022 US$ '000**		**2022 RO '000**	2021 RO '000
787,002	**810,232**	Net assets	**311,939**	302,997
1,949,657	**1,949,657**	Issued and paid up shares (in 000's) at 31 December	**1,949,657**	1,949,657
40	**42**	Net asset value per share (US cents /baizas)	**160**	155

23 CONTINGENT LIABILITIES AND COMMITMENTS

2021 US$ '000	**2022 US$ '000**		**2022 RO '000**	2021 RO '000
304,293	**355,055**	Financial guarantees*	**136,696**	117,153
104,816	**109,800**	Letters of credit	**42,273**	40,354
124,473	**137,088**	Loan commitments	**52,779**	47,922
19,372	**11,874**	Capital commitments	**4,571**	7,458
552,954	**613,817**		**236,319**	212,887

*As at December 31, 2022, guarantees of RO 0.838 million were issued against counter guarantees of other banks (December 31, 2021: RO 3.363 million)

Legal cases

As at 31 December 2022, 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 2022

24 INTEREST INCOME AND INCOME FROM ISLAMIC FINANCING AND INVESTMENTS

2021	2022		2022	2021
US$ '000	**US$ '000**		**RO '000**	RO '000
274,987	**294,396**	Loans and advances	**113,342**	105,870
32,598	**33,724**	Investments	**12,984**	12,551
2,826	**285**	Due from banks	**110**	1,088
310,411	**328,405**		**126,436**	119,509
51,780	**58,917**	Islamic financing	**22,683**	19,935
4,060	**5,128**	Islamic investment	**1,974**	1,563
55,840	**64,045**		**24,657**	21,498
366,251	**392,450**	**Total**	**151,093**	141,007

25 INTEREST EXPENSE AND UNRESTRICTED INVESTMENT ACCOUNT HOLDERS' SHARE OF PROFIT AND PROFIT EXPENSE

2021	2022		2022	2021
US$ '000	**US$ '000**		**RO '000**	RO '000
127,408	**96,264**	Time deposits	**37,062**	49,052
22,673	**47,761**	Demand and saving deposits	**18,388**	8,729
10,283	**7,738**	Borrowings	**2,979**	3,959
10,439	**14,423**	Inter-bank deposits	**5,553**	4,019
170,803	**166,186**		**63,982**	65,759
26,158	**34,186**	Islamic customer deposits	**13,162**	10,071
-	**273**	Islamic Inter-bank borrowings	**105**	-
196,961	**200,645**	**Total**	**77,249**	75,830

26 OTHER OPERATING INCOME

2021	2022		2022	2021
US$ '000	**US$ '000**		**RO '000**	RO '000
7,649	**535**	Gain on sale of investments, net	**206**	2,945
7,412	**7,020**	Foreign exchange gain, net	**2,703**	2,854
1,439	**2,769**	Dividend income	**1,066**	553
436	**1,090**	Unrealised gain on FVTPL investments, net	**420**	168
16,936	**11,414**	**Total**	**4,395**	6,520

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

27 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 and commission with the Bank's reportable segments:

	2022			2021		
	Retail banking	Wholesale banking, treasury and investment banking	Total	Retail banking	Wholesale banking, treasury and investment banking	Total
Disaggregated income	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Disaggregated income						
Service charges	1,027	669	1,696	696	473	1,169
Fees income	2,722	8,255	10,977	1,884	6,956	8,840
Commission income	82	1,608	1,690	70	1,526	1,596
Total fee and commission income	3,831	10,532	14,363	2,650	8,955	11,605
Fee expense	(904)	-	(904)	(864)	-	(864)
Net fee and commission income	2,927	10,532	13,459	1,786	8,955	10,741

	2022			2021		
	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	2,668	1,737	4,405	1,807	1,229	3,036
Fees income	7,069	21,442	28,511	4,893	18,070	22,963
Commission income	213	4,177	4,390	181	3,963	4,144
Total fee and commission income	9,950	27,356	37,306	6,881	23,262	30,143
Fee expense	(2,347)	-	(2,347)	(2,244)	-	(2,244)
Net fee and commission income	7,603	27,356	34,959	4,637	23,262	27,899

28 NET IMPAIRMENT ON FINANCIAL ASSETS

2021	2022		2022	2021
US$ '000	US$ '000		RO '000	RO '000
		Net impairment charge		
(226)	(67)	Due from banks	(26)	(87)
47,470	42,047	Loans & advances and financing (net of recoveries)	16,188	18,276
(5)	42	Investment securities	16	(2)
(31)	131	Other assets	50	(12)
366	2,427	Loan commitments and financial guarantees	935	141
(1,779)	(1,519)	Recovery of loans written off earlier	(584)	(685)
45,795	43,061		16,579	17,631
(7,665)	(9,130)	Less: Interest reserved during the period	(3,515)	(2,951)
38,130	33,931	**Total**	13,064	14,680

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

29 STAFF EXPENSES

2021	**2022**		**2022**	2021
US$ '000	**US$ '000**		**RO '000**	RO '000
47,076	**53,047**	Salaries and allowances	**20,423**	18,124
5,021	**5,593**	Other staff costs	**2,153**	1,933
3,767	**4,053**	Contribution to social insurance schemes	**1,560**	1,450
649	**355**	Employees end of service benefits (note 16)	**137**	250
56,513	**63,048**	**Total**	**24,273**	21,757

30 OTHER OPERATING EXPENSES

2021	**2022**		**2022**	2021
US$ '000	**US$ '000**		**RO '000**	RO '000
25,659	**29,287**	Operating and administration costs	**11,276**	9,879
2,249	**2,644**	Occupancy costs	**1,018**	866
917	**904**	Board related expenses	**348**	353
28,825	**32,835**	**Total**	**12,642**	11,098

31 BASIC AND DILUTED EARNINGS PER SHARE

2021	**2022**		**2022**	2021
US$ '000	**US$ '000**		**RO '000**	RO '000
71,703	**85,949**	Profit for the year	**33,090**	27,606
(24,157)	**(24,157)**	Less: AT1 Interest paid during the year	**(9,300)**	(9,300)
47,546	**61,792**	**Profit Attributable to Equity Shareholders**	**23,790**	18,307
1,882,826	**1,949,657**	Weighted average number of outstanding shares during the year (in 000's)	**1,949,657**	1,882,826
3	**3**	Earnings per share (cents/baizas)	**12**	10

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

32 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:

2021	2022		2022	2021
US$ 000	**US$ 000**		**RO '000**	RO '000
		Directors and senior management		
2,468	**2,655**	Loans & advances and financing, gross	**1,022**	950
1,045	**996**	- secured	**383**	402
1,423	**1,658**	- unsecured	**639**	548
8	**7**	- Expected credit loss allowance	**3**	3
4,005	**3,953**	Customers' deposits	**1,522**	1,542
		Major shareholders, its parent company & its subsidiaries		
3,894	**4,891**	Due from banks	**1,883**	1,499
		Other assets		
-	**3,678**	- Fair value of Swaps	**1,416**	-
10,234	**12,288**	Due to banks	**4,731**	3,940
57	**55**	Customers' deposits	**21**	22
-	**65**	- Fair value of forward contracts	**25**	-
4,434	**-**	- Fair value of swaps	**-**	1,707
		Bank's investment fund		
351	**400**	Investments securities	**154**	135

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 36.2.2 and 36.3.2 respectively.

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

2021	2022		2022	2021
US$ 000	**US$ 000**		**RO '000**	RO '000
		Directors and senior management		
96	**88**	Interest income	**34**	37
119	**122**	Interest expense	**47**	46
779	**779**	Board remuneration proposed	**300**	300
138	**125**	Board sitting fees	**48**	53
73	**73**	Shariah Supervisory Board expenses	**28**	28
		Major shareholders, its parent company & its subsidiaries		
32	**5**	Interest expense	**2**	12
652	**(283)**	Gain on fair value of interest rate swaps	**(109)**	251

As at 31 December 2022, guarantees were issued to beneficiaries on behalf of Ahli United Bank, Bahrain, a major shareholder amounting to RO 0.135 million equivalent to US$ 0.35 million (31 December 2021: RO 3.179 million equivalent to US$ 8.26 million). The Bank has earned RO 0.002 million equivalent to US$ 0.005 million (2021: RO 0.001 million equivalent to US$ 0.003 million) fee on issuing guarantees.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

32 RELATED PARTY TRANSACTIONS (continued)

Compensation of the key management personnel is as follows;

2021	2022		2022	2021
US$ 000	**US$ 000**		**RO '000**	RO '000
2,962	**3,707**	Salaries and allowances	**1,427**	1,140
62	**85**	End of service benefits	**33**	24
3,024	**3,792**		**1,460**	1,164

33 FINANCIAL INSTRUMENTS CLASSIFICATION

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

		2022				
Particulars	**Note**	**Amortised cost**	**FVOCI- debt instruments**	**FVOCI-equity instruments**	**FVTPL**	**Total**
		RO '000	**RO '000**	**RO '000**	**RO '000**	**RO '000**
Financial assets						
Cash and balances with Central Bank of Oman	5	132,212	-	-	-	132,212
Due from banks	6	75,147	-	-	-	75,147
Loans & advances and financing, net	7	2,500,435	-	-	-	2,500,435
Investment securities	8	-	265,856	18,525	8,782	293,163
Other assets - acceptances and interest and profit receivable	12	32,302	-	-	-	32,302
Forward foreign exchange contracts		-	-	-	1,365	1,365
Derivatives - positive mark-to-market		-	1,506	-	1,140	2,646
Financial liabilities						
Due to banks	13	223,353	-	-	-	223,353
Customers' deposits	14	2,296,231	-	-	-	2,296,231
Other liabilities - acceptances and interest and profit payable	16	55,501	-	-	-	55,501
Forward foreign exchange contracts		-	-	-	2,160	2,160
Derivatives - negative mark-to-market		-	52	-	1,105	1,156

		2022				
Particulars	**Note**	**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	343,408	-	-	-	343,408
Due from banks	6	195,187	-	-	-	195,187
Loans & advances and financing, net	7	6,494,635	-	-	-	6,494,635
Investment securities	8	-	690,535	48,117	22,810	761,462
Other assets - acceptances and interest and profit receivable	12	83,902	-	-	-	83,902
Forward foreign exchange contracts		-	-	-	3,545	3,545
Derivatives - positive mark-to-market		-	3,912	-	2,960	6,872
Financial liabilities						
Due to banks	13	580,137	-	-	-	580,137
Customers' deposits	14	5,964,237	-	-	-	5,964,237
Other liabilities - acceptances and interest and profit payable	16	144,159	-	-	-	144,159
Forward foreign exchange contracts		-	-	-	5,610	5,610
Derivatives - negative mark-to-market		-	134	-	2,870	3,004

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

33 FINANCIAL INSTRUMENTS CLASSIFICATION (Continued)

		2021				
Particulars	**Note**	**Amortised cost RO '000**	**FVOCI-debt instruments RO '000**	**FVOCI-equity instruments RO '000**	**FVTPL RO '000**	**Total 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	8	-	422,730	4,775	872	428,377
Other assets - acceptances and interest and profit receivable	12	30,625	-	-	-	30,625
Forward foreign exchange contracts		-	-	-	703	703
Derivatives - positive mark-to-market		-	-	-	1,178	1,178
Financial liabilities						
Due to banks	13	262,340	-	-	-	262,340
Customers' deposits	14	2,181,391	-	-	-	2,181,391
Borrowed funds	15	92,400	-	-	-	92,400
Subordinated loans	17	3,000	-	-	-	3,000
Other liabilities - acceptances and interest and profit payable	16	55,961	-	-	-	55,961
Forward foreign exchange contracts		-	-	-	37	37
Derivatives - negative mark-to-market		-	1,828	-	968	2,797

		2021				
Particulars	**Note**	**Amortised cost US$ '000**	**FVOCI-debt instruments US$ '000**	**FVOCI-equity instruments US$ '000**	**FVTPL US$ '000**	**Total 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	8	-	1,098,000	12,403	2,265	1,112,668
Other assets - acceptances and interest and profit receivable	12	79,544	-	-	-	79,544
Forward foreign exchange contracts		-	-	-	1,825	1,825
Derivatives - positive mark-to-market		-	-	-	3,060	3,060
Financial liabilities						
Due to banks	13	681,403	-	-	-	681,403
Customer deposits	14	5,665,952	-	-	-	5,665,952
Borrowed funds	15	240,000	-	-	-	240,000
Subordinated loans	17	7,792	-	-	-	7,792
Other liabilities - acceptances and interest and profit payable	16	145,353	-	-	-	145,353
Forward foreign exchange contracts		-	-	-	96	96
Derivatives - negative mark-to-market		-	4,749	-	2,515	7,264

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

34 ESTIMATION OF FAIR VALUES

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

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.

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.

	31 December 2022			31 December 2021		
	Level 1	**Level 2**	**Total**	Level 1	Level 2	Total
Financial assets:	**RO '000**	**RO '000**	**RO '000**	RO '000	RO '000	RO '000
Investments at FVTPL	**8,782**	**-**	**8,782**	872	-	872
Investments at FVOCI	**73,382**	**210,999**	**284,381**	73,325	354,180	427,505
Derivative financial instruments						
Interest rate swaps	**-**	**2,646**	**2,646**	-	1,178	1,178
Forward foreign exchange contracts	**1,365**	**-**	**1,365**	703	-	703
	83,529	**213,645**	**297,174**	74,900	355,358	430,258
Financial liabilities						
Derivative financial instruments						
Interest rate swaps	**-**	**1,156**	**1,156**	-	2,797	2,797
Forward foreign exchange contracts	**2,160**	**-**	**2,160**	37	-	37
	2,160	**1,156**	**3,316**	37	2,797	2,834
Financial assets:	**US$ '000**	**US$ '000**	**US$ '000**	US$ '000	US$ '000	US$ '000
Investments at FVTPL	**22,810**	**-**	**22,810**	2,265	-	2,265
Investments at FVOCI	**190,603**	**548,049**	**738,652**	190,455	919,948	1,110,403
Derivative financial instruments						-
Interest rate swaps	**-**	**6,873**	**6,873**	-	3,060	3,060
Forward foreign exchange contracts	**3,545**	**-**	**3,545**	1,825	-	1,825
	216,958	**554,922**	**771,880**	194,545	923,008	1,117,553
Financial liabilities						
Derivative financial instruments						
Interest rate swaps	**-**	**3,003**	**3,003**	-	7,264	7,264
Forward foreign exchange contracts	**5,611**	**-**	**5,611**	96	-	96
	5,611	**3,003**	**8,614**	96	7,264	7,360

There are no transfers between levels of fair value measurement hierarchy during the years 2022 and 2021

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

35 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. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. These derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Unrealised gains and losses are either recognised in profit and loss or in other comprehensive income. The Bank uses the following derivative financial instruments:

Derivative product types

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the counter market. Forward rate agreements are effectively tailor-made interest rate futures which fix a forward rate of interest on a notional loan, for an agreed period of time starting on a specified future date.

Interest rate swaps are contractual agreements between two parties to exchange interest differentials based on a specific notional amount. Counter parties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

Cross-currency interest rate swaps are contractual agreements between two parties to exchange nominals and periodically exchange interest payments in two currencies.

Derivatives held for hedging purposes

As part of its asset and liability management, the Bank uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. This is achieved by hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall financial position exposures.

The Bank uses forward foreign exchange contracts and swaps to hedge against specifically identified currency risks. In addition, the Bank uses interest rate swaps to hedge against the changes in the cash flow arising from certain fixed interest rate loans and borrowings.

For interest rate risks strategic hedging is carried out by monitoring the repricing of financial assets and liabilities and entering into interest rate swaps/ cross-currency interest rate swap to hedge a proportion of the interest rate/ foreign exchange exposure. As strategic hedging does not qualify for hedge accounting, the related derivatives are accounted for as regular derivative transactions.

Fair value hedges of interest rate risk

The Bank uses interest rate swaps/ cross currency interest rate swap to hedge its exposure to changes in fair values of fixed-rate investments in respect of a bench mark interest rate (for the impact of IBOR reform on hedge accounting, see below). Interest rate swaps/ cross currency interest rate swaps are matched to specific purchases of investments and borrowings.

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.

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' and 'Due to Banks" 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 27.143 million (2021: RO 27.143 million) equivalent to US$ 70.500 million (2021: 70.500 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

36 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

In addition, the Bank is in the process of identifying climate risk and acknowldges this as an emerging risk arising from financial instruments that may have growing impact on Bank's activities.

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 risk limits and controls and to monitor risks and adherence to the limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Bank's activities. The Bank through its training and management standards and procedures, aims to develop a disciplined and 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 Risk Management Department undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Executive Risk Committee.

36.1 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).

36.1.1 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, financial guarantess and similar exposures), and by issuer, credit rating band, market liquidity and country (for investment securities);

- developing and maintaining the Bank's risk gradings in order to categorise exposures according to the degree of risk of default. The current risk grading framework consists of 10 grades reflecting varying degrees of risk of default. The responsibility for setting risk grades lies with the final approving executives or commitee, as appropriate. Risk grades are subject to regular review by Risk;

- developing and maintaining the Bank's processes for measuring ECL: This includes processes for: initial approval, regualr validation and back testing of the models used; determining and monitoring significant increase in credit risk; and incorporating of forward-looking information.

- reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on credit quality of portfolios are provided to Credit Risk Managment Commitee, which may require appropriate corrective action to be taken. These include reports containing estimates of ECL allowances. 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 2022

36 FINANCIAL RISK MANAGEMENT (continued)

36.1 CREDIT RISK (continued)

36.1.1 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 securites are classified into stage 1, stage 2 and stage 3 based on criteria establised by the Bank in line with the requirements of CBO.

36.1.2 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 restructed exposures.
- Position of past due exposures.
- Syndicated exposures.
- Exposure to countries / financial institutions.

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

36 FINANCIAL RISK MANAGEMENT (continued)

36.1 CREDIT RISK (continued)

36.1.2 Credit risk measurement (continued)

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 committes. Salient areas covered in the review include:

- Portfolio quality

- NPA trends

- Identifying the delinqunecy 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 restructed 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. Morever, the division evaluates the effectiveness and efficiency of credit approval process, review of credit asssessment, evaluate portfolio quality etc.

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'.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

36 FINANCIAL RISK MANAGEMENT (continued)

36.1 CREDIT RISK (continued)

36.1.3 Exposure to credit risk

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.

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	RO '000	**RO '000**	**RO '000**	**RO '000**
Loans & advances and financing				
Performing loans (Risk rating 1-6)	**2,060,340**	**250,025**	**-**	**2,310,365**
Special mention loans (Risk rating 7)	**-**	**181,127**	**-**	**181,127**
Non performing loans (Risk rating 8-10)	**-**	**-**	**97,573**	**97,573**
			-	
Gross carrying amount (RO'000)	**2,060,340**	**431,152**	**97,573**	**2,589,065**
Gross carrying amount (US$'000)	**5,351,532**	**1,119,876**	**253,436**	**6,724,844**
Loss allowance (RO'000)	**7,837**	**22,027**	**58,766**	**88,630**
Loss allowance (US$'000)	**20,356**	**57,213**	**152,639**	**230,208**
Total loans & advances and financing, net (RO'000)	**2,052,503**	**409,125**	**38,807**	**2,500,435**
Total loans & advances and financing, net (US$'000)	**5,331,176**	**1,062,663**	**100,797**	**6,494,637**
Corporate Loans & advances and financing				
Performing loans (Risk rating 1-6)	**1,346,926**	**245,588**	**-**	**1,592,514**
Special mention loans (Risk rating 7)	**-**	**177,567**	**-**	**177,567**
Non performing loans (Risk rating 8-10)	**-**	**-**	**76,595**	**76,595**
Gross carrying amount (RO'000)	**1,346,926**	**423,155**	**76,595**	**1,846,676**
Gross carrying amount (US$'000)	**3,498,509**	**1,099,104**	**198,948**	**4,796,561**
Loss allowance (RO'000)	**6,407**	**20,286**	**43,129**	**69,822**
Loss allowance (US$'000)	**16,642**	**52,690**	**112,025**	**181,357**
Retail Loans & advances and financing				
Performing loans (Risk rating 1-6)	**713,414**	**4,437**	**-**	**717,851**
Special mention loans (Risk rating 7)	**-**	**3,560**	**-**	**3,560**
Non performing loans (Risk rating 8-10)	**-**	**-**	**20,978**	**20,978**
Gross carrying amount (RO'000)	**713,414**	**7,997**	**20,978**	**742,389**
Gross carrying amount (US$'000)	**1,853,024**	**20,771**	**54,488**	**1,928,283**
Loss allowance (RO'000)	**1,430**	**1,741**	**15,637**	**18,808**
Loss allowance (US$'000)	**3,714**	**4,522**	**40,616**	**48,852**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

36 FINANCIAL RISK MANAGEMENT (continued)

36.1 CREDIT RISK (continued)

36.1.3 Exposure to credit risk (continued)

Credit related contingent items				
Performing grades (Risk rating 1-6)	184,935	32,360	-	217,295
Special mention grades (Risk rating 7)	-	14,246	-	14,246
Non performing loans(Risk rating 8-10)	-	-	207	207
Gross carrying amount (RO'000)	184,935	46,606	207	231,748
Gross carrying amount (US$'000)	480,351	121,055	538	601,943
Loss allowance (RO'000)	416	2,010	35	2,461
Loss allowance (US$'000)	1,081	5,230	91	6,392
Due from banks (including balances with CBO)				
Performing banks (rated)	189,113	-	-	189,113
Performing banks (unrated)	-	-	-	-
Gross carrying amount (RO'000)	189,113	-	-	189,113
Gross carrying amount (US$'000)	491,203	-	-	491,203
Loss allowance (RO'000)	11	-	-	11
Loss allowance (US$'000)	29	-	-	29
Investment securities				
Performing grades (Risk rating 1-6)	265,856	-	-	265,856
Gross carrying amount (RO'000)	265,856	-	-	265,856
Gross carrying amount (US$'000)	690,535	-	-	690,535
Loss allowance (RO'000)	66	-	-	66
Loss allowance (US$'000)	171	-	-	171
Other assets				
Performing grades (Risk rating 1-6)	23,107	5,210	-	28,317
Special mention grades (Risk rating 7)	-	720	-	720
Gross carrying amount (RO'000)	23,107	5,930	-	29,037
Gross carrying amount (US$'000)	60,018	15,403	-	75,421
Loss allowance (RO'000)	46	32	-	78
Loss allowance (US$'000)	120	83	-	202

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

36 FINANCIAL RISK MANAGEMENT (continued)

36.1 CREDIT RISK (continued)

36.1.3 Exposure to credit risk (continued)

	2021			
	Stage 1	Stage 2	Stage 3	Total
	RO '000	RO '000	RO '000	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
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)	6,766	19,855	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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

36 FINANCIAL RISK MANAGEMENT (continued)

36.1 CREDIT RISK (continued)

36.1.3 Exposure to credit risk (continued)

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)	412,730	-	-	412,730
Gross carrying amount (RO'000)	412,730	-	-	412,730
Gross carrying amount (US$'000)	1,072,026	-	-	1,072,026
Loss allowance (RO'000)	50	-	-	50
Loss allowance (US$'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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

36 FINANCIAL RISK MANAGEMENT (continued)

36.1 CREDIT RISK (continued)

36.1.3 Exposure to credit risk (continued)

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.

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

Net maximum exposure exposure 2021 US$ '000	Gross maximum exposure maximum exposure 2021 US$ '000	Net maximum exposure 2022 US$ '000	Gross maximum exposure 2022 US$ '000		Gross maximum exposure 2022 RO '000	Net maximum exposure 2022 RO '000	Gross maximum exposure 2021 RO '000	Net maximum exposure 2021 RO '000
250,732	250,732	**297,351**	**297,351**	Balances with Central Bank of Oman	**114,480**	**114,480**	96,532	96,532
116,183	116,183	**195,187**	**195,216**	Due from banks	**75,158**	**75,147**	44,730	44,730
6,238,905	6,438,585	**6,494,635**	**6,724,844**	Loans & advances and financing	**2,589,065**	**2,500,435**	2,478,855	2,401,979
4,370,097	4,517,430	**4,615,204**	**4,796,561**	-Corporate	**1,846,676**	**1,776,854**	1,739,210	1,682,487
1,868,812	1,921,155	**1,879,430**	**1,928,283**	-Retail	**742,389**	**723,581**	739,645	719,492
1,071,896	1,072,026	**690,364**	**690,535**	Investment securities	**265,856**	**265,790**	412,730	412,680
79,542	79,542	**83,901**	**83,901**	Other assets	**32,302**	**32,302**	30,624	30,624
4,885	4,885	**10,418**	**10,418**	Derivative financial instruments	**4,011**	**4,011**	1,881	1,881
7,762,143	7,961,953	**7,771,856**	**8,002,264**	**Total on balance sheet exposure**	**3,080,872**	**2,992,165**	3,065,351	2,988,425
124,473	124,473	**148,962**	**148,962**	Loan & capital commitments	**57,350**	**57,350**	47,922	47,922
409,110	409,110	**464,854**	**464,854**	Financial guarantees and letters of credit	**178,969**	**178,969**	157,507	157,507
533,583	533,583	**613,816**	**613,816**	**Total off balance sheet exposure**	**236,319**	**236,319**	205,429	205,429
8,295,726	8,495,536	**8,385,672**	**8,616,080**	**Grand total**	**3,317,191**	**3,228,485**	3,270,781	3,193,854

The above table represents the maximum credit risk exposure to the Bank at 31 December 2022 and 2021 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, charges, liens on deposits and guarantees wherever required.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

36.1.4 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 2022 was RO 48.783 million equivalent to US$ 126.71 million (2021: RO 48.168 million equivalent to US$ 125.11 million). Collateral amounting to RO 1,855.264 million equivalent to US$ 4,818,867 million (2021: RO 1,754.806 million equivalent to US$ 4,557.94 million) are against loans & advances and financing which are not credit impaired.

36.1.5 Modification of loans

In line with the CBO circulars issued during the year 2020 and 2021, the Bank had accepted request for deferments and waivers during the year which has ended by 31 December 2021 except for certain waivers under retail customers which have been extended till 31 December 2022. 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 modification was not material for the reporting period.

As of 31 December 2022, the gross carrying amount of the restructured loans amounted RO 466.411 million equivalent to US$ 1,211.46 million. The gain/loss arising on such restructured loans are considered to be not material. Please refer to note 7.2 for details on restructured loans.

36.1.6 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 2022 was RO 4.122 million (2021: RO 4.620 million) equivalent to US$ 10.71 million (2021: US$ 11.99 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.

36.1.7 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

36 FINANCIAL RISK MANAGEMENT (continued)

36.1 CREDIT RISK (continued)

36.1.7 Expected credit loss (ECL) measurement (continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

36 FINANCIAL RISK MANAGEMENT (continued)

36.1 CREDIT RISK (continued)

36.1.7 Expected credit loss (ECL) measurement (continued)

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

			2022		
	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	1,931,317	469,124	78,414	2,478,855	6,438,585
Transfer between stages					
- Transfer to Stage 1	52,465	(47,483)	(4,982)	-	-
- Transfer to Stage 2	(29,492)	29,492	-	-	-
- Transfer to Stage 3	(3,273)	(20,058)	23,331	-	-
Re-measurement of outstanding	(8,308)	10,446	6,922	9,060	23,532
Financial assets originated during the year	232,754	-	-	232,754	604,554
Financial assets matured during the year	(115,123)	(10,369)	(1,678)	(127,170)	(330,312)
Write off	-	-	(4,434)	(4,434)	(11,517)
Balance at 31 December	**2,060,340**	**431,152**	**97,573**	**2,589,065**	**6,724,844**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

36 FINANCIAL RISK MANAGEMENT (continued)

36.1 CREDIT RISK (continued)

36.1.7 Expected credit loss (ECL) measurement (continued)

Corporate Loans & advances and financing at Amortised cost

	2022				
	Stage 1 RO '000	**Stage 2 RO '000**	**Stage 3 RO '000**	**Total RO '000**	**Total US$ '000**
Balance at 1 January	1,219,425	463,138	56,647	1,739,210	4,517,427
Transfer between stages					
- Transfer to Stage 1	44,740	(44,740)	-	-	-
- Transfer to Stage 2	(23,602)	23,602	-	-	-
- Transfer to Stage 3	(560)	(18,970)	19,530	-	-
Re-measurement of outstanding	8,096	10,285	6,287	24,668	64,075
Financial assets originated during the year	158,940	-	-	158,940	412,831
Financial assets matured during the year	(60,113)	(10,160)	(1,435)	(71,708)	(186,255)
Write off	-	-	(4,434)	(4,434)	(11,517)
Balance at 31 December	**1,346,926**	**423,155**	**76,595**	**1,846,676**	**4,796,561**

Retail Loans & advances and financing at Amortised cost

Balance at 1 January	711,892	5,986	21,767	739,645	1,921,155
Transfer between stages					
- Transfer to Stage 1	7,725	(2,743)	(4,982)	-	-
- Transfer to Stage 2	(5,890)	5,890	-	-	-
- Transfer to Stage 3	(2,713)	(1,088)	3,801	-	-
Re-measurement of outstanding	(16,404)	161	635	(15,608)	(40,542)
Financial assets originated during the year	73,814	-	-	73,814	191,727
Financial assets matured during the year	(55,010)	(209)	(243)	(55,462)	(144,057)
Write off	-	-	-	-	-
Balance at 31 December	**713,414**	**7,997**	**20,978**	**742,389**	**1,928,283**

Debt investment securities at FVOCI

Balance at 1 January	412,730	-	-	412,730	1,072,026
Transfer between stages					
- Transfer to Stage 1	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-
Financial assets originated during the year	(146,874)	-	-	(146,874)	(381,491)
Financial assets matured during the year	-	-	-	-	-
Loss from change in fair value	-	-	-	-	-
Balance at 31 December	**265,856**	**-**	**-**	**265,856**	**690,535**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

36 FINANCIAL RISK MANAGEMENT (continued)

36.1 CREDIT RISK (continued)

36.1.7 Expected credit loss (ECL) measurement (continued)

	2022				
	Stage 1	Stage 2	Stage 3	Total	Total
Other financial assets at amortised cost	**RO '000**	**RO '000**	**RO '000**	**RO '000**	**US$ '000**
Balance at 1 January	167,998	3,363	-	171,361	445,094
Transfer between stages					
- Transfer to Stage 1	-	-	-	-	-
- Transfer to Stage 2	(365)	365	-	-	-
- Transfer to Stage 3	-	-	-	-	-
Financial assets originated during the year	47,993	-	-	47,993	124,657
Financial assets matured during the year	(3,406)	2,202	-	(1,204)	(3,127)
Balance at 31 December	**212,220**	**5,930**	**-**	**218,150**	**566,624**
Off balance sheet items at amortised cost					
Balance at 1 January	**168,809**	**36,507**	**113**	**205,429**	**533,582**
Transfer between stages					
- Transfer to Stage 1	109	(109)	-	-	-
- Transfer to Stage 2	(14,844)	14,844	-	-	-
- Transfer to Stage 3	-	(4,603)	4,603	-	-
Financial assets originated during the year	71,898	-	-	71,898	186,748
Financial assets matured during the year	(41,037)	(33)	(4,509)	(45,579)	(118,387)
Balance at 31 December	**184,935**	**46,606**	**207**	**231,748**	**601,943**

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 year	230,453	-	-	230,453	598,581
Financial assets matured during the year	(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 year	184,696	-	-	184,696	479,730
Financial assets matured during the year	(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 2022

36 FINANCIAL RISK MANAGEMENT (continued)

36.1 CREDIT RISK (continued)

36.1.7 Expected credit loss (ECL) measurement (continued)

			2021		
	Stage 1	Stage 2	Stage 3	Total	Total
Retail Loans & advances and financing at Amortised cost	RO '000	RO '000	RO '000	RO '000	US$ '000
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 year	45,757	-	-	45,757	118,852
Financial assets matured during the year	(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**

	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	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 year	111,568	-	-	111,568	289,787
Financial assets matured during the year	-	-	-	-	-
Loss from change in fair value	-	-	-	-	-
Balance at 31 December	**412,730**	**-**	**-**	**412,730**	**1,072,026**

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 year	43,265	-	-	43,265	112,377
Financial assets matured during the year	(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 year	40,424	-	-	40,424	104,997
Financial assets matured during the year	(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 2022

36. FINANCIAL RISK MANAGEMENT (continued)

36.1 CREDIT RISK (continued)

36.1.7 Expected credit loss (ECL) measurement (continued)

Movement in impairment allowance and provision

	2022				
	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	8,873	21,802	46,201	**76,876**	199,678
Transfer between stages					
- Transfer to Stage 1	5,020	(1,408)	(3,612)	**-**	-
- Transfer to Stage 2	(339)	339	-	**-**	-
- Transfer to Stage 3	(19)	(2,060)	2,079	**-**	-
Impairment charged to income statement for	(5,698)	3,354	14,098	**11,754**	30,531
- Re-measurement of impairment allowances	(6,328)	4,000	20,440	**18,112**	47,044
- Financial assets originated during the year	1,296	-	-	**1,296**	3,369
- Financial assets matured during the year	(666)	(646)	-	**(1,312)**	(3,408)
Recoveries from impairment for credit losses	-	-	(5,423)	**(5,423)**	(14,086)
Interest reserve charged to interest income	-	-	4,810	**4,810**	12,494
Recoveries of reserved interest in interest income	-	-	(1,295)	**(1,295)**	(3,364)
Write off of impairment allowances	-	-	(4,434)	**(4,434)**	(11,517)
Balance at 31 December	**7,837**	**22,027**	**58,766**	**88,630**	**230,209**
Corporate Loans & advances and financing at Amortised cost					
Balance at 1 January	6,766	19,856	30,102	**56,724**	147,337
Transfer between stages					
- Transfer to Stage 1	860	(860)	-	**-**	-
- Transfer to Stage 2	(116)	116	-	**-**	-
- Transfer to Stage 3	(5)	(1,722)	1,727	**-**	-
Impairment charged to income statement for	(1,098)	2,896	11,300	**13,098**	34,022
- Re-measurement of impairment allowances	(1,556)	3,487	13,288	**15,219**	39,530
- Financial assets originated during the year	929	-	-	**929**	2,414
- Financial assets matured during the year	(471)	(591)	-	**(1,062)**	(2,758)
Recoveries from impairment for credit losses	-	-	(568)	**(568)**	(1,475)
Interest reserve charged to interest income	-	-	3,921	**3,921**	10,184
Recoveries of reserved interest in interest income	-	-	(907)	**(907)**	(2,356)
Write off of impairment allowances	-	-	(4,434)	**(4,434)**	(11,517)
Balance at 31 December	**6,407**	**20,286**	**43,129**	**69,822**	**181,359**
Retail Loans & advances and financing at Amortised cost					
Balance at 1 January	2,107	1,946	16,099	**20,152**	52,341
Transfer between stages					
- Transfer to Stage 1	4,160	(548)	(3,612)	**-**	-
- Transfer to Stage 2	(223)	223	-	**-**	-
- Transfer to Stage 3	(14)	(338)	352	**-**	-
Impairment charged to income statement for	(4,600)	458	2,798	**(1,344)**	(3,491)
- Re-measurement of impairment allowances	(4,772)	513	7,152	**2,893**	7,514
- Financial assets originated during the year	367	-	-	**367**	953
- Financial assets matured during the year	(195)	(55)	-	**(250)**	(649)
Recoveries from impairment for credit losses	-	-	(4,855)	**(4,855)**	(12,610)
Interest reserve charged to interest income	-	-	889	**889**	2,309
Recoveries of reserved interest in interest income	-	-	(388)	**(388)**	(1,008)
Write off of impairment allowances	-	-	-	**-**	-
Balance at 31 December	**1,430**	**1,741**	**15,637**	**18,808**	**48,850**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

36 FINANCIAL RISK MANAGEMENT (continued)

36.1 CREDIT RISK (continued)

36.1.7 Expected credit loss (ECL) measurement (continued)

	2022				
	Stage 1 RO '000	**Stage 2 RO '000**	**Stage 3 RO '000**	**Total RO '000**	**Total US$ '000**
Debt investment securities at FVOCI					
Balance at 1 January	50	-	-	50	130
Transfer between stages					
- Transfer to Stage 1	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-
Impairment charged to income statement for	16	-	-	16	42
- Re-measurement of impairment allowances	16	-	-	16	42
- Financial assets originated during the year	-	-	-	-	-
- Financial assets matured during the year	-	-	-	-	-
Balance at 31 December	**66**	**-**	**-**	**66**	**171**
Other financial assets at amortised cost					
Balance at 1 January	59	5	-	64	166
Transfer between stages					
- Transfer to Stage 1	-	-	-	-	-
- Transfer to Stage 2	-	-	-	-	-
- Transfer to Stage 3	-	-	-	-	-
Impairment charged to income statement for	(2)	27	-	25	65
- Re-measurement of impairment allowances	(2)	27	-	25	65
- Financial assets originated during the year	-	-	-	-	-
- Financial assets matured during the year	-	-	-	-	-
Balance at 31 December	**57**	**32**	**-**	**89**	**231**
Off balance sheet items at amortised cost					
Balance at 1 January	394	1,109	26	1,529	3,971
Transfer between stages					
- Transfer to Stage 1	-	-	-	-	-
- Transfer to Stage 2	(38)	38	-	-	-
- Transfer to Stage 3	-	(359)	359	-	-
Impairment charged to income statement for	60	1,225	(350)	935	2,427
- Re-measurement of impairment allowances	(776)	1,225	(350)	99	258
- Financial assets originated during the year	867	-	-	867	2,250
- Financial assets matured during the year	(31)	-	-	(31)	(81)
Balance as at 31 December	**416**	**2,013**	**35**	**2,464**	**6,398**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

36 FINANCIAL RISK MANAGEMENT (continued)

36.1 CREDIT RISK (continued)

36.1.7 Expected credit loss (ECL) measurement (continued)

Movement in impairment allowance and provision	2021				
	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	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	(1,281)	5,554	14,003	18,276	47,470
- Re-measurement of impairment allowances	(1,617)	6,128	12,855	17,366	45,106
- Financial assets originated during the year	627	-	-	627	1,629
- Financial assets matured during the year	(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	(256)	4,434	11,703	15,881	41,250
- Re-measurement of impairment allowances	(580)	4,867	9,392	13,679	35,531
- Financial assets originated during the year	492	-	-	492	1,278
- Financial assets matured during the year	(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**
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
- Re-measurement of impairment allowances	(1,037)	1,261	3,463	3,687	9,577
- Financial assets originated during the *year*	135	-	-	135	351
- Financial assets matured during the *year*	(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**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

36 FINANCIAL RISK MANAGEMENT (continued)

36.1 CREDIT RISK (continued)

36.1.7 Expected credit loss (ECL) measurement (continued)

	2021				
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
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)
- Re-measurement of impairment allowances	(2)	-	-	(2)	(5)
- Financial assets originated during the year	-	-	-	-	
- Financial assets matured during the year	-	-	-	-	-
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)
- Re-measurement of impairment allowances	(99)	-	-	(99)	(257)
- Financial assets originated during the year	-	-	-	-	-
- Financial assets matured during the year	-	-	-	-	-
Balance at 31 December	**59**	**5**	**-**	**64**	**166**
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
- Re-measurement of impairment allowances	20	95	26	141	366
- Financial assets originated during the year	-	-	-	-	-
- Financial assets matured during the year	-	-	-	-	-
Balance as at 31 December	**394**	**1,109**	**26**	**1,529**	**3,971**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

36 FINANCIAL RISK MANAGEMENT (continued)

36.1 CREDIT RISK (continued)

36.1.7 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 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 determinants 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 that events set out below are a significant increase in credit risk as opposed to a default:

a) Inadeq uate or unreliable financial and other information such as unviability of financial statements.

b) Non-cooperation by the borrowers in matters pertaining to documentation

c) Borrower is the subject of litigation by third parties that may have a significant impact on this financial position.

d) Frequent changes in senior management

e) Intra-group transfer of funds without underlying transactions.

f) Any changes in the market risk indicators which are considered to be permanent and do not reflect short-term market volatility and any other event which the Bank may be aware through audited financial statement which would be assessed on case-to-case bases considering various assessment criteria.

g) Other reasonable and supportable forward looking information available without undue cost or efforts

Further, 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 as per bank's IFRS 9 staging guidelines which includes if the customer has days past due of 60 days or more but less than 90 days.

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.

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

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

In its models, the Bank relies on a broad range of forward looking information as economic inputs, such as: real gross domestic product (GDP) growth [2.48% - 4.18%] and oil prices [USD 41.29 / bbl – USD 65.68 / bbl] . 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.

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

36 FINANCIAL RISK MANAGEMENT (continued)

36.1 CREDIT RISK (continued)

36.1.7 Expected credit loss (ECL) measurement (continued)

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.

The definition of default is 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 prices. 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.

As on the reporting date, collective provision held by the bank through management overlays amounts to 15.49% of total impaired loans & advances and financing based on exposures of certain performing or non-performing customers whether secured or unsecured. 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.

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%.

2022			**2022**	
Impact on ECL	**ECL**		**ECL**	**Impact on ECL**
US$'000	**US$'000**		**RO'000**	**RO'000**
	84,279	ECL on non impaired financial assets under IFRS 9	**32,448**	
(22,279)	**62,000**	Good scenario - 100% weighted	**23,870**	(8,578)
2,592	**86,871**	Base scenario - 100% weighted	**33,445**	997
17,094	**101,373**	Bad scenario - 100% weighted	**39,029**	6,581

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	(12,249)
3,440	87,315	Base scenario - 100% weighted	33,616	1,326
19,662	103,537	Bad scenario - 100% weighted	39,862	7,570

For computation of ECL, the Bank considers three scenarios ie., Good, base and bad with weightage of 25%, 50% and 25% respectively for the years 2022 and 2021

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

36 FINANCIAL RISK MANAGEMENT (continued)

36.1 CREDIT RISK (continued)

36.1.7 Expected credit loss (ECL) measurement (continued)

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.

36.1.8 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.

36.1.9 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.

	2022			2021		
	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	**1,846,676**	**-**	**61,110**	1,739,210	-	51,543
Personal	**742,389**	**-**	**-**	739,645	-	-
Sovereign	**-**	**-**	**232,053**	-	-	375,962
Banks	**-**	**75,158**	**-**	-	44,730	872
	2,589,065	**75,158**	**293,163**	**2,478,855**	**44,730**	**428,377**
Concentration by location						
Oman	**2,587,795**	**1,098**	**273,035**	2,471,739	19,250	417,210
Other GCC countries	**772**	**18,592**	**4,384**	820	15,265	3,317
United Kingdom	**-**	**491**	**-**	2,744	1,151	-
United States of America	**-**	**49,608**	**8,644**	-	7,542	-
Others	**498**	**5,370**	**7,100**	3,552	1,522	7,850
	2,589,065	**75,158**	**293,163**	**2,478,855**	**44,730**	**428,377**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

36 FINANCIAL RISK MANAGEMENT (continued)

36.1 CREDIT RISK (continued)

36.1.9 Concentration risk (continued)

	2022			2021		
	Loans & advances and financing, gross US$ '000	**Due from banks US$ '000**	**Investment securities US$ '000**	Loans & advances and financing, gross US$ '000	Due from banks US$ '000	Investment securities US$ '000
Concentration by type						
Corporate	**4,796,561**	**-**	**158,728**	4,517,430	-	133,878
Personal	**1,928,283**	**-**	**-**	1,921,155	-	-
Sovereign	**-**	**-**	**602,734**	-	-	976,526
Banks	**-**	**195,216**	**(0)**	-	116,182	2,264
	6,724,844	**195,216**	**761,462**	**6,438,585**	**116,182**	**1,112,668**
Concentration by location						
Oman	**6,721,545**	**2,852**	**709,183**	6,420,100	50,000	1,083,662
Other GCC countries	**2,004**	**48,290**	**11,387**	2,130	39,649	8,616
United Kingdom	**-**	**1,274**	**-**	7,128	2,990	-
United States of America	**-**	**128,853**	**22,451**	-	19,590	-
Others	**1,293**	**13,947**	**18,441**	9,227	3,954	20,390
	6,724,842	**195,216**	**761,462**	**6,438,585**	**116,183**	**1,112,668**

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 36.1.9

36.2 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.

36.2.1 Management of liquidity risk

Liquidity risk arises when the Bank is unable to generate sufficient cash resources to meet obligations as they fall due or can do so only at materially disadvantageous terms. Such liquidity risk may arise even when the institution is solvent. Liquidity stress may be caused by counterparties withdrawing credit lines or of not rolling over existing funding or as a result of general disruption in the markets or run on Bank deposits etc.

Asset Liability Committee (ALCO) of the Bank manages the liquidity position. In order to ensure that the Bank meets its financial obligations as and when they fall due, cash flow positions are closely monitored. Liquidity risk management ensures that the Bank has the ability, under varying levels of stress to efficiently and economically meet liquidity needs.

The Bank consciously diversifies its funding base to include deposits raised from inter-bank, retail customer deposits and bonds. These together with the strength of the Bank's equity and asset quality ensure that funds are available at competitive rates at all times. The sources and maturities of assets and liabilities are closely monitored to avoid any undue concentration and ensure a robust management of liquidity risks.

The Bank undertakes assessment of liquidity position and initiate measures to fund these gaps. The Bank undertakes liquidity management through both cash flow approach and stock approach. Under the stock approach, Liquid assets ratios are closely monitored and managed. Under cash approach, assets and liabilities are bucketed based on their residual maturity to ascertain liquidity gaps. The ALCO reviews the liquidity position on a continuous basis. The Bank's statement on maturity of asset and liability is outlined in note 36.2.2 to the financial statements

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

36 FINANCIAL RISK MANAGEMENT (continued)

36.1 CREDIT RISK (continued)

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

Adequate liquidity is ensured by Treasury department, 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.

36.2.1 Management of liquidity risk (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 every month and also and Executive Risk Committee on a quarterly basis.

36.2.2 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 2022 and 2021 was 92.5%.

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

	2022	2021
	Lending ratio	Lending ratio
Year end	**83.31%**	84.86%
Maximum for the year	**88.18%**	88.92%
Minimum for the year	**83.13%**	82.99%
Average for the year	**85.72%**	86.08%

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 2022.

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 2022	**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	**131,687**	**-**	**-**	**525**	**132,212**
Due from banks	**75,147**	**-**	**-**	**-**	**75,147**
Investment securities	**170,350**	**121,813**	**1,000**	**-**	**293,163**
Loans & advances and financing, net	**464,375**	**147,843**	**539,719**	**1,348,498**	**2,500,435**
Other assets	**39,405**	**-**	**-**	**-**	**39,405**
Property & Equipment	**-**	**-**	**-**	**35,104**	**35,104**
Total assets	**880,964**	**269,656**	**540,719**	**1,384,127**	**3,075,466**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

36 FINANCIAL RISK MANAGEMENT (continued)

36.2 LIQUIDITY RISK (continued)

36.2.2 Exposure to liquidity risk (continued)

Liabilities and equity	Upto three months or on demand RO '000	Above three months totwelve months RO '000	Above one year to five years RO '000	More than five years RO '000	Total RO '000
Due to banks	209,684	6,145	5,406	2,118	223,353
Customers' deposits	505,900	758,880	588,510	442,941	2,296,231
Tax Liability	11,444	-	-	-	11,444
Other liabilities	35,771	10,835	-	36,893	83,499
Tier 1 perpetual subordinated bonds	-	-	-	149,000	149,000
Shareholders' funds	-	-	-	311,939	311,939
Total liabilities and equity	762,799	775,860	593,916	942,891	3,075,466
Net liquidity gap	118,165	(506,204)	(53,197)	441,236	-
Off balance sheet items					
Irrecovable commitments to extend credit	42,229	10,550	-	-	52,779
Financial guarantees and letters of credit	77,075	66,867	32,659	2,368	178,969
Derivative products	441,966	228,576	52,870	-	723,412
Total off balance sheet assets	561,270	305,993	85,529	2,368	955,160
Future Interest Cash Flows					
- Inflows	15,651	18,361	29,532	37,584	101,128
- Outflows	3,992	16,704	32,595	11,190	64,481
Net Cash Flows	11,659	1,657	(3,063)	26,394	36,647

Assets	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Cash and balances with Central Bank of Oman	342,044	-	-	1,364	343,408
Due from banks	195,187	-	-	-	195,187
Loans & advances and financing, net	1,206,166	384,009	1,401,867	3,502,593	6,494,635
Investment securities	442,469	316,396	2,597	-	761,462
Other assets	102,351	-	-	-	102,351
Property & Equipment	-	-	-	91,180	91,180
Total assets	2,288,217	700,405	1,404,464	3,595,137	7,988,223
Liabilities and equity					
Due to banks	544,632	15,962	14,041	5,502	580,137
Customers' deposits	1,314,026	1,971,117	1,528,597	1,150,497	5,964,237
Tax Liability	29,725	-	-	-	29,725
Other liabilities	92,910	28,143	-	95,826	216,879
Tier 1 perpetual subordinated bonds	-	-	-	387,013	387,013
Shareholders' funds	-	-	-	810,232	810,232
Total liabilities and equity	1,981,293	2,015,222	1,542,638	2,449,070	7,988,223
Net liquidity gap	306,924	(1,314,817)	(138,174)	1,146,067	-
Off balance sheet items					
Irrecovable commitments to extend credit	109,685	27,403	-	-	137,088
Financial guarantees and letters of credit	200,194	173,684	84,828	6,149	464,855
Derivative products	1,147,962	593,704	137,324	-	1,878,990
Total off balance sheet assets	1,457,841	794,791	222,152	6,149	2,480,933
Future Interest Cash Flows					
- Inflows	40,652	47,692	76,707	97,620	262,671
- Outflows	10,368	43,387	84,662	29,066	167,483
Net Cash Flows	30,284	4,305	(7,955)	68,554	95,188

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

36 FINANCIAL RISK MANAGEMENT (continued)

36.2 LIQUIDITY RISK (continued)

36.2.2 Exposure to liquidity risk (continued)

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	186,645	484,054	1,125,464	2,401,979
Investment securities	330,709	97,668	-	-	428,377
Other assets	36,154	-	-	-	36,154
Property and Equipment	-	-	-	26,649	26,649
Total assets	1,127,701	288,163	484,054	1,152,638	3,052,556
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 loans	-	3,000	-	-	3,000
Tier 1 perpetual subordinated bonds	-	-	-	124,000	124,000
Shareholders' funds	-	-	-	302,997	302,997
Total liabilities and equity	774,227	803,934	666,059	808,336	3,052,556
Net liquidity gap	353,474	(515,771)	(182,005)	344,302	-
Off balance sheet items					
Irrecovable 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	278,464	281,909	107,782	78,212	746,367
Future Interest Cash Flows					
- Inflows	17,239	13,147	22,161	30,016	82,563
- Outflows	4,770	25,454	22,087	9,312	61,623
Net Cash Flows	12,469	(12,308)	74	20,705	20,940
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 and Equipment	-	-	-	69,219	69,219
Total assets	2,929,094	748,472	1,257,287	2,993,865	7,928,718
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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

36 FINANCIAL RISK MANAGEMENT (continued)

36.2 LIQUIDITY RISK (continued)

36.2.2 Exposure to liquidity risk (continued)

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
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
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 loans	-	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					
Irrecovable commitments to extend credit	74,966	49,506	-	-	124,472
Financial guarantees and letters of credit	266,771	92,870	42,540	6,931	409,112
Derivative products	381,547	589,855	237,412	196,216	1,405,030
Total off balance sheet assets	723,284	732,231	279,952	203,147	1,938,614
Future Interest Cash Flows					
- Inflows	44,777	34,148	57,561	77,965	214,451
- Outflows	12,389	66,113	57,370	24,188	160,060
Net Cash Flows	32,388	(31,965)	191	53,777	54,391

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

31 DECEMBER 2022	**Upto three months or on de-mand**	**Above three months to twelve months**	**Above one year to five years**	**More than five years**	**Total**
	RO '000	RO '000	RO '000	RO '000	RO '000
Due to banks	**209,684**	**6,145**	**5,406**	**2,118**	**223,353**
Customers' deposits	**505,900**	**758,880**	**588,510**	**442,941**	**2,296,231**
Total liabilities	**715,583**	**765,025**	**593,916**	**445,059**	**2,519,584**
Credit related commitments	**42,229**	**10,550**	**-**	**-**	**52,779**
	US$ '000	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**
Due to banks	**544,632**	**15,962**	**14,041**	**5,502**	**580,137**
Customers' deposits	**1,314,026**	**1,971,117**	**1,528,597**	**1,150,497**	**5,964,237**
Total liabilities	**1,858,658**	**1,987,079**	**1,542,638**	**1,155,999**	**6,544,374**
Credit related commitments	**109,685**	**27,403**	**-**	**-**	**137,088**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

36 FINANCIAL RISK MANAGEMENT (continued)

36.2 LIQUIDITY RISK (continued)

36.2.2 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
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	2,181,390
Borrowed funds	-	11,550	80,850	-	92,400
Subordinated loans	-	3,000	-	-	3,000
Total liabilities	719,842	792,812	656,552	369,926	2,539,131
Credit related commitments	28,862	19,060	-	-	47,922
	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 loans	-	7,792	-	-	7,792
Total liabilities	1,869,718	2,059,253	1,705,330	960,846	6,595,147
Credit related commitments	74,967	49,506	-	-	124,473

36.3 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.

36.3.1 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.

36.3.2 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 2022

36 FINANCIAL RISK MANAGEMENT (continued)

36.3 MARKET RISK (continued)

36.3.2 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 2022		**RO '000**	**RO '000**	**RO '000**	**RO '000**	**RO '000**	**RO '000**
Assets							
Cash and balances with Central Bank of Oman	1.50%	-	-	-	500	131,712	132,212
Due from banks	0.56%	75,147	-	-	-	-	75,147
Loans & advances and financing, net	5.53%	1,139,780	399,099	359,567	601,989	-	2,500,435
Investment securities	5.10%	77	44,963	149,349	83,817	14,957	293,163
Other assets		-	-	-	-	39,405	39,405
Property and equipment		-	-	-	-	35,104	35,104
Total assets		1,215,004	444,062	508,916	686,306	221,178	3,075,466
Liabilities and equity							
Due to banks	2.09%	216,123	-	7,230	-	-	223,353
Customers' deposits	3.14%	372,156	706,703	1,034,178	490	182,704	2,296,231
Tax liability		-	-	-	-	11,444	11,444
Other liabilities		-	-	-	-	83,499	83,499
Tier 1 perpetual subordinated bonds	7.50%	-	-	-	-	149,000	149,000
Shareholders' funds		-	-	-	-	311,939	311,939
Total liabilities and equity		588,279	706,703	1,041,408	490	738,586	3,075,466
Total interest rate sensitivity gap		626,725	(262,641)	(532,492)	685,816	(517,408)	-
Cumulative interest rate sensitivity gap		626,725	364,084	(168,408)	517,408	-	-

	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 2022		**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**	**US$ '000**
Assets							
Cash and balances with Central Bank of Oman	1.50%	-	-	-	1,299	342,109	343,408
Due from banks	0.56%	195,187	-	-	-	-	195,187
Loans & advances and financing, net	5.53%	2,960,469	1,036,620	933,940	1,563,606	-	6,494,635
Investment securities	5.10%	200	116,786	387,918	217,708	38,850	761,462
Other assets		-	-	-	-	102,351	102,351
Property and equipment		-	-	-	-	91,180	91,180
Total assets		3,155,856	1,153,406	1,321,858	1,782,613	574,490	7,988,223
Liabilities and equity							
Due to banks	2.09%	561,357	-	18,780	-	-	580,137
Customers' deposits	3.14%	966,640	1,835,593	2,686,176	1,273	474,555	5,964,237
Tax liability		-	-	-	-	29,725	29,725
Other liabilities		-	-	-	-	216,879	216,879
Tier 1 perpetual subordinated bonds	7.50%	-	-	-	-	387,013	387,013
Shareholders' funds		-	-	-	-	810,232	810,232
Total liabilities and equity		1,527,997	1,835,593	2,704,956	1,273	1,918,404	7,988,223
Total interest rate sensitivity gap		1,627,859	(682,187)	(1,383,098)	1,781,340	(1,343,914)	-
Cumulative interest rate sensitivity gap		1,627,859	945,672	(437,426)	1,343,914	-	-

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

36 FINANCIAL RISK MANAGEMENT (continued)

36.3 MARKET RISK (continued)

36.3.2 Exposure to interest rate risk (continued)

31 December 2021	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
Assets		RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Cash and balances with Central Bank of Oman		-	-	-	-	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
Other assets		-	-	-	-	26,649	26,649
Property and equipment		-	-	-	-	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	-	-

31 December 2021		US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Assets							
Cash and balances with Central Bank of Oman		-	-	-	-	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
Other assets		-	-	-	-	69,219	69,219
Property and equipment		-	-	-	-	93,906	93,906
Total assets		3,648,204	887,675	1,198,944	1,570,857	623,038	7,928,718
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 loan	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		2,159,890	2,174,761	1,858,866	1,038	1,734,163	7,928,718
Total interest rate sensitivity gap		1,488,314	(1,287,086)	(659,922)	1,569,819	(1,111,125)	-
Cumulative interest rate sensitivity gap		1,488,314	201,228	(458,694)	1,111,125	-	-

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

36 FINANCIAL RISK MANAGEMENT (continued)

36.3 MARKET RISK (continued)

36.3.2 Exposure to interest rate risk (continued)

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:

2021	**2022**		**2022**	2021
US$ '000	**US$ '000**		**RO '000**	RO '000
25,492	**29,313**	Impact of +200 bps interest rate increase	**11,286**	9,814
(25,492)	**(29,313)**	Impact of -200 bps interest rate decrease	**(11,286)**	(9,814)

36.3.2.1 Interest rate benchmark reform (IBOR reform)

A fundamental reform of major interest rate benchmarks was undertaken globally, replacing of some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform'). As at 31 December 2022, the Bank's IBOR exposures is indexed to USD LIBOR and SOFR with mostly 3 months and 6 months settings. USD LIBOR settings will either cease to be provided or no longer be representative after 30 June 2023 as announced by the Financial Conduct Authority (FCA) and the alternative reference rate for USD LIBOR is the Secured Overnight Financing Rate (SOFR).

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 fall back provisions is contained in all contracts. The main risk to which the Bank is exposed as a result of IBOR reform are operational. For example, the renegotiation of loan contracts through bilateral negotation with customers (or at consortiam levels in syndicate deals), updating of contracual terms, updating of systems that use IBOR curves and revistion of operationsl controls related to the reform and regulatory risks. Financial risk is predorminantly limited to interest rate risk. , the impact of which is a result of basis risk due to uncertainity around timing difference between transitioning of USD assets and USD liabilities. Based on Bank's internal assessment, it is expected that the impact will not be material.

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. 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. The Bank has also implemented effective strategies in areas such as communication with customers and training to staff to minimze 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 as it also evident from the recent benchmark switch that has taken place.

The table below discloses amounts of non-derivative financial assets and liabilities and derivative contracts at 31 December 2022 which are based on USD LIBOR and the contacts are unreformed along with those contracts where appropriate fall back clause are available or are the contract are based on SOFR

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

36 FINANCIAL RISK MANAGEMENT (continued)

36.3 MARKET RISK (continued)

36.3.2 Exposure to interest rate risk (continued)

36.3.2.1 Interest rate benchmark reform (IBOR reform)

	RO'000		US$'000	
	Total amount of unreformed contracts	Amount with appropriate fall back clause or contracts based on SOFR	Total amount of unreformed contracts	Amount with appropriate fall back clause or contracts based on SOFR
NON-DERIVATIVE FINANCIAL ASSETS				
Loans and advances to customers	234,447	74,287	608,953	192,953
TOTAL NON-DERIVATIVE FINANCIAL ASSETS	234,447	74,287	608,953	192,953
DERIVATIVE FINANCIAL INSTRUMENTS				
Interest rate swaps / cross currency interest rate swaps: notional amounts	86,817	9,250	225,499	24,026
TOTAL DERIVATIVE FINANCIAL INSTRUMENTS	86,817	9,250	225,499	24,026

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.

				Nominal cash flows by term to maturity		
	Assets	Liabilities	Notional cash flows	Within 3 months	3 to 12 months	Over 1 year
At 31 December 2022	**RO '000**	**RO '000**	**RO '000**	**RO '000**	**RO '000**	**RO '000**
Derivatives for hedging:						
Interest rate swaps						
-Fair value hedge	**2,502**	**1,156**	**86,443**	**25,025**	**9,250**	**52,168**
-Cash flow hedge	**144**	**-**	**9,625**	**9,625**	**-**	**-**
Derivatives:						
Forward purchase contracts	**1,192**	**2,070**	**313,672**	**203,658**	**109,663**	**351**
Forward sales contracts	**173**	**90**	**313,672**	**203,658**	**109,663**	**351**
	4,011	**3,316**	**723,412**	**441,966**	**228,576**	**52,870**
	US$ 000	**US$ 000**	**US$ 000**	**US$ 000**	**US$ 000**	**US$ 000**
Derivatives for hedging:						
Interest rate swaps						
-Fair value hedge	**6,499**	**3,004**	**224,526**	**65,000**	**24,026**	**135,500**
-Cash flow hedge	**373**	**-**	**25,000**	**25,000**	**-**	**-**
Derivatives:						
Forward purchase contracts	**3,096**	**5,375**	**814,732**	**528,981**	**284,839**	**912**
Forward sales contracts	**449**	**235**	**814,732**	**528,981**	**284,839**	**912**
	10,417	**8,614**	**1,878,990**	**1,147,962**	**593,704**	**137,324**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

36 FINANCIAL RISK MANAGEMENT (continued)

36.3 MARKET RISK (continued)

36.3.2 Exposure to interest rate risk (continued)

36.3.2.1 Interest rate benchmark reform (IBOR reform)

At 31 December 2021	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
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
Interest rate swaps	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
-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

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

36.3.3 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 and other 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 and other countries stock index;

2021	**2022**		**2022**	2021
US$ '000	**US$ '000**		**RO '000**	RO '000
1,035	**1,854**	MSM - Oman +5% impact	**714**	398
(1,035)	**(1,854)**	MSM - Oman -5% impact	**(714)**	(398)
431	**1,692**	Other countries +5% impact	**651**	166
(431)	**(1,692)**	Other countries -5% impact	**(651)**	(166)

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 Banking 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

36 FINANCIAL RISK MANAGEMENT (continued)

36.3 MARKET RISK (continued)

36.3.4 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 2022.

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

2021	**2022**		**2022**	2021
US$ '000	**US$ '000**		**RO '000**	RO '000
138,513	**348,964**	US Dollar	**134,351**	53,328
39	**425**	Euro	**164**	15
4,743	**8,218**	UAE Dirham	**3,164**	1,826
505	**44**	GBP Sterling	**17**	194
2,517	**8,563**	Others	**3,297**	969
146,317	**366,214**		**140,993**	56,332

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 2022 on net assets is considered negligible.

36.4 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 an 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.

The primary responsibility for the 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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

36 FINANCIAL RISK MANAGEMENT (continued)

36.4 OPERATIONAL RISK (continued)

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.

36.5 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 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 2021 and 2022. 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.

2021	**2022**		**2022**	2021
US$ '000	**US$ '000**		**RO '000**	RO '000
701,502	**716,579**	Common Equity Tier 1 (CET1)	**275,883**	270,078
322,078	**387,013**	Additional Tier 1	**149,000**	124,000
1,023,580	**1,103,592**	Tier 1	**424,883**	394,078
52,634	**36,975**	Tier 2	**14,235**	20,264
1,076,214	**1,140,567**	**Total regulatory capital**	**439,118**	414,342
		Risk weighted assets		
6,019,852	**6,250,549**	Credit risk	**2,406,461**	2,317,643
84,840	**376,308**	Market risk	**144,878**	32,663
336,552	**367,895**	Operational risk	**141,640**	129,573
6,441,244	**6,994,752**	**Total risk weighted assets**	**2,692,979**	2,479,879
		Capital adequacy ratio		
10.89%	**10.24%**	CET1 capital expressed as a percentage of total risk-weighted assets	**10.24%**	10.89%
15.90%	**15.78%**	Total tier I capital expressed as a percentage of total risk-weighted assets	**15.78%**	15.90%
0.81%	**0.53%**	Tier II capital expressed as a percentage of total risk-weighted assets	**0.53%**	0.81%
16.71%	**16.31%**	**Total regulatory capital expressed as a percentage of total risk-weighted assets**	**16.31%**	16.71%

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

36 FINANCIAL RISK MANAGEMENT (continued)

36.5 CAPITAL MANAGEMENT (continued)

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 remains resilient to the current situation of the pandemic and economic environment.

37 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.

Segment information is as follows:	2022			2021		
	Retail banking RO '000	Wholesale banking, Treasury & Investment RO '000	Total RO '000	Retail banking RO '000	Wholesale banking, Treasury & Investment RO '000	Total RO '000
Net interest income	20,452	42,002	62,454	20,080	34,057	54,137
Net income from Islamic financing and investments	6,217	5,173	11,390	5,859	5,568	11,427
Net interest income and income from islamic financing and investments	26,669	47,175	73,844	25,939	39,625	65,564
Fee and commission income, net & Other operating income	3,222	14,632	17,854	2,293	14,581	16,874
Net operating income	29,891	61,807	91,698	28,232	54,206	82,438
Net impairment on financial assets	(1,085)	(11,979)	(13,064)	(868)	(13,812)	(14,680)
Operating expenses	(23,343)	(16,889)	(40,232)	(21,886)	(13,712)	(35,598)
Profit before taxation	5,463	32,939	38,402	5,478	26,682	32,160
Tax expense	(756)	(4,556)	(5,312)	(776)	(3,778)	(4,554)
Segment profit for the year	4,707	28,383	33,090	4,702	22,904	27,606
Segment assets	733,036	2,342,430	3,075,466	729,978	2,322,578	3,052,556
Segment liabilities	843,924	1,770,603	2,614,527	689,124	1,936,435	2,625,559

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

36 FINANCIAL RISK MANAGEMENT (continued)

37 SEGMENT INFORMATION (continued)

Segment information is as follows:	**2022**			2021		
	Retail banking	**Wholesale banking, Treasury & Investment**	**Total**	Retail banking	Wholesale banking, Treasury & Investment	Total
	US$ '000	**US$ '000**	**US$ '000**	US$ '000	US$ '000	US$ '000
Net interest income	**53,122**	**109,097**	**162,219**	52,156	88,459	140,615
Net income from islamic financing and investments	**16,150**	**13,436**	**29,586**	15,219	14,463	29,682
Net interest income and income from islamic financing and investments	**69,272**	**122,533**	**191,805**	67,375	102,922	170,297
Fee and commission income, net & Other operating income	**8,368**	**38,005**	**46,373**	5,956	37,872	43,828
Net operating income	**77,640**	**160,538**	**238,178**	73,331	140,794	214,125
Net impairment on financial assets	**(2,818)**	**(31,113)**	**(33,931)**	(2,255)	(35,875)	(38,130)
Operating expenses	**(60,631)**	**(43,869)**	**(104,500)**	(56,847)	(35,616)	(92,463)
Profit before taxation	**14,191**	**85,556**	**99,747**	14,229	69,303	83,532
Tax expense	**(1,963)**	**(11,835)**	**(13,798)**	(2,016)	(9,813)	(11,829)
Segment profit for the year	**12,228**	**73,721**	**85,949**	12,213	59,490	71,703
Segment assets	**1,903,991**	**6,084,232**	**7,988,223**	1,896,047	6,032,671	7,928,718
Segment liabilities	**2,192,009**	**4,598,969**	**6,790,978**	1,789,932	5,029,706	6,819,638

38 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 6.347 million which is equivalent to US$ 16.49 million (2021: RO 4.911 equivalent to US$ 12.76 million)

39 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.

BASEL II PILLAR III AND BASEL III Report

For the year ended 31 December 2022

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

Dear Sirs

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

Purpose of this Agreed-upon procedures report

This report is produced in accordance with the terms of our agreement dated 25 December 2022. The procedures as set out in Circular No. BM 1027 dated 4 December 2007 were performed solely to assist the directors of Ahli Bank SAOG ("the Bank") in evaluating the Bank's compliance with the disclosure requirements set out in the 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 (the "Circulars") and may not be suitable for another purpose.

Your responsibilities

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

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

Our responsibilities

We have performed the procedures agreed with you as set out in Circular No. BM 1027 dated 4 December 2007. Our work was performed in accordance with the International Standard on Related Services (ISRS) 4400 (Revised) 'Agreed-Upon procedures Engagements.'

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

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

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

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

Professional Ethics and Quality Management

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

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

Procedures and findings

We performed the procedures agreed with you and as prescribed in the CBO Circular No. BM 1027 dated 4 December 2007 with respect to the Disclosures of the Bank, set out on pages 1 to 39 as at and for the year ended 31 December 2022.

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

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

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

Restriction on distribution and use

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

Yours faithfully,

Muscat, Sultanate of Oman
06 March 2023

BASEL II PILLAR III AND BASEL III Report

31 December 2022

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 2022.

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.

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.

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.

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.

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

31 December 2022

3. CAPITAL STRUCTURE (continued)

CAPITAL MANAGEMENT (continued)

The Bank has following credit ratings at present:

Capital Intelligence	
Foreign currency Long Term Rating:	**BB**
Foreign currency Short term;	**B**
Outlook:	**Stable**
Fitch Rating	
Viability rating;	**B+**
Long term foreign currency and local currency IDRs;	**BB-**
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 2022, based on the CBO guidelines is as follows:

Sl.No	Elements of Capital	Amount (RO'000)
	Tier I Capital	
1	Share capital*	194,966
2	Legal reserves	40,213
3	Retained earnings*	50,551
	Common Equity Tier I before deductions	**285,730**
	Deductions:	
5	Cumulative unrealized losses and intangibles recognized directly in equity	(9,847)
	Common Equity Tier 1	275,883
	Additional Tier I Capital	
	Tier 1 perpetual subordinated bonds	149,000
	Tier I capital after all deductions	**424,883**
	Tier II Capital	
7	Revaluation reserves / cumulative fair value gains on FVOCI Instruments	764
8	Stage 1 & Stage 2 expected credit losses	13,471
9	Subordinated debt	-
	Total Tier II Capital	**14,235**
	Total Regulatory Capital	**439,118**

*The Board of Directors has proposed cash dividend of 9% which has been adjusted and is subject to shareholder approval in the AGM

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

31 December 2022

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 16.31% as against the CBO prescribed minimum requirement of 12.25% (including capital conservation buffer of 1.25%) as at 31 December 2022. 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 2022-2025 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 impairment provision as a % of loans and advances
- Portion of SME sector performing loans become NPLs
- Decline in prices of the Bank's portfolio of FVOCI 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

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

31 December 2022

3. CAPITAL STRUCTURE (continued)

Quantitative disclosures

(i) Position of various risk weighted assets is presented as under (RO '000):

As on 31 December 2022

Sl. No	Details	Gross balances (book value)	Net balances (book value)	Risk weighted assets
1	On-balances sheet items	3,104,976	2,963,862	2,307,316
2	Off-balance sheet items	112,322	112,322	95,299
3	Derivatives	5,931	5,931	3,846
4	Market risk	-	-	144,878
5	Operational Risk	-	-	141,640
	Total			**2,692,979**
6	Tier 1 capital			424,883
7	Tier 2 capital			14,235
8	**Total Regulatory Capital**			**439,118**
8.1	Capital requirement for credit risk			294,791
8.2	Capital requirement for market risk			17,748
8.3	Capital requirement for operational risk			17,351
	Total required capital			**329,890**
9	**CET 1 ratio**			**10.24%**
10	**Tier 1 ratio**			**15.78%**
11	**Total capital ratio**			**16.31%**

(ii) Capital adequacy

As on 31 December 2022

Sl. No	Details	Simple Approach
1	Tier I capital (after supervisory deductions)	424,883
2	Tier II capital (after supervisory deductions and up to eligible limits)	14,235
3	Risk weighted assets – banking book	2,406,461
4	Risk weighted assets – operational risk	141,640
5	**Total Risk Weighted Assets – Banking Book + Operational Risk**	**2,548,101**
6	**Minimum required capital to support RWAs of banking book and operational risk**	**294,240**
	i) Minimum required Tier I capital for banking book and operational risk	261,182
	ii) Tier II capital required for banking book and operational risk	50,962
7	Tier I capital available for supporting trading book	126,976
8	Tier II capital available for supporting trading book	-
9	**Risk Weighted Assets – trading book**	**144,878**
10	Total capital required to support trading book	17,748
11	Minimum Tier I capital required for supporting trading book	5,058
12	**Total Regulatory Capital**	**439,118**
13	**Total Risk Weighted Assets – Whole bank**	**2,692,979**
14	**BIS Capital Adequacy Ratio**	**16.31%**

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

31 December 2022

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. As at the reporting date the capital position of the Bank remains strong and is well placed to absorb the impact of any economic environment.

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 Identification → **Risk Measurement** → **Risk Monitoring** → **Risk Control**

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 2022

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 and Credit Committee
- → Executive Risk Committee
- → Nomination and Remuneration Committee
- → Digital Transformation Committee
- → Head Office Project Committee

Management Committees:

- → Executive Management Committee
- → Credit & Investment Committee
- → Assets and Liabilities Committee
- → Credit Risk Management Committee
- → Operational Risk Committee
- → Products and Consumer Protection Committee
- → Special Assets Committee
- → Technology Delivery Committee
- → Technology and Digital Transformation 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, self-assessment of the business side is of a sufficiently high standard, there is adequate awareness of risk and 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

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

31 December 2022

4. RISK EXPOSURE AND ASSESSMENT (continued)

Second Line of Defense

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

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

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
2. Personal Account Dealing Policy
3. Products and Consumer Protection Policy
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 Managemen 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. Profit Distribution Policy
35. Charity Policy
36. Zakah Policy
37. Cost Sharing Policy
38. Segregation of Funds Policy
39. Social Media Policy
40. Shari'a Governance Manual
41. Electronic Banking Policy
42. Classification and Measurement Financial Assets and Liabilities
43. Sanctions Policy
44. Wealth Management Policy
45. Cloud Policy
46. Treasury and Investment policy
47. Whistle Blowing 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 2022

4. RISK EXPOSURE AND ASSESSMENT (continued)

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 authority (CAA). 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.

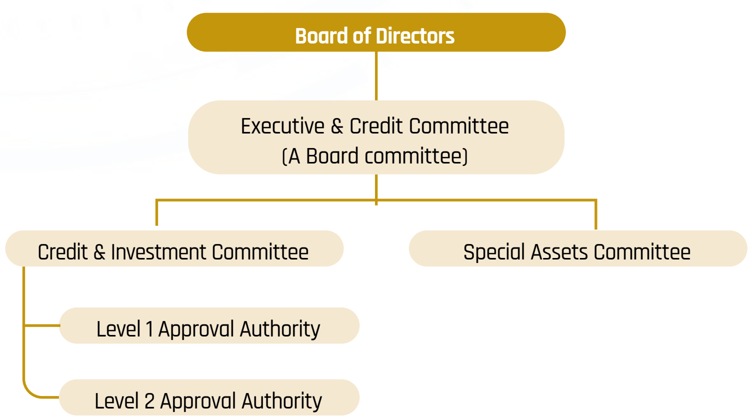
Risk Management quantifies the Bank's credit risk appetite in line with the Bank's strategic direction. A well-established process exists to ensuring the allocation of capital for the total credit risk to be assumed by the Bank; and measuring the actual use of capital at portfolio level.

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.

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

31 December 2022

5. CREDIT RISK (continued)

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.

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-22	31-Dec-21	31-Dec-22	31-Dec-21
1	Overdrafts	79,914	90,120	73,356	86,471
2	Personal loans	741,017	748,953	742,389	739,645
3	Loans and against trust receipts	76,692	73,880	72,387	80,996
4	Other loans	1,624,974	1,442,471	1,691,758	1,558,190
5	Bills purchased/ discounted	11,364	16,096	9,175	13,553
	Total	**2,533,961**	**2,371,520**	**2,589,065**	**2,478,855**

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

31 December 2022

5. CREDIT RISK (continued)

ii. Geographic distribution of exposures by major type of credit exposure : (RO '000)

Sl No.	Type of Credit Exposure	Oman	Other GCC countries	OECD countries	India	Others	Total
1	Overdrafts	73,356	-	-	-	-	73,356
2	Personal loans	742,389	-	-	-	-	742,389
3	Loans against trust receipts	72,387	-	-	-	-	72,387
4	Other loans	1,690,488	772	-	498	-	1,691,758
5	Bills Purchased/discounted	9,175	-	-	-	-	9,175
	Total	**2,587,795**	**772**	**-**	**498**	**-**	**2,589,065**

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

Sl No.	Economic sector	Overdrafts	Loans	Bills purchased/ discounts	Others	Total	Off Balance Sheet Exposure
1	Wholesale and retail trade	32,513	197,749	4,056	-	234,318	38,032
2	Mining and quarrying	1,267	9,302	172	-	10,741	501
3	Construction	8,393	397,537	781	-	406,711	54,611
4	Manufacturing	6,246	233,721	1,862	-	241,829	35,563
5	Transport and communication	975	206,596	-	-	207,571	1,217
6	Electricity, gas and water	503	73,463	-	-	73,966	7,740
7	Financial institutions	164	168,021	-	-	168,185	1,673
8	Services	6,328	333,366	2,304	-	341,998	16,803
9	Personal loans	2,697	739,692	-	-	742,389	14
10	Non- resident lending	-	1,270	-	-	1,270	-
11	Government	-	76,888	-	-	76,888	18,492
12	All others	14,270	68,929			83,199	4,323
	Total	**73,356**	**2,506,534**	**9,175**	**-**	**2,589,065**	**178,969**

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

Sl No	Time Band	Overdraft	Loans	Bills purchased/ discounted	Others	Total	Off Balance Sheet Exposure
1	Upto 1Month	4,836	339,418	3,895	-	348,149	48,728
2	1-3 Months	3,606	111,011	2,839	-	117,456	28,346
3	3-6 Months	3,606	65,361	2,441	-	71,408	19,330
4	6-9 Months	3,606	32,796	-	-	36,402	24,399
5	9-12 Months	3,606	36,426	-	-	40,032	23,138
6	1-3 Years	18,032	269,523	-	-	287,555	18,459
7	3-5 Years	18,032	234,132	-	-	252,164	14,201
8	Over 5 Years	18,032	1,417,867	-	-	1,435,899	2,368
	Total	**73,356**	**2,506,534**	**9,175**	**-**	**2,589,065**	**178,969**

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

31 December 2022

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.

Sl 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	234,318	16,819	4,936	9,803	3,344	-
2	Mining & quarrying	10,741	2,541	365	1,216	(588)	-
3	Construction	406,711	2,883	6,579	1,291	(7,770)	-
4	Manufacturing	241,829	12,032	2,826	3,674	(3,002)	-
5	Electricity, gas & water	73,966	-	170	-	(280)	-
6	Transport & communication	207,571	803	1,131	551	(165)	-
7	Financial institutions	168,185	-	1,506	-	205	-
8	Services	341,998	12,805	7,857	5,602	3,866	-
9	Personal loans	742,389	20,914	3,166	15,587	(1,398)	-
10	Non-resident lending	1,270	-	2	400	(3,853)	4,434
11	Government	76,888	-	60	-	22	-
12	All others	83,199	28,776	1,265	20,643	21,373	-
	Total	**2,589,065**	**97,573**	**29,863**	**58,767**	**11,754**	**4,434**

*- Stage 3 allowance includes reserve interest amounting to RO 11.734 million.

^- Stage 3 includes additional ECL overlays of RO 5.016 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)

Sl 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	2,587,795	97,075	29,861	58,367	15,411	-
2	Other GCC countries	772	-	2	400	400	-
3	OECD countries	-	-	-	-	-	4,434
4	India	498	498	-	-	(333)	-
5	Pakistan	-	-	-	-	-	-
6	Others	-	-	-	-	(3,724)	-
	Total	**2,589,065**	**97,573**	**29,863**	**58,767**	**11,754**	**4,434**

*- Stage 3 allowance includes reserve interest amounting to RO 11.734 million.

^- Stage 3 includes additional ECL overlays of RO 5.016 million.

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

31 December 2022

5. CREDIT RISK (continued)

vii. **Movement of gross loans : (RO '000)**

SL No.	Details	Stage 1	Stage 2	Stage 3	Total
1	Opening balance	1,931,317	469,124	78,414	**2,478,855**
2	Mitigation/ changes (+/)	19,700	(38,049)	18,349	**-**
3	New loans	224,446	10,446	6,922	**241,814**
4	Recovery of loans	115,123	10,369	1,678	**127,170**
5	Loans written off	-	-	4,434	**4,434**
6	Closing balance	2,060,340	431,152	97,573	**2,589,065**
7	Impairment allowance held	7,837	22,027	58,766	**88,630**
8	Reserve interest	-	-	11,734	**11,734**

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 2022, subject to the standardized approach is as below:

RO 000's

							Capital Charge	
S. No.	**Product / Rating**	**0%**	**20%**	**35%**	**50%**	**75%**	**100%**	**Total**
	Rated							
1	Sovereign	473,730	-	-	-	-	808	**474,538**
2	Banks	-	73,538	-	20,184	-	1,917	**95,639**
3	Corporate	-	-	-	-	140,113	-	**140,113**
	Unrated							
1	Corporate	-	-	-	-	-	1,409,994	**1,409,994**
2	Banks	-	126	-	149	-	-	**275**
3	Retail	-	-	-	-	-	414,851	**414,851**
4	Claims secured by residential property	-	-	124,501	-	-	180,069	**304,570**
5	Claims secured by commercial property	-	-	-	-	-	189,824	**189,824**
6	Past due loans	-	-	-	-	-	27,192	**27,192**
7	Other assets	17,732	-	-	-	-	148,501	**166,233**
	Total Banking Book	**491,462**	**73,664**	**124,501**	**20,333**	**140,113**	**2,373,156**	**3,223,229**

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

31 December 2022

5. CREDIT RISK (continued)

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.

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 2022 towards loan and advances not impaired amounted to RO 1,855.264 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 64.592 million after application of haircut (0%) exposure stands at RO Nil.

Exposure covered by Shares collateral – RO 195.112 Million; after application of haircut (50%) exposure stands at RO. 97.556 Million.

Exposure covered by Sovereign guarantee RO 107.375 Million; after application of haircut (0%) exposure stands at RO Nil.

Particulars	**RO 'Mn**
Gross Exposure - banking book	3,223
Credit risk mitigation	(162)
Risk weight impact - for banking book	(655)
Risk weighted assets - banking book	2,406
Capital charge for credit risk	**294**

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 5.931 million as at 31 December 2022.

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

31 December 2022

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.

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 2022, 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 ensures appropriate risk limits are in place and reports the same to appropriate authorities.

As of 31 December 2022, equity investments classified as FVTPL amounted to OMR 8.782 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 140.993 million (including RO 134.351 million open position is in effectively pegged USD currency) as on 31 December 2022.

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.

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

31 December 2022

6. Market Risk (continued)

In addition, the Bank holds a very small portfolio of 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 2022 is shown below:

Type of risk	2022	2021
Interest rate risk	-	-
Equity position risk	1405	140
Foreign exchange risk	10,185	2,474
Percentage of NOP to regulatory capital	32.11%	13.56%
Regulatory ceiling (% to total networth)	40%	40%

Total risk weighted assets for trading book is RO 144.878 million with capital charge of RO 17.748 million.

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

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

31 December 2022

6. Market Risk (continued)

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.

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:

	2022	2021
	RO '000	RO '000
Impact of +200 bps interest rate increase	11,286	9,814
Impact of -200 bps interest rate decrease	(11,286)	(9,814)
Impact of +200 bps interest rate increase as % of Capital	+2.47%	+2.36%
Impact of -200 bps interest rate decrease as % of Capital	-2.47%	-2.36%

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 2022 is highlighted in Note 36.3.2 of the financial statements.

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

31 December 2022

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.

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.

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

31 December 2022

7. LIQUIDITY RISK (continued)

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.

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 Business 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 2022 are provided in note 36.2.2 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 2022

Currency	Upto 1 month	1 - 3 months	3 - 6 months	6 - 9 months	9 - 12 months
Aggregate	31.38%	5.01%	2.22%	-13.42%	-24.82%
OMR	25.11%	2.60%	2.00%	-16.35%	-26.90%
USD	31.53%	3.06%	-2.56%	-11.94%	-21.69%
Others	259.53%	150.77%	120.45%	72.35%	-3.34%

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%
CBO prescribed Limits	-15%	-15%	-20%	-30%	-35%

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

31 December 2022

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.

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.

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

31 December 2022

8. OPERATIONAL RISK (continued)

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.

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 2022, 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.

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

31 December 2022

8. OPERATIONAL RISK (continued)

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.

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)	**2022**	**2021**	**2020**
Net interest income	73,845	65,564	60,094
Non-interest income	17,853	16,874	11,402
Provision for unpaid interest	3,515	2,951	2,391
Gain on sale of investment	(177)	(2,945)	(12)
Insurance and other irregular items	(12)	(61)	(49)
Gross income	**95,024**	**82,383**	**73,826**
Average Income			83,744
Gross Income times of Alpha (15%)			12,562
Operational risk based on Basic Indicator Approach			**157,019**

Capital Charge for Operational Risk under Basic Indicator Approach as per Basel II is RO 11.331 million as of 31 December 2022.

The Risk weighted assets for operational risk as per Basel II is RO 141.64 million with the capital charge of RO 17.351 million.

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

31 December 2022

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.

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 (2021: 5 members) of the management committee.

The below table provides details of key management compensation:

	2022	2021
	RO '000	RO '000
Salaries and allowances	**1,427**	1,140
End of service benefits	**33**	24
Total	**1,460**	1,164

The total amount paid including salary allowances and end of service benefits for the 24 Material risk takers (MRT) is RO 3.378 Mn, including an amount of RO 0.208 Mn which was deferred being above the threshold. (31 December, 2021 22 Material risk takers, total amount paid RO 2.604 Mn, with RO 0.113 Mn deferred)

10. SUBSIDIARIES AND SIGNIFICANT INVESTMENTS

The Bank does not have any subsidiary or other significant equity investments as on 31 December 2022.

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

31 December 2022

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 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 9%)	50,551
3	Accumulated other comprehensive income (and other reserves)	40,213
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**	**285,730**
Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments	(5,285)
8	Goodwill (net of related tax liability)	-
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(4,562)
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	-

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

31 December 2022

11. BASEL III CAPITAL DISCLOSURE (continued)

11.1 The 3 step approach to reconciliation (continued)

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**	**(9,847)**
29	**Common Equity Tier 1 capital (CET1)**	**275,883**
	Additional Tier 1 capital: Instruments	
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus (31+32)	149,000
31	of which: classified as equity under applicable accounting standards	149,000
32	of which: classified as liabilities under applicable accounting standards	-
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**	**149,000**
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)**	**149,000**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**424,883**
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)	14,235
51	**Tier 2 capital before regulatory adjustments**	**14,235**

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

31 December 2022

11. BASEL III CAPITAL DISCLOSURE (continued)

11.1 The 3 step approach to reconciliation (continued)

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**	**-**
58	**Tier 2 capital (T2)**	**14,235**
59	**Total capital (TC = T1 + T2)**	**439,118**
60	**Total risk weighted assets**	**2,692,980**
60a	Credit risk weighted assets	2,406,461
60b	Market risk weighted assets	144,878
60c	Operational risk weighted assets	141,640
Capital Ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	10.24%
62	Tier 1 (as a percentage of risk weighted assets)	15.78%
63	Total capital (as a percentage of risk weighted assets)	16.31%
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	3.24%
	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	29,748
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)	-

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

31 December 2022

11. BASEL III CAPITAL DISCLOSURE (continued)

11.1 The 3 step approach to reconciliation (continued)

76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	13,471
77	Cap on inclusion of provisions in Tier 2 under standardised approach	30,081
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)	-

Step 1: Balance sheet under Regulatory scope of consolidation

Table 2a- Balance sheet under Regulatory Scope of Consolidation (RO '000)

Year ended 31 December 2022	Published financial statements As at 31 December 2022	Under regulatory scope of consolidation As at 31 December 2022
Assets		
Cash and balances with Central Bank of Oman	132,212	132,212
Certificates of deposit	-	-
Due from banks	75,158	75,158
Loans and advances	2,500,435	2,500,435
Investments in securities	293,163	293,163
Loans and advances to banks	-	-
Property and equipment	35,104	35,104
Deferred tax assets	-	-
Other assets	39,394	39,394
Total assets	**3,075,466**	**3,075,466**
Liabilities		
Due to banks	223,353	223,353
Customer deposits	2,296,231	2,296,231
Borrowings	-	-
Deferred tax liabilities	595	595
Other liabilities	94,348	94,348
Subordinated bonds	-	-
Total liabilities	**2,614,527**	**2,614,527**

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

31 December 2022

11. BASEL III CAPITAL DISCLOSURE (continued)

11.1 The 3 step approach to reconciliation (continued)

Shareholders' Equity		
Paid-up share capital	194,966	194,966
Share premium	-	-
Legal reserve	40,213	40,213
Retained earnings	68,098	68,098
Special reserve	998	998
Impairment reserve	10,127	10,127
Cumulative changes in fair value of investments	(2,463)	(2,463)
Subordinated loan reserve	-	-
Total shareholders' equity	**311,939**	**311,939**
Tier 1 Perpetual subordinated bonds	149,000	149,000
Total equity	**460,939**	**460,939**
Total liability and shareholders' funds	**3,075,466**	**3,075,466**

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

31 December 2022

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 period ended 31 December 2022	Year ended December 2022	Under Regulatory scope of consolidation	Reference
Assets			
Cash and balances with CBO	132,212	132,212	
Balance with banks and money at call & short notice	75,158	75,158	
Balance with banks and money at call & short notice, of which	-	75,158	
- Stage 1 / 2 impairment allowance, of which	-	-	
- amount eligible for T2			
Investments, of which:	293,163	293,163	
Fair Value Through Other Comprehensive income (FVOCI)	-	284,381	
Fair Value Through Profit & Loss (FVTPL)	-	8,782	
- Stage 1 / 2 impairment allowance, of which		-	
- amount eligible for T2		-	
Loans and advances – Net, of which:	2,500,435	2,500,435	
- Loans and advances to domestic banks	-	-	
- Loans and advances to non-resident banks	-	-	
- Loans and advances to domestic customers	-	1,941,157	
- Loans and advances to non-resident for operations abroad	-	1,270	
- Loans and advances to SMEs	-	148,258	
- Financing from Islamic banking window	-	498,380	
- Expected credit loss allowance, of which	-	(88,630)	
- Stage 3 Impairment allowance and Reserve interest & profit	-	(58,767)	
- Stage 1 / 2 impairment allowance, of which	-	(29,864)	
- amount eligible for T2	-	13,471	h
- amount ineligible for T2	-	16,392	
Fixed assets	35,104	35,104	
- Intangibles (CET1 adjustment)	-	(4,562)	e
- Other fixed Asset	-	(30,542)	
Other assets	39,394	39,394	
Other assets, of which	-	39,471	
- Stage 1 / 2 impairment allowance, of which	-	(78)	
- amount eligible for T2	-	-	
- amount ineligible for T2	-	(78)	
Total Assets	**3,075,466**	**3,075,466**	

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

31 December 2022

11. BASEL III CAPITAL DISCLOSURE (continued)

11.1 The 3 step approach to reconciliation (continued)

Capital & Liabilities			
Paid-up Capital, of which:	194,966	194,966	
- Amount eligible for CET1	194,966	194,966	**a**
Reserves & Surplus; of which	265,972	265,973	
- Amount eligible for CET1 (Legal reserve)	-	40,213	**c**
- Amount eligible for CET1 (Subordinated debt reserve)	-	-	**d**
- Amount eligible for CET1 (Retained earnings)	-	50,551	**b**
- Proposed cash dividend (removed from retained earnings)	-	17,547	
- Proposed stock dividend (removed from retained earnings)	-	-	
- Amount ineligible for CET1 (Special Reserve)	-	998	
- Amount eligible for AT1 (Tier 1 perpetual bonds)	-	149,000	**f**
- Amount ineligible for T2 (Impairment reserve)	-	10,127	
- Amount eligible for T2 (Investments Fair value gains)	-	764	**i**
- AFS investments fair value loss (CET1 adjustment)	-	(5,285)	**e**
- AFS investments fair value gain unutilized	-	2,058	
Total Capital	**460,939**	**460,939**	
Deposits from banks	223,353	223,353	
Customer deposits, of which	2,296,231	2,296,231	
- Deposits for customers	-	1,816,996	
- Deposits of Islamic Banking window	-	479,235	
Borrowings, of which:	-	-	
- From banks	-	-	
Borrowings in form of bonds, Debentures & sukuks, of which	-	-	
- Amount eligible for T2	-	-	**g**
- Amount ineligible for T2	-	-	
Other liabilities & provisions	94,943	94,943	
Other liabilities & provisions , of which		97,369	
- Stage 3 provision		-	
- Stage 1 / 2 provision, of which		(2,426)	
- amount eligible for T2		-	
- amount ineligible for T2		(2,426)	
TOTAL	**3,075,466**	**3,075,466**	

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

31 December 2022

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)		
	For the year ended 31 December 2022	**Component of regulatory capital reported by Bank**	**Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from step 2**
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	194,966	a
2	Retained earnings	50,551	b
3	Accumulated other comprehensive income (and other reserves)	40,213	c+d
4	Common Equity Tier 1 capital before regulatory adjustments	285,730	
5	Prudential valuation adjustments	(9,847)	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	(9,847)	
8	Common Equity Tier 1 capital (CET1)	275,883	
9	Additional Tier 1 capital (AT1)	149,000	f
	Tier 1 capital (T1 = CET1 + AT1)	424,883	
9	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	g
10	Expected credit loss allowance / Provisions	13,471	h
11	Fair value reserve of FVOCI investments	764	i
	Tier 2 capital before regulatory adjustments	14,235	
	Tier 2 capital: regulatory adjustments	-	
	Tier 2 capital (T2)	14,235	
	Total capital (TC = T1 + T2)	439,118	

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

31 December 2022

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	Private placement	Private placement	Rights Issue of Perpetual Subordinated bonds
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	RO 194.966 million	RO 3.000 million	RO 54 million	RO 20 million	RO 75 million
9	Par value of instrument	RO 194.966 million	RO 3.000 million	RO 54 million	RO 20 million	RO 75 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	17-December-2018	13- June-2019	11-August-2022
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

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

31 December 2022

11.2 Main Features of regulatory capital (continued)

14	Issuer call subject to prior supervisory approval	No	No	Yes	Yes	Yes
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

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

31 December 2022

11.2 Main Features of regulatory capital (continued)

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
29	If convertible, specify issuer of instrument it converts into	NA	ahlibank	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

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

31 December 2022

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)	362,956	362,956
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	819,111	46,917
3	Stable deposits	21,751	653
4	Less stable deposits	797,360	46,264
5	Unsecured wholesale funding, of which:	774,238	399,856
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	1,302	325
7	Non-operational deposits (all counterparties)	590,809	217,403
8	Unsecured debt	182,128	182,128
9	Secured wholesale funding	-	-
10	Additional requirements, of which		
11	Outflows related to derivative exposures and other collateral requirements	171,757	171,757
12	Outflows related to loss of funding on debt products		
13	Credit and liquidity facilities	32,050	3,205
14	Other contractual funding obligations		
15	Other contingent funding obligations	48,729	2,436
16	**TOTAL CASH OUTFLOWS**	1,845,885	624,171
Cash Inflows			
17	Secured lending (e.g. reverse repos)		
18	Inflows from fully performing exposures	314,632	200,479
19	Other cash inflows	245,867	171,807
20	**TOTAL CASH INFLOWS**	560,498	372,285
21	**TOTAL HQLA**		362,956
22	**TOTAL NET CASH OUTFLOWS**		251,886
23	**LIQUIDITY COVERAGE RATIO (%)**		144.10%

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

31 December 2022

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 2022.

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**	439,118	-	-	-	439,118
2	Regulatory Capital	439,118	-	-	-	439,118
3	Other Capital Instruments					
4	**Retail Deposits and Deposits from small Business Customers**	499,951	110,227	92,669	148,787	788,079
5	Stable Deposit	134,576	-	-	148,787	276,634
6	Less Stable Deposit	365,375	110,227	92,669		511,445
7	**Wholesale Funding**	583,317	167,394	363,331	298,227	855,249
8	Operational	1,302				651
9	Other Wholesale Funding	582,016	167,394	363,331	298,227	854,598
10	**Liabilities with matching interdependent Assets**					
11	**Other Liabilities**	-	-	-	-	-
12	NSFR Derivative Liability	-	-	-	-	-
13	All other liabilities and equities not included in above categories	354,484	-	-	-	-
14	**Total ASF**					2,082,446
RSF ITEM						
15	**Total NSFR high-quality liquid assets (HQLA)**	-	-	-	-	11,562
16	**Deposits held at other financial institutions for operational purposes**	74,060	-	-	-	37,030
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		104,930	6,999		19,239

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

31 December 2022

12. BASEL III LIQUIDITY DISCLOSURE (continued)

Sr No.	Particulars	No Maturity	<6 Months	6 Months to < 1 Year	>=1 Year	Weighted Value
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	67,011	329,275	71,702	1,713,100	1,690,129
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	-	-	-	124,501	80,926
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	37,226	31,642
25	**Assets with matching interdependent liabilities**					
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	-	123	20	16	159
30	NSFR derivative liabilities before deduction of variation margin posted	-	-	-	-	-
31	All other assets not included in the above categories	-	-	-	114,767	114,767
32	**Off-balance sheet items**	-	173,370	52,387	35,027	13,039
33	**Total RSF**	-	-	-	-	1,998,493
34	**NET STABLE FUNDING RATIO**	-	-	-	-	104.20%

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

31 December 2022

12. BASEL III LIQUIDITY DISCLOSURE (continued)

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	3,075,045	3,013,034
2	Adjustments for derivative financial instruments	5,931	12,578
3	Adjustment for securities financing transactions (i.e., repos and similar secured lending)	24,692	23,264
4	Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	101,767	86,843
5	Other adjustments	-	-
6	**Leverage ratio exposure**	**3,207,435**	**3,135,719**

Table 2: Leverage ratio common disclosure template

	Item	Current Quarter	Previous Quarter
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	3,075,045	3,013,034
3	**Total on-balance sheet exposures** (excluding derivatives and SFTs) (sum of lines 1 and 2)	**3,075,045**	**3,013,034**
	Derivative Exposures		
4	Replacement cost associated with *all* derivatives transactions (i.e., net of eligible cash variation margin)	4,010	9,306
5	Add-on amounts for PFE associated with *all* derivatives transactions	1,921	3,272
11	Total derivative exposures (sum of lines 4 to 10)	**5,931**	**12,578**
	Securities financing transaction exposures		
12	Gross SFT *assets* (with no recognition of netting), after adjusting for sale accounting transactions	15,920	17,876
14	CCR exposure for SFT assets	8,772	5,388
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	**24,692**	**23,264**
	Other Off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	178,969	148,712
18	(Adjustments for conversion to credit equivalent amounts)	(77,202)	(61,869)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**101,767**	**86,843**
	Capital and total exposures		
20	**Tier 1 capital**	**424,883**	**414,905**
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**3,207,435**	**3,135,719**
	Leverage Ratio		
22	**Basel III leverage ratio (%)**	**13.25%**	**13.23%**

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

31 December 2022

12. BASEL III LIQUIDITY DISCLOSURE (continued)

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.om/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.

ahlibank SAOG

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Hamdan Ali Nasser Al Hinai

Chairman

Date: 25 January 2023

ahli islamic
Financial Statements

For the year ended 31 December 2022

In the name of Allah, The Beneficent, The Merciful

Ahli Islamic, Ahli Bank SAOG

Shari'a Supervisory Board Report

All praise to Allah, and peace be upon His messenger, his family, his companions and those who followed them with until the Day of Judgment.

To the Board of Directors of Ahli Bank SAOG

Assalam Alikum wa Ramat Allah wa Barakatuh

Shari'a Supervisory Board has reviewed the products and the contracts relating to the transactions which were made by Ahli Islamic, Ahli Bank SAOG (the "Bank") during the period (01.01.2022 to 31.12-2022) ended 2022 to ensure that they comply with the *Fatawa* issued by the Board as per Sharia rules and principles.

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

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

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

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

Sharia Supervisory Board

Sheikh Dr. Mohammed Taher Al-Ibrahim (Chairman)

Sheikh Dr. Mustain Ali Abdul Hameed (Deputy Chairman)

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

Resolutions issued by SSB during the year 2022

FOR THE YEAR ENDED 31 DECEMBER 2022

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

1. Gifts for Qitaf Upper Mass Customers
It is to give Ahli Islamic loyal Qitaf customers certain incentives to strengthen the Bank’s banking relationship with them. Following are the details of the gifts/incentives
<table>
<tr><th>Deposit Range</th><th>Per Gift cost</th><th>Total Gifts</th><th>Incentives/Gift ideas</th></tr>
<tr><td>10,000 - 34,999</td><td>30</td><td>2000</td><td>Hypermarket vouchers/ Talabat vouchers</td></tr>
</table>

2. Gifts for Premium & Private Customer
Loyal Qitaf customers under Premium & Private Customer are proposed to give incentives for strengthening the banking relationship with them. Following are the details of the incentives
<table>
<tr><th>Deposits</th><th>Accounts</th><th>Gift cost</th><th>Gifts:</th><th>Total cost of the gift</th><th>Incentives/Gift ideas</th></tr>
<tr><td>35,000 - 99,999</td><td>501</td><td>50</td><td>501</td><td>25,050</td><td>Hypermarket vouchers, Talabat vouchers</td></tr>
<tr><td>100,000 - 249,999</td><td>114</td><td>100</td><td>114</td><td>11,400</td><td>Hypermarket vouchers, perfumes</td></tr>
<tr><td>250,000 - 499,999</td><td>20</td><td>300</td><td>20</td><td>6,000</td><td>Hypermarket vouchers, electronic stores vouchers</td></tr>
<tr><td>500,000+</td><td>5</td><td>500</td><td>5</td><td>2,500</td><td>Iphone, laptop</td></tr>
<tr><td>Total</td><td>640</td><td></td><td>640</td><td>44,950</td><td></td></tr>
</table>

3. Gifts for Prospective New Customers
Following were the incentives proposed to give new customers under Qitaf Account to make and strengthen their banking relationship with the Bank. Following are the details of the incentives/gives
<table>
<tr><th>Gift Cost</th><th>Total Gifts</th><th>Incentives/Gift ideas</th></tr>
<tr><td>OMR 30</td><td>1,000</td><td>Hypermarket vouchers/ Talabat vouchers</td></tr>
</table>

The cost will be a part of marketing budget.</td></tr>
</table>

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

FOR THE YEAR ENDED 31 DECEMBER 2022

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

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

FOR THE YEAR ENDED 31 DECEMBER 2022

SSB Meeting	Resolution No.	Subject of the Resolution	Brief of the SSB Resolution
Meeting July 04, 2022 (SSB-340-2022	5 (SSB – 40 – 2022)	Report on Shari'a Risk Control of Ahli Islamic	The SSB reviewed the report on Shari'a Risk Control of Ahli Islamic which was submitted by Shari'a Risk Control. The SSB noted the risk evaluation and assessment of Ahli Islamic for 1st half of 2022. After reviewing the Sharia Risk assessment report of Ahli Islamic, the SSB mentioned that the report is satisfactory.
	6 (SSB – 40 – 2022)	SSB Approval on Islamic Banking Training Material	The SSB members reviewed the Islamic Banking training material which was prepared and designed for training of staff of the Bank. The SSB approved the material to use for face to face and online trainings of the staff of the Bank.
	7 (SSB – 40 – 2022)	Transaction Banking License	The SSB reviewed the following proposal submitted by Corporate e-Channels, Corporate Banking to Shari'a for approval: "As per our program on Transaction Banking 2.0, the Bank is in discussion with the vendors on the licensing part. In this regard, Corporate e-Channels seeks to have one instance count of license for both Conventional and Islamic which will perform as follows: 1. Front-end with embedding ahlibank and Ahli Islamic logo, and based on the user credentials will be accessed to either Conventional or Islamic portal. 2. Whether the account is associated with Conventional or Islamic the system will communicate with corresponding touch points accordingly (i.e. Conventional with Equation and Islamic with iMAL)." The SSB approved to make Ahli Islamic specific front-end logo in application and with regard to agreement SSB decided that is fine to have Bank level agreement covering both Ahli Islamic and ahlibank with the vendor however, the costs for development of Ahli Islamic system should be charged to Ahli Islamic account.
Meeting August 22, 2022 (SSB-41-2022)	1 (SSB – 41 – 2022)	Ratification of Minutes of SSB 40th Meeting	The SSB signed Minutes of the 40th Meeting.
	2 (SSB –41 – 2022)	Semi Annual Shari'a Compliance Report by Shari'a Compliance Unit	The SSB members reviewed the reports and noted the assignments performed over the period.
	3 (SSB – 41 – 2022)	Amendment in Profit Calculation Policy	The SSB reviewed the additions in Profit Calculation Policy in line with the AAOIFI's new Financial Accounting Standard 31 "Investment Agency (Al-Wakala Bi Al-Istithmar)". After reviewing the proposed changes in the Profit Calculation Policy with regard to commingling the Wakala and Mudaraba deposit funds, the SSB pronounced that the changes proposed above are in line with Sharia rules and principles.
	4 (SSB – 41 – 2022)	Removal of Memorandum of Understanding document from Services Ijara product	SSB reviewed the Business request for removing the subject MOU from the required financing documents. Such MOU is asked to execute with the services providers for each Service Ijara financing before approval while it does not have any impact since to purchase the services from service provider the Bank uses offer and acceptance document which meets the financing requirement. After reviewing the MOU and Offer and Acceptance documents the SSB has agreed to remove the MOU application for each financing deal and approved it with the following recommendation: 1. Offer and Acceptance document should remain effective since they fulfil the requirement of the transaction for purchasing the services. 2. In case there is a tie up between Ahli Islamic and any service provider for a long run relation then such MOU can be used for the case.

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

FOR THE YEAR ENDED 31 DECEMBER 2022

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

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

Report on the audit of the financial statements

Our opinion

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

What we have audited

The financial statements comprise:

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

Basis for opinion

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

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

Independence

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

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

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

Emphasis of matter

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

Other information

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

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

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

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Window's internal control.

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

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

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

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

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

Report on other legal and regulatory and Shari'a requirements

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

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

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

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

Muscat, Sultanate of Oman
06 March 2023

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2022

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

The financial statements and the accompanying notes were approved by the Board of Directors on 25 January 2023 and signed on their behalf by:

Hamdan Ali Nasser Al Hinai
Chairman

Said Abdullah Al Hatmi
Chief Executive Officer

The accompanying notes form an integral part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

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

The accompanying notes form an integral part of these financial statements

STATEMENT OF CHANGES IN OWNERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

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

	Share capital	Investment fair value reserve	Impairment reserve	Retained earnings	Total
	RO '000	RO '000	RO '000	RO '000	RO '000
Balance at 1 January 2021	25,000	(198)	4,553	17,242	46,597
Profit for the year	-	-	-	4,021	4,021
Other comprehensive income	-	132	-	-	132
Allocation of capital	10,000	-	-	-	10,000
At 31 December 2021	35,000	(66)	4,553	21,263	60,750
At 31 December 2021 (US$ '000)	90,909	(171)	11,826	55,229	157,793

The accompanying notes form an integral part of these financial statements

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022

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

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

The accompanying notes form an integral part of these financial statements

STATEMENT OF SOURCES AND USES OF CHARITY FUND

FOR THE YEAR ENDED 31 DECEMBER 2022

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

The accompanying notes form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

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

The Islamic Window employed 177 employees as at 31 December 2022 (31 December 2021: 136 employees).

2 BASIS OF PREPARATION

2.1 Statement of compliance

The Islamic Window is not a separate legal entity, the separate financial statements of the Islamic Window has been prepared to comply with the requirements of Articles 1.5.1.2 to 1.5.1.4 of Title 2 'General Obligations and Governance' of IBRF issued by the CBO. These financial statements are prepared in accordance with Financial Accounting Standards (FAS) issued by Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the Sharia Rules and Principles as determined by the Sharia Supervisory Board of the Islamic Window and other applicable requirements of CBO. In accordance with the requirements of AAOIFI, for matters which are not covered by AAOIFI and other directives, the Islamic Window uses the relevant International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB).

These financial statements pertain to the Islamic Window operations only and do not include financial results of the Bank. Statement of restricted investment accountholders, statement of Qard fund and Zakat are not presented as these are not applicable. Complete set of financial statements of the Bank is presented separately.

2.2 Basis of measurement

The financial statements have been prepared under the historical cost convention except for investments classified as instruments at Fair value through equity which have been measured at fair value.

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgements

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

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

3 STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

3.1 FAS 38 Wa'ad, Khiyar and Tahawwut

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

3 STANDARDS, AMENDMENTS AND INTERPRETATIONS (continued)

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

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

This standard was issued in 2021. This standard supersedes the earlier FAS 1 "General Presentation and Disclosures in the Financial Statments of Islamic Banks and Financial Institutions". The standard introduces the concepts of quasi-equity, off balance -sheet assets under management and other comprehensive income to enhance the information provided to the users of the financial statements. This standard shall be effective for the financial periods beginning on or after 1st January 2023, with early adoption permitted. The Islamic Window is assessing the impact of these standards on the financial statements upon the initial application.

3.2.2 FAS 39 Financial Reporting for Zakah

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

3.2.3 FAS 40 Financial Reporting for Islamic Finance Windows

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

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

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

3.2.5 FAS 43 Accounting for Takaful: Recognition and Measurement

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

4 SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Foreign currency translation

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.2 Cash and cash equivalents

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

4.3 Murabaha receivable

Murabaha receivables are sales on deferred profits. The Islamic Window arranges a Murabaha transaction by buying a commodity (which represents the object of the Murabaha) and then resells this commodity to customer (beneficiary) after computing a margin of profit over cost. The sale price (cost plus profit margin) is repaid in installments by the customer over the agreed period. Murabaha receivables are stated net of deferred profits and expected credit loss allowance, if any.

4.4 Musharaka

In Musharaka based financing, the Islamic Window enters into Musharaka based on Shirkat-ul-milk for financing an agreed share of fixed asset (e.g. house, land, plant or machinery) with its customers and enters into period profit payment agreement for the utilization of the Islamic Window's Musharaka share by the customer.

4.5 Wakala bil Istithmar

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

Wakala Investment Accounting

FAS 31 requires the principal to evaluate the nature of the investment as either a) a pass-through investment or b) Wakala venture.

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

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

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

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

Wakala - Agency Accounting:

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

4.6 Ijarah assets – Ijarah Muntahia Bittamleek

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

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

a. an operating Ijarah;

b. an Ijarah MBT, including the following types:

i. an Ijarah MBT – with expected transfer of ownership after the end of the Ijarah term – either through a sale or a gift; or

ii. an Ijarah MBT with gradual transfer – with gradual transfer of ownership during the Ijarah term (including Diminishing Musharaka Ijarah).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6 Ijarah assets – Ijarah Muntahia Bittamleek (contined)

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

4.7 Investments

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

Classification

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

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

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

a. the investment is held within a business model whose objective is to hold such investment in order to collect expected cash flows till maturity of the instrument; and

b. the investment represents either a debt-type instrument or other investment instrument having reasonably determinable effective yield.

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

a. the investment is held within a business model whose objective is achieved by both collecting expected cash flows and selling the investment; and

b. the investment represents a non-monetary debt-type instrument or other investment instrument having reasonably determinable effective yield.

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

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

Measurement

Initial recognition

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

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

Subsequent measurement

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.7 Investments (continued)

Subsequent measurement (continued)

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

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

Measurement principles

Amortised cost measurement

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

Fair value measurement

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

4.8 Credit Cards

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

4.9 Property, equipment and Intangibles

Items of Property, equipment and Intangibles are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Depreciation is provided on a straight-line basis over the estimated useful lives of Property, equipment and Intangibles.

The estimated useful lives for the current period are as follows:

	Years
Building	25
Furniture & fixtures	10
Computer and other equipment	5-10
Leasehold improvements	5

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.10 Customers' current accounts

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

4.11 Equity of investment account holders

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

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

4.12 Profit equalisation reserve

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

4.13 Investment risk reserve

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

4.14 Revenue recognition

4.14.1 Murabaha

Income on Murabaha transactions is recognised by proportionately allocating the attributable profits over the period of the transaction where each financial period carries its portion of profit irrespective of whether or not cash is received, net of suspended profit.

4.14.2 Musharaka

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

4.14.3 Ijarah

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

4.14.4 Wakala bil Istithmar

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

4.14.5 Income from investments

Income from investments is recognised when earned.

4.14.6 Dividend

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.14 Revenue recognition (continued)

4.14.7 Fee and commissions

Fee and commission income recognised when earned.

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

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

4.14.8 Islamic Window share as a Mudarib

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

4.14.9 Profit suspension

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

4.15 Provisions

Provisions are recognised when the Islamic Window has a present obligation (legal or constructive) arising from a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

4.16 Taxation

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

4.17 Impairment of Financial Contracts

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

Impairment assessment- ECL

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

Measurement of ECL

The measurement of ECL reflects:

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.17 Impairment of Financial Contracts (continued)

Measurement of ECL (continued)

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

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

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

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

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

(i) Probability of default (PD);

(ii) loss given default (LGD);

(iii) exposure at default (EAD)

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

Details of these statistical parameters/inputs are as follows:

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

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

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

Presentation of allowance for ECL in the statement of financial position

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

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the financial assets;

- Debt instruments measured at fair value through equity: no provision is recognized in the Statement of Financial Position because the carrying value of these assets is their fair value. However, the provision determined is disclosed and recognised in the fair value reserve; and

- Off-balance sheet credit risks include undrawn financing commitments, letters of credit and letters of guarantee: as a provision in other liabilities.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the financee, then ECL is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial assets are included in calculating the cash shortfalls from the existing asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.17 Impairment of Financial Contracts (continued)

Write off

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

4.18 Fair value

Fair value is determined for each financial asset individually in accordance with the valuation policies set out below:

- For quoted investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the statement of financial position date.

- For unquoted investments, fair values is determined by reference to recent significant buy or sell transaction with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.

- For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Islamic Window using current profit rates. For investments with similar terms and risk characteristics.

- Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost, less impairment loss, if any.

4.19 De-recognition of financial assets and liabilities

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

- the right to receive cash flows from the asset has expired;

- the Islamic Window retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or

- the Islamic Window has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

4.20 Employee terminal benefits

4.20.1 Terminal benefits

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

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

4.20.2 Short term benefits

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

4.21 Earnings prohibited by Sharia

The Islamic Window is committed to avoid recognising any income generated from non-Islamic sources. Accordingly all non-Islamic income is credited to the charity account where the Islamic Window uses these funds for charitable purposes.

4.22 Zakah

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.23 Offsetting

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

4.24 Sharia Supervisory Board

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

4.25 Joint and self financed

Assets that are jointly owned by the Islamic Window and the investment account holders are presented as "jointly financed" in the financial statements. All other assets are "self financed".

4.26 Commingling of funds

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

4.27 Trade date accounting

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

4.28 Fiduciary Assets

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

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

5.1 Financial asset classification

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

5.2 Measurement of the expected credit loss allowance and provisions

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

6 CASH AND BALANCES WITH CENTRAL BANK OF OMAN

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

7 DUE FROM BANKS

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

8 MURABAHA RECEIVABLES

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

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

8.1 DEFERRED PROFIT

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

9 WAKALA BIL ISTITHMAR

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

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

10 MUSHARAKA RECEIVABLES

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

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

11 INVESTMENT SECURITIES

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

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

12 IJARAH ASSETS - IJARAH MUNTAHIA BITTAMLEEK

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

13 CREDIT CARD RECEIVABLES

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

14 SERVICE IJARAH

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

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

15. FINANCING ACTIVITIES

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

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

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

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Profit recognised in P&L as per IFRS 9	Suspended profit as per CBO norms
		RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
	Stage 1	410,110	4,253	1,658	2,595	405,857	408,452	-	-
	Stage 2	49,517	511	3,221	(2,710)	49,006	46,296	-	-
Standard	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**459,627**	**4,764**	**4,879**	**(115)**	**454,863**	**454,748**	**-**	**-**
	Stage 1	-	-	-	-	-	-	-	-
Special Mention	Stage 2	15,101	156	987	(831)	14,945	14,114	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		15,101	156	987	(831)	14,945	14,114	-	-
	Stage 1	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Stage 2	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Substandard	Stage 3	324	113	133	(20)	211	191	-	31
Subtotal		**324**	**113**	**133**	**(20)**	**211**	**191**	**-**	**31**
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
Doubtful	Stage 3	367	121	105	16	246	262	-	5
Subtotal		**367**	**121**	**105**	**16**	**246**	**262**	**-**	**5**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

15. FINANCING ACTIVITIES (Continued)

15.2 Restructured Loans **

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Amount as per CBO norms*	Net Amount as per IFRS 9	Profit recognised in P&L as per IFRS 9	Suspended profit as per CBO norms
		RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
	Stage 1	-	-	-	-	-	-	-	-
	Stage 2	-	-	-	-	-	-	-	-
Loss	Stage 3	16,713	14,331	7,359	6,972	2,382	9,354	-	2,195
Subtotal		**16,713**	**14,331**	**7,359**	**6,972**	**2,382**	**9,354**	**-**	**2,195**
Other items not covered under CBO circular BM 977 and related instructions	Stage 1	75,428	-	25	(25)	75,428	75,403	-	-
	Stage 2	11,783	-	787	(787)	11,783	10,996	-	-
	Stage 3	84	-	84	(84)	84	-	-	-
Subtotal		**87,295**	**-**	**896**	**(896)**	**87,295**	**86,399**	**-**	**-**
	Stage 1	**485,538**	**4,253**	**1,683**	**2,570**	**481,285**	**483,855**	**-**	**-**
	Stage 2	**76,401**	**667**	**4,995**	**(4,328)**	**75,734**	**71,406**	**-**	**-**
	Stage 3	**17,488**	**14,565**	**7,681**	**6,884**	**2,923**	**9,807**	**-**	**2,231**
Total	**Total**	**579,427**	**19,485**	**14,359**	**5,126**	**559,942**	**565,068**	**-**	**2,231**

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

Asset Classification as per CBO Norms	Asset Classification as per IFRS 9	Gross Carrying Amount	Provision required as per CBO Norms	Provision held as per IFRS 9	Difference between CBO provision required and provision held	Net Carrying Amount as per CBO norms*	Net Carrying Amount as per IFRS 9	Profit recognised in P&L as per IFRS 9	Suspended profit as per CBO norms
		RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
(1)	(2)	(3)	(4)	(5)	(6) = (4)-(5)	(7)=(3)-(4)-(10)	(8) = (3)-(5)	(9)	(10)
	Stage 1	60,429	302	855	(553)	60,127	59,574	-	-
Classified as performing	Stage 2	61,439	307	4,930	(4,623)	61,132	56,509	-	-
	Stage 3	-	-	-	-	-	-	-	-
Subtotal		**121,868**	**609**	**5,785**	**(5,176)**	**121,259**	**116,083**	**-**	**-**
	Stage 1	-	-	-	-	-	-	-	-
Classified as non-performing	Stage 2	-	-	-	-	-	-	-	-
	Stage 3	8,371	5,397	2,114	3,283	2,974	6,257	-	1,630
Sub total		**8,371**	**5,397**	**2,114**	**3,283**	**2,974**	**6,257**	**-**	**1,630**
	Stage 1	60,429	302	855	(553)	60,127	59,574	-	-
	Stage 2	61,439	307	4,930	(4,623)	61,132	56,509	-	-
	Stage 3	8,371	5,397	2,114	3,283	2,974	6,257	-	1,630
Total	**Total**	**130,239**	**6,006**	**7,899**	**(1,893)**	**124,233**	**122,340**	**-**	**1,630**

*Net of provisions and suspended profit as per CBO norms

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

15. FINANCING ACTIVITIES (Continued)

15.3 Impairment charge and provisions held

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

15. FINANCING ACTIVITIES (Continued)

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

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

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

15.5 Restructured Loans

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

*Net of provisions and suspended profit as per CBO norms

15.6 Impairment charge and provisions held

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

appropriation from the retained earnings.

16 Property, equipment and Intangibles

	Building	Leasehold improve-ments	Computer and other equipment	Intangibles	Furniture	ROU Assets	Capital work in progress	Total
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Cost:								
At 1 January 2022	477	1,122	673	1,025	174	1,717	2	5,190
Additions	-	316	172	50	37	1,470	-	2,045
Disposals / scrapped	-	-	-	-	-	-	-	-
At 31 December 2022	477	1,438	845	1,075	211	3,187	2	7,235
Accumulated depreciation:								
At 1 January 2022	154	523	394	767	88	712	-	2,638
Depreciation	19	171	77	60	9	413	-	749
Disposals / scrapped	-	-	-	-	-	-	-	-
At 31 December 2022	173	694	471	827	97	1,125	-	3,387
Net book value as at								
At 31 December 2022	304	744	374	248	114	2,062	2	3,848
At 31 December 2022 (US$ '000)	789	1,933	970	644	297	5,357	5	9,995

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

17 OTHER ASSETS

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

18 DUE TO BANKS

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

19 OTHER LIABILITIES

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

20 EQUITY OF INVESTMENT ACCOUNT HOLDERS

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

21 SHARE CAPITAL

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

22 CONTINGENT LIABILITIES AND COMMITMENTS

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

23 INCOME FROM FINANCING ACTIVITIES

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

24 INCOME FROM INVESTING ACTIVITIES

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

25 OTHER OPERATING INCOME

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

26 RETURN TO INVESTMENT ACCOUNT HOLDERS

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

27 STAFF EXPENSES

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

28 OTHER OPERATING EXPENSES

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

29 ZAKAH

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

30 RELATED PARTY TRANSACTIONS

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

31 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The fair value of investments classified as fair value through equity as at 31 December 2022 is RO 50.510 million equivalent to US$ 131.19 million (31 December 2021 is RO 34.893 million equivalent to US$ 90.63 million) with cost amounts to RO 51.229 million equivalent to US$ 133.06 million (31 December 2021: RO 34.969 million equivalent to US$ 90.83 million).

Other than investments the Islamic Window considers that the fair value of other financial instruments is not significantly different to their carrying value.

Valuation of financial instruments:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The table below analysis of financial instruments measured at fair value at the reporting date:

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

32 RISK MANAGEMENT

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

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

32.1 CREDIT RISK

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

32.1.1 TYPE OF CREDIT RISK

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

32.1.1.1 MURABAHA RECEIVABLE

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

32.1.1.2 MUSHARAKA

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

32.1.1.3 IJARAH - IJARAH MUNTAHIA BITTAMLEEK

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

32.1.1.4 SERVICE IJARAH

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

32.1.1.5 CREDIT CARD RECIEVABLES

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

32.1.1.6 WAKALA BIL ISTITHMAR

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

32.1.2 Credit risk measurement

(a) Financings (including Loan commitments and guarantees)

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

32 RISK MANAGEMENT (continued)

32.1 CREDIT RISK (continued)

32.1.2 Credit risk measurement (continued)

(b) Credit risk grading

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

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

32.1.3 Exposure to credit risk

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

	2022				2021
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Total
	RO '000	**RO '000**	**RO '000**	**RO '000**	RO '000
Clearing account with Central Bank of Oman	**14,421**	**-**	**-**	**14,421**	36,540
Due from banks	**1,148**	**-**	**-**	**1,148**	679
Financing to customers - Gross	**410,110**	**64,618**	**17,404**	**492,132**	394,903
Investment securities	**50,237**	**-**	**-**	**50,237**	34,624
Financing Commitments and financial guarantees	**9,622**	**11,783**	**-**	**21,405**	22,713
Other assets			**84**	**84**	51
Gross carrying amount	**485,538**	**76,401**	**17,488**	**579,427**	489,510
Impairment loss allowance	**1,683**	**4,995**	**7,681**	**14,359**	8,338
Carrying amount	**483,855**	**71,406**	**9,807**	**565,068**	481,172

	2022				2021
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Total
	US$ '000	**US$ '000**	**US$ '000**	**US$ '000**	US$ '000
Clearing account with Central Bank of Oman	**37,457**	**-**	**-**	**37,457**	94,909
Due from banks	**2,982**	**-**	**-**	**2,982**	1,764
Financing to customers - Gross	**1,065,221**	**167,839**	**45,205**	**1,278,265**	1,025,722
Investment securities	**130,486**	**-**	**-**	**130,486**	89,932
Financing Commitments and financial guarantees	**24,992**	**30,605**	**-**	**55,597**	58,995
Other assets			**218**	**218**	132
Gross carrying amount	**1,261,138**	**198,444**	**45,423**	**1,505,005**	1,271,454
Impairment loss allowance	**4,371**	**12,974**	**19,951**	**37,296**	21,658
Carrying amount	**1,256,767**	**185,470**	**25,472**	**1,467,709**	1,249,796

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

32 RISK MANAGEMENT (continued)

32.1 CREDIT RISK (continued)

32.1. 3 Exposure to credit risk (continued)

IMPAIRED FINANCING

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

32.1.4 Expected credit loss measurement

Overview of ECL principles

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

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

The Islamic Window has established a policy to perform an assessment on a monthly basis whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

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

Stage 1

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

Stage 2

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

Stage 3

Financing exposure considered credit impaired. The Isalmic Window records an allowance for lifetime ECLs.

Measurement of ECL

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

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

ECL Exposure of financial assets and off-balance sheet

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

32 RISK MANAGEMENT (continued)

32.1 CREDIT RISK (continued)

32.1.4 Expected credit loss measurement (continued)

Movement in Impairment allowance and provision

	Stage 1	Stage 2	Stage 3	Total
	RO '000	RO '000	RO '000	RO '000
Opening balance as at 1 January 2022				
Financings	975	1,356	5,939	8,270
Investment Securities & Due from Banks	11	-	-	11
Financing commitments and financial guarantees	6	-	-	6
Other assets	-	-	51	51
Net transfer between stages				
Financings	108	(112)	4	-
Investment Securities & Due from Banks	-	-	-	-
Financing commitments and financial guarantees	-	-	-	-
Other assets	-	-	-	-
Charge for the Year (net)				
Financings	575	2,964	1,654	5,193
Investment Securities & Due from Banks	-	-	-	-
Financing commitments and financial guarantees	8	787	-	795
Other assets	-	-	33	33
Closing balance as at 31 December 2022				
Financings	1,658	4,208	7,597	13,463
Investment Securities & Due from Banks	11	-	-	11
Financing commitments and financial guarantees	14	787	-	801
Other assets	-	-	84	84

32.1.5 Significant increase in credit risk (SICR)

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

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

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

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

- For risk rating 5: 2 notch downgrade

- For risk rating 6 : 1 notch downgrade

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

32 RISK MANAGEMENT (continued)

32.1 CREDIT RISK (continued)

32.1.6 Definition of default

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

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

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

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

- qualitative - e.g. breaches of covenant

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

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

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

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

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

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

Impact on SICR

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

Covid 19 Impact on ECL allowance

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

32 RISK MANAGEMENT (continued)

32.1 CREDIT RISK (continued)

32.1.6 Definition of default

Sensitivity analysis- ECL

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

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

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

For computation of ECL, the Islamic Window considers three scenarios ie., Good, base and bad with weightage of 25%, 50% and 25% respectively for the year 2022 and 2021.

32.2 LIQUIDITY RISK

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

32 RISK MANAGEMENT (continued)

32.2 LIQUIDITY RISK (continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

32 RISK MANAGEMENT (continued)

32.2 LIQUIDITY RISK (continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

32 RISK MANAGEMENT (continued)

32.3 MARKET RISK

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

32.3.1 PROFIT RATE RISK

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

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

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

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

32.3.2 FOREIGN EXCHANGE RISK

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

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

The Islamic Window takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors set limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The Islamic window also monitors foreign currency risk as per requirements and the same was within regulatory limit as at 31 December 2022.

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

32.3.3 EQUITY PRICE RISK

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

32 RISK MANAGEMENT (continued)

32.4 OPERATIONAL RISK

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

32.5 CONCENTRATION RISK

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

32 RISK MANAGEMENT (continued)

32.5 CONCENTRATION RISK (continued)

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

	2021						
	Murabaha, gross	Wakala bil Istithmar gross	Musharaka, gross	Ijarah Muntahia Bittamleek	Other financings, gross	Due from banks	Investment securities
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Concentration by location							
Oman	37,523	28,978	209,758	117,382	1,262	-	34,079
Other GCC countries	-	-	-	-	-	134	-
Unites States of America	-	-	-	-	-	515	-
OECD countries	-	-	-	-	-	30	814
Others	-	-	-	-	-	-	-
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Oman	97,462	75,268	544,826	304,888	3,278	-	88,517
Other GCC countries	-	-	-	-	-	349	-
Unites States of America	-	-	-	-	-	1,338	-
OECD countries	-	-	-	-	-	77	2,114
Others	-	-	-	-	-	-	-

Concentration by location for financings is measured based on the location of the entity holding the asset, which has a high correlation with the location of the customer. Concentration by location for investment securities is measured based on the location of the issuer of the security.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2022

33 CAPITAL MANAGEMENT

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

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

The risk asset ratio is calculated in accordance with the capital adequacy guidelines of the Basel Committee on Banking Supervision and CBO Circulars BM 1009 'Guidelines on Basel II' and BM 1114 'Regulatory Capital and Composition of Capital Disclosure requirements under Basel III' effective from 31 December 2013. During the year 2020, as part of the covid 19 relief measures CBO has lowered the Capital Conversion Buffer (CCB) requirement by 50% from 2.5% to 1.25%. In order to smoothen the higher volatility in ECL computation and its impact on regulatory capital of the banks amid covid-19 outbreak, CBO has issued a new requirement to apply a "prudential filter" approach on IFRS 9 expected credit loss (ECL) provisions on calculating the regulatory capital. Any increase in the Stage 2 provisioning compared to December 31, 2019 will be added back to regulatory capital while these provisions will be gradually phased-in during a five-year period ending 31 December 2024. The Capital buffers are maintained at the Bank level in accordance with BM 1140 'Concept paper on capital buffer requirements under Basel III' dated 30 December 2015.

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

Covid 19 impact on Capital adequacy:

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

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

34 SOCIAL RESPONSIBILITY

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

ahli islamic

BASEL II PILLAR III AND BASEL III Report

For the year ended 31 December 2022

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

Dear Sirs

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

Purpose of this Agreed-upon procedures report

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

Your responsibilities

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

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

Our responsibilities

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

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

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

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

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

Professional Ethics and Quality Management

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

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

Procedures and findings

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

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

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

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

Restriction on distribution and use

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

Yours faithfully,

PricewaterhouseCoopers

Muscat, Sultanate of Oman
06 March 2023

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

31 December 2022

1. INTRODUCTION

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

The following report presents the qualitative and quantitative disclosures related to capital adequacy, risk profile and control process of the Islamic window on a standalone basis as per the requirements of CBO. These disclosures are intended to complement the minimum capital requirements and supervisory review process of Basel framework. They should be read in conjunction with the financial statements as of 31st December 2022.

2. SCOPE

The scope of application of this report is the Islamic window operations of ahlibank SAOG only. There are no restrictions on the transfer of funds from the Bank to Islamic window, however, under the Islamic Banking regulatory framework (IBRF), title 9, section 1.10.2, Islamic window cannot place funds with the Bank. The Islamic window does not hold controlling interest in any other entity.

3. CAPITAL STRUCTURE

Qualitative Disclosure

The primary objective of the Bank's Capital management framework is to ensure stability by maintaining adequate amount of high-quality capital to commensurate its risk profile. Healthy levels of capital, support the Bank in attaining strong credit rating and maximizing shareholders value. The framework ensures compliance with regulatory capital requirements set by CBO.

The regulatory capital of the Islamic window is calculated as per the guidelines of CBO and is broadly classified in two categories, Tier I and Tier II capital. Tier 1 capital is composed of core capital and is further classified into Common Equity Tier 1 capital ('CET1') and Additional Tier 1 capital ('AT1'). CET1 includes assigned capital, and retained earnings reduced by cumulative unrealized losses on FVOCI investments and intangibles recognized directly in equity. AT1 capital consists of perpetual capital instruments as specified under Basel III framework, however, Islamic window does not have any such instruments outstanding as of the report date. Tier II capital, which includes stage 1 and stage 2 provision as calculated under IFRS 9 subject to ceilings as per CBO guidelines and investment fair value reserve with regulatory haircut. Equity of unrestricted investment account holders (URIA) is not considered as part of regulatory capital. The Islamic window does not hold any funds from restricted investment account holders (RIA).

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

Quantitative Disclosure

The Islamic window's capital structure as at 31 December 2022, based on the CBO guidelines is as follows:

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

CAPITAL ADEQUACY

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

31 December 2022

3. CAPITAL STRUCTURE (continued)

Qualitative disclosures

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

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

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

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

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

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

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

31 December 2022

3. CAPITAL STRUCTURE (continued)

i. Computation of Capital adequacy ratio – RO '000

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

ii. Capital adequacy ratio (RO '000)

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

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

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

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

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

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

31 December 2022

4. RISK MANAGEMENT OF THE BANK

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

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

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

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

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

5. CREDIT RISK

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

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

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

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

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

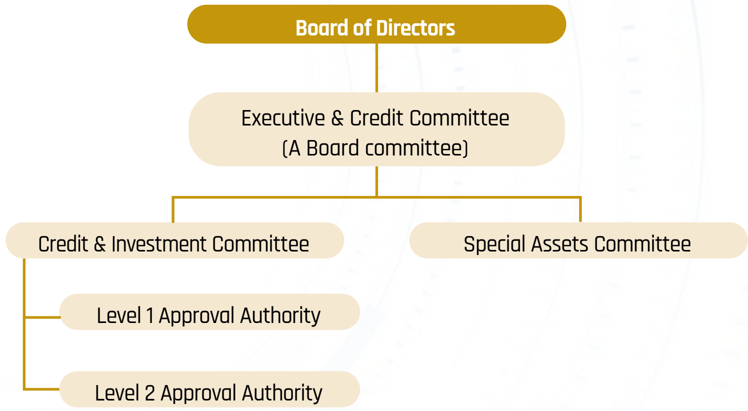
The Bank also has a robust system of borrowers' risk ratings that assesses the default risk of corporate borrowers and monitors ratings changes periodically. Ratings by the major credit rating agencies are also used whenever available.

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

31 December 2022

5. CREDIT RISK (continued)

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



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

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

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

Impairment policy

As a matter of policy, Islamic window creates allowance for impairment of financing contracts promptly and in a consistent manner. The Islamic window has implemented FAS 30 "Impairment credit losses and onerous commitments" accounting norm, based on which impairment is assessed on a forward-looking expected credit loss (ECL) basis, as required by CBO.

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

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

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

31 December 2022

5. CREDIT RISK (continued)

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

Stage 1

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

Stage 2

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

Stage 3

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

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

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

- in case of Treasury and interbank balances, when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

Quantitative Disclosure:

i. **Total gross credit risk exposures, plus average gross exposure over the period broken down by major types of credit exposure: (RO '000)**

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

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

31 December 2022

5. CREDIT RISK (continued)

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

As of 31 December 2022;

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

As of 31 December 2021;

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

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

31 December 2022

5. CREDIT RISK (continued)

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

As of December 2022;

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

As of 31 December 2021;

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

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

31 December 2022

5. CREDIT RISK (continued)

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

As of 31 December 2022

Type of Credit Exposure	Oman	Other GCC Countries	OECD countries	India	Pakistan	Others	Total
Balances with Central bank of Oman	14,421	-	-	-	-	-	14,421
Sovereign	41,189	-	808	-	-	-	41,997
Banks	-	76	882	-	-	190	1,148
Murabaha receivables	41,778	-	-	-	-	-	41,7778
Musharaka receivables	329,227	-	-	-	-	-	329,227
Ijarah assets - Ijarah Muntahia Bittamleek	89,804	-	-	-	-	-	89,804
Service ijarah	1,506	-	-	-	-	-	1,506
Credit card receivables	817	-	-	-	-	-	817
Wakala Bil Istithmar	29,000						29,000
Other Assets & off balance sheet items	26,106	-	-	-	-	-	26,106
Total	**573,848**	**76**	**1,690**	**-**	**-**	**190**	**575,804**

As of 31 December 2021;

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

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

31 December 2022

5. CREDIT RISK (continued)

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

As of December 2022;

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

As of 31 December 2021;

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

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

As of 31 December 2022;

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

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

31 December 2022

5. CREDIT RISK (continued)

As of 31 December 2021;

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

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

As of December 2022;

Economic Sector	Gross financings	Of Which NPLs	ECL stage 1 & 2	ECL stage 3*	Impairment charge/ (reversed) during the Year	Financings written off during the year
Wholesale & Retail Trade	7,072	11	24	8	(27)	-
Mining & Quarrying	163	-	7	-	(15)	
Construction	92,870	132	1,595	110	649	-
Manufacturing	15,975	9,956	16	4,983	1,133	-
Transport & Communication	57,577	296	234	142	229	-
Services	165,760	5,986	3,914	1,870	3,204	-
Personal Financings	152,715	1,023	76	484	20	-
Total	**492,132**	**17,404**	**5,866**	**7,597**	**5,193**	**-**

* Stage 3 ECL include suspended profit of RO 2.231 Mn

As of 31 December 2021;

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

* Stage 3 ECL include suspended profit of RO 1.676 mn

* above ECL includes additional overlays of 1.222 mn

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

31 December 2022

5. CREDIT RISK (continued)

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

As of 31 December 2022;

Countries	Gross financings	Of Which NPLs	ECL stage 1 & 2	ECL stage 3*	Impairment charge during the Year	Financings written off during the year
Oman	492,132	17,404	5,866	7,597	5,193	-
Other GCC Countries	-	-	-	-	-	-
OECD Countries	-	-	-	-	-	-
India	-	-	-	-	-	-
Pakistan	-	-	-	-	-	-
Others	-	-	-	-	-	-
Total	**492,132**	**17,404**	**5,866**	**7,597**	**5,193**	**-**

* Stage 3 ECL include suspended profit of RO 2.231 mn,

As of 31 December 2021;

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

* Stage 3 ECL include suspended profit of RO 1.676 mn

* above ECL includes additional overlays of 1.222 mn

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

As of 31 December 2022;

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

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

31 December 2022

5. CREDIT RISK (continued)

As of 31 December 2021;

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

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

As of 31 December 2022;

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

As of 31 December 2021;

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

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

31 December 2022

5. CREDIT RISK (continued)

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

Qualitative disclosure

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

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

Financing receivables are principally divided into following Islamic products:

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

Credit Risk Mitigation (CRM)

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

The Islamic window normally accepts the following types of collateral:

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

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

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

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

31 December 2022

5. CREDIT RISK (continued)

The simplified approach for collateral recognition under the standardized approach is applied where 0% risk weight is assigned for the exposure covered by Cash collateral. All other financing exposures to corporates and retail are assigned 100% risk weight (except retail mortgage financings, which are assigned 35% risk weight). The Islamic window stands in possession of cash collateral of RO 0.251 mn; after application of haircut (0%) to the collateral the exposure stands at RO NIL. The Islamic window has not considered any financial guarantee under credit risk mitigation as of 31 December 2022.

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

Quantitative Disclosures:

As of 31 December 2022;

Rating	**Impairment allowance as at year end**	**Financings written off during the year**	**CBO Classification**	**IFRS 9 Classification**
1 – 6	4,878	-	Standard	
7	987	-	Special mention	**Stage 1 & 2**
8 – 10	7,597	-	Non-performing	**Stage 3**
Total	**13,463**	-		

As of 31 December 2021;

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

6. MARKET RISK

Qualitative disclosure

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

Rate of Return risk in banking book (RRRBB)

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

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

31 December 2022

6. MARKET RISK (continued)

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

As of 31 December 2022;

Particular RO'000	Effective profit rate	within 3 months	4 to 12 months	1 to 5 years	More than 5 years	Non-sensitive to profit rate	Total
ASSETS		**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Cash and balances with Central Bank of Oman		-	-	-	-	19,138	19,138
Due from banks		1,148	-	-	-	-	1,148
Financing Assets	5.86%	43,599	13,914	100,562	322,825	-	480,900
Investments	3.27%	-	807	32,652	16,778	273	50,510
Property and equipment		-	-	-	-	3,848	3,848
Other assets		-	-	-	-	4,390	4,390
Total profit bearing assets		**44,747**	**14,721**	**133,214**	**339,603**	**27,649**	**559,934**
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS							
Due to banks	3.85%	10,871	-	-	-	-	10,871
Equity of investment accountholders and other liabilities	2.48%	84,802	101,483	233,217	90	68,100	487,692
Shareholders fund		-	-	-	-	61,371	61,371
Total		**95,673**	**101,483**	**233,217**	**90**	**129,471**	**559,934**
Net gap		**(50,926)**	**(86,762)**	**(100,003)**	**339,513**	**(101,822)**	**-**
Cumulative net gap		**(50,926)**	**(137,688)**	**(237,691)**	**101,822**	**-**	**-**

As of 31 December 2021;

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

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

31 December 2022

6. MARKET RISK (continued)

Foreign Exchange Risk

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

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

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

Investment Price Risk

Price risk is the risk of losses from decrease in the market value of individual investments. Each investment is approved after rigorous due diligence and exposures are monitored against prudent exposure limits. The Islamic window does not maintain any trading positions in its portfolio as of 31 December 2022.

The Islamic window's investments in non-trading instruments are monitored within the overall limits and restrictions prescribed by CBO from time to time, and only in Sharia compliant product categories. The fair value of equity investments as of 31 December 2022 is RO 5.272mn with cost amounts to RO 5.334 mn. The Islamic window also has invested in sukuks carried at fair value through equity. The fair value of investments as of 31 December 2022 is RO 45.237 Mn with a cost amounts to RO 45.896 Mn.

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

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

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

Capital Charge:

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

Table showing capital charge for profit Rate, Equity and foreign exchange risk as on 31 December 2022 is given below:

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

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

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

31 December 2022

6. MARKET RISK (continued)

Price Risk

Impact of 10% change in price

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

7. LIQUIDITY RISK

Qualitative Disclosure

The Islamic window defines liquidity risk as its ability to meet all present and future financial obligations in a timely manner and without undue effort and cost through unconstrained access to funding at reasonable market rates and without affecting asset growth and business operations.

The following key factors are taken into consideration while assessing and managing the liquidity risk of the Islamic Window:

~ The need to have a well-diversified base for funding sources, comprising a portfolio of retail customers, large corporates and institutions, small & medium enterprises, high net worth individuals, without significant concentrations or correlations, thereby diversifying the funding base and mitigating concentration risks.

~ Based upon the past behavioral pattern analysis of our main liabilities, management expects large portion of customer deposits to be rolled over at contractual maturity.

~ As per the CBO directives, the Bank keeps at least 5% of its demand and time deposits with CBO in the form of clearing balances.

~ Commitments for loans and advances are approved after considering the Bank's overall liquidity position.

The Islamic window's projected liquidity needs are analyzed, and optimum alternatives to manage the liquidity risk are discussed and approved in ALCO. The risk management department also independently reviews and evaluates the Bank's ability to access liquidity from different sources.

The Treasury and Risk management departments identify liquidity at risk, which is monitored daily and reported periodically to ALCO. Liquidity and funding policy and a contingency liquidity plan have been established by the Bank, which applies to its Islamic window as well.

Liquidity and Funding Policy

The liquidity and funding policy of the Bank, which applies for its Islamic window as well, is intended to ensure that liquidity requirements are prudently and effectively managed such that anticipated and unanticipated funding needs are met on an ongoing basis in a controlled manner at the least possible cost.

The Bank's Asset Liability Committee (ALCO) reviews the Liquidity and funding Policy annually and submits recommendations for changes, if any, to the Bank's Chief Executive Officer (CEO) for review and submission to the Executive Committee and Board as applicable.

There are a number of techniques which the Bank uses to manage its Liquidity position and that of its Islamic Window. The key ones are:

➔ Placing limits on maturity mismatches

➔ Maintaining a stock of liquid assets

➔ Diversification of liabilities

➔ Access to wholesale markets

➔ Multi-currency liquidity management

The financing ratio, which is the ratio of the financing to deposits and capital, is monitored on a daily basis in line with the regulatory guidelines. Internally the lending ratio is set at a more conservative basis than required by regulation. The Islamic window also manages its liquidity risk on a monthly basis monitoring the liquid ratio which is a ratio of net liquid assets to total assets.

The Islamic window also maintains significant investments in liquid instruments issued by Governments and banks principally for maintaining liquidity.

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

31 December 2022

7. LIQUIDITY RISK (continued)

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

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

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

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

Stock of Liquid Assets

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

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

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

Diversification of liabilities

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

The liquidity and funding policy recognize the inherent value of the Bank's term depositors. The Islamic window seeks to establish strong and lasting relationships with depositors and other liability holders so as to foster a stable funding base. Trends in liability balances by category are reviewed by the ALCO on a monthly basis.

The Islamic window also recognizes that an over reliance on short dated inter-bank deposits can lead to difficulties in extreme market conditions. The exposure to such deposits is reviewed by the ALCO on a monthly basis.

Multi-currency liquidity

Where positions in specific foreign currencies are significant to its business, the Islamic window addresses the measurement and management of liquidity in these individual currencies. It is considered appropriate to consolidate several (usually minor) currencies and monitor the aggregate exposure expressed in base currency.

When monitoring exposure in aggregate, the Islamic window assesses the convertibility of individual currencies, the timing of access to funds, the impact of potential disruptions to foreign exchange markets, and exchange risks before presuming that surplus liquidity in one currency can be used to meet a shortfall in another currency.

Performance against limits is monitored daily by Treasury with any exceptions being immediately reported to ALCO members. Review of all liquidity positions against limits is performed by Head of Risk Management and Treasury based on figures produced by the Treasury Middle Office / Finance Department.

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

31 December 2022

7. LIQUIDITY RISK (continued)

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

Limit Breaches

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

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

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

Liquidity Contingency Plan:

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

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

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

8. OPERATIONAL RISK

Operational Risk Framework

Reputation Risk

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

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

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

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

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

31 December 2022

8. OPERATIONAL RISK (continued)

Business Continuity Risk

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

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

Business Continuity Test

During the year 2022, the Bank has carried out a comprehensive BCP test including a volume test on a working day in order to test the resilience of the bank's business systems at the DR site. The scope of the test was arrived at based on the Business Impact Analysis (BIA) carried by the Bank and the volume test results were submitted to the Board. The Bank has in place a Crisis Management Team (CMT), and the processes to be followed during a disaster scenario has been detailed out in the BCP documents of the Bank.

Concentration Risk

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

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

Information Security Risk

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

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

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

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

Operational risk capital charge and risk weighted amount

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

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

31 December 2022

8. OPERATIONAL RISK (continued)

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

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

9. DISPLACED COMMERCIAL RISK

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

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

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

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

During the year ended 31 December 2022, Islamic Window has appropriated RO 0.022 mn towards Profit equalization reserve.

10. INVESTMENT ACCOUNT HOLDERS

The Islamic window receives deposits by Investment Account Holders (IAH) under mudaraba contract and Wakala bil Istithmar contract. The Islamic window has Unrestricted Account Holders only.

Equity of investment account holders

Equity of investment account holders are funds held by the Islamic Window in unrestricted investment accounts, which it can invest at its own discretion. The investment account holder authorizes the Islamic Window to invest the account holders' funds in a manner which the Islamic Window deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. The Islamic Window charges management fee (Mudarib fees) to investment account holders. Of the total income from investment accounts, the income attributable to customers is allocated to investment accounts after setting aside provisions, reserves (Profit equalization reserve and Investment risk reserve, if any) and deducting the Islamic Window's share of income as a Mudarib. The allocation of income is determined by the management of the Islamic Window within the allowed profit-sharing limits as per the terms and conditions of the investment accounts. Administrative expenses incurred in connection with the management of the funds are borne directly by the Islamic Window and are not charged separately to investment accounts. Investment accounts are carried at their book values and include amounts retained towards profit equalization and investment risk reserves, if any. Profit equalization reserve is the amount appropriated by the Islamic Window out of the Mudaraba income, before allocating the Mudarib share, in order to maintain a certain level of return to the deposit holders on the investments. Investment risk reserve is the amount appropriated by the Islamic Window out of the income of investment account holders, after allocating the Mudarib share, in order to cater against future losses for investment account holders. Creation of any of these reserves results in an increase in the liability towards the pool of unrestricted investment accounts.

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

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

31 December 2022

10. INVESTMENT ACCOUNT HOLDERS (continued)

Profit Distribution Mechanism between Shareholders & Depositors under the Common Pool

Participation factor, Weights or profit-sharing ratios are pre-decided by the management of the Bank. In case of any change, after approval by the Shariah Supervisory Board these are intimated to the investors before start of the month. Weighted average balance is calculated at the end of the period by multiplying the participation factor with average balance for the period.

The Islamic window has a single pool of comingled assets where the funds of investment accountholders are invested. The Investment Profits are distributed between Mudarib and IAH in the following percentages:

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

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

Mudaraba fee

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

Investment Risk Reserve (IRR)

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

Transfer to or from Profit Equalization reserve (PER)

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

Transfer to or from (IRR)

In case the rate of return to the depositors in a certain profit distribution period is substantially higher than the market rates, Bank's management may decide to deduct, after taking permission from the SSB, a portion of depositors' share of profit and transfer the same to the IRR.

In case the rate of return to the depositors in a certain profit distribution period is lower than the market, Banks's management may decide to compensate the depositors by transferring the required amount from the said reserve account to increase depositors' return.

No IRR has been created and no transfer has been made during the year ended December 2022.

Assignment of a portion of shareholders' profit to depositors

If required, the Islamic window may decide to allocate some portion from their own profit to a specific deposit category(s). This could be either due to increase in the rate of profit announced by other Islamic Financial Institutions / competitors or to encourage a specific category of depositors.

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

31 December 2022

10. INVESTMENT ACCOUNT HOLDERS (continued)

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

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

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

II. Equity of Investment Accountholders – Ratios

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

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

31 December 2022

10. INVESTMENT ACCOUNT HOLDERS (continued)

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

III. Computation of pool income for the year ended 31 December 2022 (RO '000)

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

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

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

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

11. CONTRACT SPECIFIC RISK

The Bank closely monitors the total risk exposures in each type of financing asset including the relative risk of carried. Following is the total Risk Weighted Assets classified by type of financing as of 31 December 2022

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

12. ZAKAH

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

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

31 December 2022

13. EARNINGS PROHIBITED BY SHARIAH

The Islamic window is committed to avoid recognizing any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to the charity account where the Islamic Window uses these funds for charitable purposes. During the year ended 2022, income amounting to RO 0.002 mn has been credited to charity account being prohibited by Sharia. Sources and use of charity by fund has been disclosed in statement of sources and uses of charity fund in Financial Statements. With regard to undistributed funds under charity account as of year ended 2022, Islamic window has taken approval from SSB for deferment of disbursement to next year.

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

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

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

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

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

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

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

15. GENERAL DISCLOSURES

Shari'a governance

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

i. Shari'a Supervisory Board (SSB)

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

iii. Shari'a Audit Unit (SAU)

iv. Shari'a Compliance Unit (SCU)

v. Shari'a Risk Control Unit (SRCU)

Shari'a audit and compliance department

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

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

Trainings

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

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

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

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

31 December 2022

15. GENERAL DISCLOSURES (continued)

Complaints

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

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

Awareness

The Bank has trained customer services representatives in all the branches and call center staff who provide appropriate guidance to customers with regard to Islamic Banking. Furthermore, product brochures are available at all the branches. Product feature and related SSB Fatwa and glossary of Islamic banking are also available on the website for public information. Additionally, during 2022 Sharia Audit and Compliance team has regularly been meeting with customers and clients and explaining them about Islamic banking products and their conditions.

Related Party

Disclosures related to related party and transactions during 2022 are disclosed in note 30 of Islamic window financial statements.

16. SUBSIDIARIES AND SIGNIFICANT INVESTMENTS

The Islamic Window does not have any subsidiary or other significant equity investments as on 31 December 2022.

17. BASEL III REGULATORY CAPITAL DISCLOSURES

Below disclosures are prepared using three step reconciliation approach as defined in the CP2-Guidelines on composition of capital disclosure requirements issued along with the CBO Circular BM 1114.

BASEL III common disclosure template (RO '000)

		2022	2021
Common Equity Tier 1 capital: instruments and reserves			
1	Directly issued qualifying common share capital plus related stock surplus	35,000	35,000
2	Retained earnings	22,524	21,263
6	Common Equity Tier 1 capital before regulatory adjustments	57,524	56,263
Common Equity Tier 1 capital: regulatory adjustments			
7	Prudential valuation adjustments	(1,148)	(677)
28	Total regulatory adjustments to Common equity Tier 1	(1,148)	(677)
29	Common Equity Tier 1 capital (CET1)	56,376	55,586
Additional Tier 1 capital: instruments			
36	Additional Tier 1 capital before regulatory adjustments	-	-
Additional Tier 1 capital before regulatory adjustments			
43	Total regulatory adjustments to Additional Tier 1 capital	-	-
44	Additional Tier 1 capital (AT1)	-	-
45	Tier 1 capital (T1 = CET1 + AT1)	56,376	55,586
Tier 2 capital: instruments and provisions			
50	Provisions *(provision and fair value reserve)*	3,771	1,464
51	Tier 2 capital before regulatory adjustments	3,771	1,464

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

31 December 2022

17. BASEL III REGULATORY CAPITAL DISCLOSURES (continued)

Tier 2 capital: regulatory adjustments			
57	Total regulatory adjustments to Tier 2 capital	-	-
58	Tier 2 capital (T2)	3,771	1,464
59	Total capital (TC = T1 + T2)	60,147	57,050
60	Total risk weighted assets	456,071	401,790
60a	Of which: Credit risk weighted assets	434,761	381,054
60b	Of which: Market risk weighted assets	2,937	5,557
60c	Of which: Operational risk weighted assets	18,373	15,179
Capital Ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	12.36%	13.83%
62	Tier 1 (as a percentage of risk weighted assets)	12.36%	13.83%
63	Total capital (as a percentage of risk weighted assets)	13.19%	14.20%
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement expressed as a percentage of risk weighted assets)	7.000%	7.000%
65	of which: capital conservation buffer requirement	-	-
66	of which: bank specific countercyclical buffer requirement	-	-
67	of which: G-SIB buffer requirement	-	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets	2.20%	3.20%
National minima (if different from Basel 3)			
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	7.000%	7.000%
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	9.000%	9.000%
71	National total capital minimum ratio (if different from Basel 3 minimum)	11.000%	11.000%
Amounts below the thresholds for deduction (before risk weighting)			
72	Non-significant investments in the capital of other financials	154	135
Applicable caps on the inclusion of provisions in Tier 2			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	3,690	1,310
77	Cap on inclusion of provisions in Tier 2 under standardized approach	5,071	5,022

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

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17. BASEL III REGULATORY CAPITAL DISCLOSURES (continued)

Step 1: Balance sheet under Regulatory scope of consolidation

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

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

31 December 2022

17. BASEL III REGULATORY CAPITAL DISCLOSURES (continued)

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

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

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

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

31 December 2022

17. BASEL III REGULATORY CAPITAL DISCLOSURES (continued)

Step 3: Step Reconciliation of Regulatory Capital:

	Common Equity Tier 1 capital: instruments and reserves (RO' 000)		
	Year ended 31 December 2022	**Component of regulatory capital reported by Bank**	**Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from step 2**
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	35,000	b
2	Retained earnings	22,524	c
3	**Common Equity Tier 1 capital before regulatory adjustments**	**57,524**	
4	Prudential valuation adjustments	**(1,148)**	e
5	**Total regulatory adjustments to Common equity Tier 1**	**(1,148)**	
6	**Common Equity Tier 1 capital (CET1)**	**56,376**	
	Additional Tier 1 capital: instruments		
7	Additional Tier 1 capital (AT1)	-	-
	Tier 1 capital (T1 = CET1 + AT1)	**56,376**	
	Tier 2 capital: instruments and provisions		
8	Provisions	3,690	a
9	Fair value reserve of AFS investments	81	d
	Tier 2 capital before regulatory adjustments	**3,771**	
	Tier 2 capital: regulatory adjustments	**-**	-
	Tier 2 capital (T2)	**3,771**	
	Total capital (TC = T1 + T2)	**60,147**	

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

31 December 2022

17. BASEL III REGULATORY CAPITAL DISCLOSURES (continued)

17.1 MAIN FEATURES OF REGULATORY CAPITAL

		Year ended 31 December 2022
1	**ahli islamic**	**Common Equity Share Capital**
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	NA
3	Governing law(s) of the instrument Regulatory treatment	The laws of Oman in the form of Royal Decrees, Ministerial Decisions and CMA and CBO Regulations
4	Transitional Basel III rules	Common Equity Tier 1
5	Post-transitional Basel III rules	Common Equity Tier 1
6	Eligible at solo/group/group & solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Common Equity Share Capital
8	Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date)	35 million
9	Par value of instrument	-
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	RO 25 Million allocated in 2013 and RO 10 Million allocated in 2021.
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	Statutory approach
32	If write-down, full or partial	Write down fully
33	If write-down, permanent or temporary	Permanent
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	NA

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

31 December 2022

18. BASEL III LIQUIDITY DISCLOSURE

The below liquidity disclosure is prepared in accordance with the requirements of the CBO Circular BM 1127 'Basel III – Framework on Liquidity Coverage Ratio (LCR) and LCR disclosure standard' issued on 24 December 2014. The disclosure is based on average of three-monthly data points.

(RO '000)

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

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

31 December 2022

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

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

31 December 2022

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

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

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

31 December 2022

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

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

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

For ahli islamic

Hamdan Ali Nasser Al Hinai

Chairman

Date: 25 January 2023