البنك الأهلي
ahlibank

# 2023
## ANNUAL REPORT

**YOUR PARTNER IN EXCELLENCE**

His Majesty Sultan Haitham bin Tarik

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# SECTION I

# AHLIBANK

## Our Vision

To be a vibrant and innovative center of banking in Oman to drive the economic and social development.

# At a Glance

## About ahlibank

Established as a full-fledged commercial entity in 2007, we have since evolved to become a leading bank in the local banking sector. We are committed to delivering customer-centric products and services, and have a comprehensive suite of products and services and innovative solutions offered through all our branches and specialist teams.

With a focused approach to national development, we have introduced a range of community welfare projects to engage with people at different levels, and continue to partner with the government in realising the objectives of Oman Vision 2040. At the corporate level, our vision is to be a vibrant and innovative centre of banking in Oman to drive the economic and social development. Toward this end, we have developed a cadre of responsive professionals who are committed to meeting customer requirements and contribute to the national agenda of economic and social growth.

Our success is reflected in our expanded footprint across the country. Our new and modern branch network keeps pace with changing market demands and meets the lifestyle needs of our growing customer base. Furthermore, the digitalisation of our services, led by a highly professional team, has positioned us as one of the preferred banks in the Sultanate of Oman.

The beginning of ahlibank's journey

**2008**
Launch of Commercial Banking activities

**2009**
Launch of SME banking services

**2017**
RO 50 Million AT 1 - Capital

RO 2 Billion in Assets

**2018**
RO 54 Million AT 1 - Capital

Formation of '#ahliCares' team

**2019**
Launched the ahli islamic brand

Start of ahliDigital

**2020**
Supported the Sultanate's Covid-19 relief efforts

Launched youth account 'MyChoice'

**2021**
First Islamic bank to launch on boarding through mobile app

Launch of ahliGlobal Equity Fund

RO 30 Million Rights Issue

RO 3 Billion in Assets

## About ahli islamic

Following the promulgation of the Royal Decree and the subsequent issuance of broad guidelines by the Central Bank of Oman (CBO), ahlibank established its Islamic Banking window – AlHilal Islamic Banking Services – in accordance with the CBO's Islamic Banking Regulatory Framework, commencing operations in January 2013.

Over the next few years, Al Hilal Islamic achieved significant growth with improved operational efficiency, establishing a strong presence in the Islamic banking sector of the country. In a strategic move to consolidate and build upon this growth, Al Hilal Islamic Banking Services was rebranded as ahli islamic in 2019, marking a new era in Islamic banking excellence for our customers in Oman. As of today, ahli islamic operates 22 branches across the Sultanate, boasting a strong customer base in the Corporate, SME and Treasury sectors.

Since its inception, ahli islamic has implemented a comprehensive Sharia Governance structure for Islamic banking. This includes the constitution of the Sharia Supervisory Board (SSB), the Sharia Audit and Compliance Department, and dedicated sales teams across all branches and business units. ahli islamic is supported by a strong technological infrastructure, with core banking systems specifically tailored for Islamic banking operations. In terms of products, ahli islamic has developed an extensive range of products and services and innovative solutions to meet customer demands. ahli islamic adheres to robust policies and procedures in each segment, which have received approval from both its SSB and Board of Directors (BOD).

**2012**

Launch of Asset Management and Brokerage Services

RO 25 Million Capital raised through a Rights Issue

RO 1 Billion in Assets

**2013**

Launch of Islamic banking - 7 branches in the first year

Shift to the iconic HO Building

**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

**2022**

Launch of

EXPRESS تمكين Tamkeen islamiNET

RO 75 million raised via AT 1 bonds

**2023**

5 digital branches across Oman

First bank to provide 1:1 financing option through mobile app

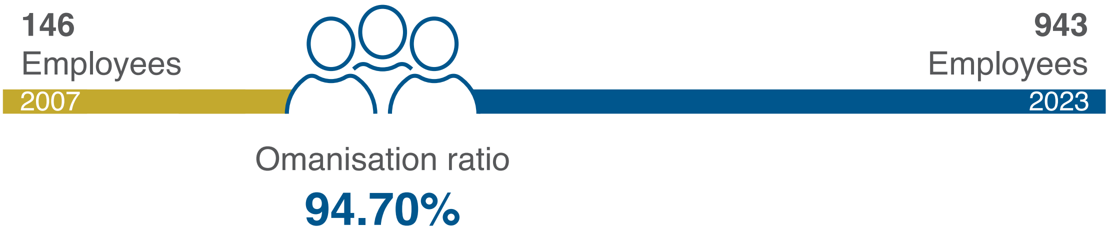
RO 50 million rights issue

RO 54 million raised via AT 1 bonds

# Our People

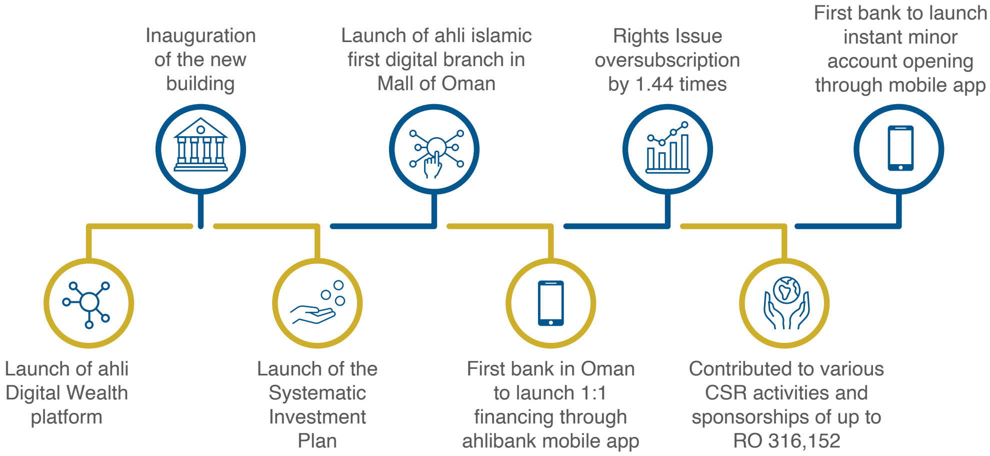
ahlibank has consistently contributed to Oman's national agenda in accordance with Oman Vision 2040, focusing on job creation and skill development, particularly for the young national workforce. Our commitment to human resource development aligns with meeting labour market needs. The Bank prioritizes training and offers a platform for employees to advance in their careers. We foster a nurturing and motivating work culture, crucial for developing strong human capital. This approach underpins our strategy for human resource development, embodying the potential for career growth and extensive learning opportunities. From resourcing to retention, and from fostering positive competition between employees to enhancing employee engagement, ahlibank acknowledges the pivotal role of its employees in achieving our short and long-term strategic goals. Being part of ahlibank means engaging in a culture of excellence, embracing challenges, thriving in an environment that nurtures innovation, and focusing on delivering superior customer experiences.

The Bank acknowledges the pivotal role of employees in achieving short and long-term strategies




## 2023 Key Highlights and Achievements

In a year of continued growth and innovation, ahlibank has solidified its leading position in the banking sector, driven by a steadfast commitment to excellence and a focus on future-forward banking solutions. This year's achievements stand as a source of immense pride, reflecting the dedication and trust that define our relationship with customers and stakeholders.



## 2023 Key Awards

Throughout the year, ahlibank has been recognised with several prestigious awards, a testament to our commitment to excellence across various facets of banking. Each award underlines our dedication to innovation, customer service, and technological advancement, reinforcing ahlibank status as a leading financial institution not only in Oman but on a wider regional and international stage.

**CEO of the year Award**
OER Oman Banking & Finance Award

**The Best Performing Company Award**
AIWA Excellence Award

**Excellence in Corporate Banking Award**
OER Oman Banking & Finance Award

**Leaders in Tech-Driven Digital Banking**
OER LIVE DX

**Excellence in Digital Transformation Award**
OER Oman Banking & Finance Award

**Best Private Bank- Oman**
MENA Banking Excellence Awards

**Best Islamic Bank - Oman**
Euromoney

**Best Bank for SMEs**
Euromoney

**Excellence in Retail Banking Award**
AIWA Excellence Award

**Leading Financial Institution**
International Business Magazine

# Our Locations

## Location & Branches

ahlibank continues to extend its reach across Oman, with several new branches opening in key locations, in line with our aim to enhance service accessibility. These new branches are equipped with the latest technology, ensuring an efficient and modern banking experience for all our clients.

ahlibank
branches
24


ahli islamic branches
22
AL WATTAYA
AL KHUWAIR
AL AMERAT
AL KHOUDH
MAWALEH
SOHAR
MABELLAH
GHUBRA
MALL OF OMAN
QURAYAT
AL SHUMOOKH CENTRE
SAHAM
BARKA
RUSTAQ
IBRI
SAMAIL
NIZWA / BAHLA
SUR
SINAW
JALAN BANI BU ALI
SALALAH
الأهلي الإسلامي
ahli islamic

# SECTION II

AHLIBANK

## Mission

To be a trusted and preferred banking partner, dedicated to creating unique value for our employees, customers, shareholders, and society.

# Board of Directors

**Hamdan Ali Nasser Al Hinai**
Chairman

**Anwar Hilal Hamdoon Al Jabri**
First Deputy Chairman

**Rajeev Gogia**
Second Deputy Chairman

**Abdul Hameed Ahmed Mohamed Al Bulushi**
Director

**Ibrahim Said Badar Al Eisri**
Director

**Salim Ali Hamed Al Hasni**
Director

**Wajid Ali Khan**
Director

**Qais Abdullah Moosa Al Kharusi**
Director

**Vivek Kastwar**
Director

# 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 Abdul Latif Al Balushi**
General Manager
Head of Risk Management

**Taher Albakhsh Al Balushi**
General Manager - Strategy
& Transformation & 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

**Sultan Khamis Al Balushi**
AGM - Head of Central Operations

**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 and Special Assets

**Ibrahim Abdullah Al Maamari**
AGM – Head of Compliance

**Said Ahmed Al Mahrooqi**
AGM – Head of Information Security

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

**Khalid Al Hamhami**
AGM - Head of Credit Risk

**Farid Mohammed Al Bahri**
AGM– Deputy Head of Internal Audit

**Abdullah Nasser Al Hinai**
AGM - Head of IT

**Mohammed Abdul Qadir Al Balushi**
AGM- Head of Treasury

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

# 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 2023.

In the midst of a rapidly changing global environment marked by economic and geopolitical changes, the International Monetary Fund (IMF) foresees world economy poised for nuanced changes with growth expected to undergo a slight moderation, from a forecast of 3.0 percent in 2023 to around 2.9 percent in 2024. In this ever-changing landscape, ahlibank strategically charted its course, aligning efforts with Oman Vision 2040, aiming not only to be a trusted financial institution but a Partner in Excellence.

ahlibank’s string of successes, driven by a deep understanding of prevailing market dynamics, position itself as a leading Bank in digital and financial offerings. This has benefited clients across diverse segments who continue to benefit from a tailored and unparalleled banking experience.

## Financial Performance

ahlibank's trajectory showcases sustained progress throughout the year, as illustrated further below:

### Net Loans, Advances & Financing

31-Dec-23: **2,694.2** RO Million

31-Dec-22: **2,500.4** RO Million

Growth: **7.8%**

### Total Assets

31-Dec-23: **3,318.3** RO Million

31-Dec-22: **3,075.5** RO Million

Growth: **7.9%**

### Customers' Deposits

31-Dec-23: **2,475.7** RO Million

31-Dec-22: **2,296.2** RO Million

Growth: **7.8%**

### Equity

31-Dec-23: **521.4** RO Million

31-Dec-22: **460.9** RO Million

Growth: **13.1%**

### Operating Income

31-Dec-23: **98.54** RO Million

31-Dec-22: **91.70** RO Million

Growth: **7.5%**

### Operating Expenses

31-Dec-23: **43.13** RO Million

31-Dec-22: **40.23** RO Million

Increase: **7.2%**

### Profit for the Period

31-Dec-23: **36.45** RO Million

31-Dec-22: **33.09** RO Million

Growth: **10.2%**

The Bank's Net Loans, Advances & Financing witnessed a 7.8% growth, reaching to RO 2,694.2 million at end of 31st December 2023, over the corresponding period in 2022. Customers' deposits increased by 7.8% to reach RO 2,475.7 million, compared to the corresponding period of last year. Total Assets increased by 7.9%, reaching to RO 3,318.3 million. Operating Income increased by 7.5% to reach RO 98.54 million. Operating Expenses increased by 7.2% to reach RO 43.13 million. Profit for the period grew by 10.2% to reach RO 36.45 million, demonstrating the Bank's sustained growth strategy.

## Achievement Highlights

In 2023, ahlibank witnessed remarkable advancements across various fronts, reinforcing its commitment to excellence and innovation.

The Bank successfully raised CET-1 Capital through a rights issue of RO 50 million, which was oversubscribed by 1.44 times, showing the trust and confidence placed by shareholders in the Bank's potential to grow further. During the year, the Bank also raised AT1 capital of RO 54 million on 25 December 2023 after exercising the first call option on AT1 Capital of RO 54 million, issued in December 2018.

The Bank took significant strides in bolstering its physical and digital footprint. Introducing state-of-the-art digital branches and enhancing the network of conventional ones, ahlibank aimed to redefine customer experience. The Bank's investment in digital infrastructure and the expansion of branch network were pivotal in delivering convenient banking solutions for customers across the length and breadth of the Sultanate. The launch and enhancement of intuitive digital platforms and mobile banking applications aimed to streamline financial interactions, providing seamless, user-friendly experiences for valued customers. These innovations underscore ahlibank's commitment to staying at the forefront of digital banking in Oman.

On the retail side, the Bank has led the way in developing digital services, and touchpoints such as ahliexpress, and digital branches, that bring us closer to our customers. With a segmented approach to developing new products, and services, ahlibank caters to a growing base of customers through tailor-made financial solutions. As part of its wide array of innovative and inclusive products and services, ahlibank has introduced its new children's account, in line with the bank's efforts to raise its customers' and their children's financial stability.

Contributing to Oman's economic vitality remained a top priority for ahlibank in 2023. Financing strategic national projects played a pivotal role in bolstering key sectors critical to the nation's growth. The Bank's commitment to supporting initiatives aimed at infrastructural development, energy, and other strategic sectors underscores its dedication to Oman's progress. The Bank takes pride in delivering innovative funding structures for its clients, and meet the requirements of investors and issuers. A strong and vastly experienced investment banking team provided support to state entities and corporates wanting to tap into the capital markets. ahlibank continued to make significant strides in the realm of investment banking, showcasing its expertise in handling landmark Initial Public Offerings (IPOs) and Bonds issuance. Similarly, the Bank's innovative Digital 1:1 Financing option, revolutionizes accessibility to financial services for individuals.

Through its sustainable resource planning, and employee learning & development initiatives, especially those under Himam, the Bank has been swiftly empowering the people of Oman with relevant employment, and on-the-job opportunities.

ahlibank celebrated a multitude of successes over the year, showcasing its prowess with a remarkable collection of 10 awards. The Bank set a strong tone at the Oman Banking and Finance Awards, securing a triumphant trio of accolades that underscored its unwavering commitment to excellence. Notably, the recognition included the prestigious 'CEO of the Year' award, alongside acknowledgments for 'Excellence in Corporate Banking' and 'Digital Transformation', solidifying ahlibank's reputation for visionary leadership and operational excellence.

Additionally, the Euromoney Award for Excellence in the SMEs category highlighted the Bank's pivotal role in empowering Small and Medium Enterprises, a significant stride in bolstering Oman's economic strength. The acknowledgment of ahlibank as the Best Private Bank in Oman at the Banking Excellence Awards further reaffirmed its dedication to innovation and outstanding performance within the financial sector.

These achievements underscore ahlibank's unwavering commitment to innovation, customer-centricity, and socio-economic progress.

## Corporate Social Responsibility (CSR)

ahlibank's CSR initiatives have made a meaningful impact, resonating deeply within the Omani society. Collaborating with Dar Al Atta'a's "Sawa Nabni," ahlibank's 'ahli cares' initiative breathed new life into dilapidated homes, fostering volunteerism and community engagement.

The blood donation campaign orchestrated by 'ahli cares' not only witnessed robust participation from the Bank's employees but also from its valued customers, underscoring commitment to saving lives and fostering community solidarity. The ahli cares CSR initiatives complement the furthering of the nation's socio-economy, and contribute to achieving Oman Vision 2040.

## Looking ahead

ahlibank remains resolute in tackling the challenges to ensure the stability of Oman's economy. It will continue to enhance its portfolio of cutting-edge digital products and services in tandem with the latest trends in the global banking scene. Having curated select services for various segments of customers, the Bank is poised to bolster its growth in accordance with its holistic approach of providing the best and being a Partner in Excellence to its growing customer base.

2024 will open a new chapter in ahlibank's prodigious journey. The year will mark the Bank's 16th anniversary since its inception in the Sultanate of Oman. Its string of successes, achievements, and milestones will continue well into 2024, and beyond.

## Acknowledgements

On behalf of the Board of Directors, I would like to extend gratitude towards our shareholders for their heartfelt support to ahlibank, and for their trust in us delivering on our commitments. Your faith has been instrumental in our sustained progress throughout the past year.

I would also like to thank the Bank's Executive Management and all the employees whose discerning efforts have been key to our continued success. My sincere thanks goes out to the teams for their dedication and relentless pursuits for Excellence.

We at ahlibank will continue to pledge our commitment and undivided support to His Majesty Sultan Haitham bin Tarik and the country's economic progression in realizing the goals outlined in Oman Vision 2040.

**Hamdan Ali Nasser Al Hinai**
Chairman

# Management Discussion and Analysis

## Economic Review

Oman's Economy witnessed a year of growth and progress, registering a real Gross Domestic Product (GDP) growth of 2.3% in 2023 compared to 4.3% in 2022 resulting in a budget surplus of RO 931 million for the financial year 2023 as per preliminary data. Sovereign credit rating of Oman was upgraded by S&P and Fitch ratings to BB+ and by Moody's to Ba1 during the year. The upgrade reflects significant improvements in Oman's fiscal metrics, a lessening of external financing pressures and ongoing efforts to reform public finances. The average price of Oman crude was at USD 82/bbl during 2023 contributing to the higher revenues and enabling the government to reduce the public debt by RO 2.4 billion bringing it to RO 15.2 billion, which is 35% of GDP.

The 2024 budget of Oman maintains financial, economic and social stability in line with the Financial Framework of the 10th Five-Year Development Plan (2021-2025) and Oman Vision 2040. It has several key initiatives in the form of developmental projects in education, health, transport, infrastructure and urban planning. The budget includes a focus on social protection through the Social Protection Fund and supporting target sectors through Oman Future Fund and Estidamah. Oil and gas revenues, representing 68% of the total revenues, are budgeted at OMR 7.49 billion for 2024, which is 11.5% higher than the 2023 budget of OMR 6.72 billion. 2024 budget assumes an average oil price of USD 60/ bbl and an average oil production of 1.031 million barrels per day. Non-oil and gas revenues budgeted at OMR 3.52 billion based on the expected higher tax and fee revenues resulting from the recovery of economic activities. A budget deficit of OMR 640 million is estimated at 1.5% of GDP, compared to a surplus of OMR 931 million as per the 2023 preliminary results.

## Financial Sector

Oman banks have recorded a healthy growth in 2023 supported by higher oil prices and improved liquidity due to stable fiscal conditions. The preliminary financial statements of the commercial banks show that the total assets increased to RO 38.8 billion as of December 31, 2023, recording a growth of 15 per cent from December 2022. The total net profit of these banks increased by 19 per cent to RO 453 million for 2023 as compared to RO 382 million for 2022.

The banks have achieved the increase in profits with a moderate growth of 5% in loans and financing and increasing interest rate during 2023. The improvement in the banks' financial results also reflects the efforts made by the banks to diversify their lending and financing portfolios, coupled with their contributions to financing government and private sector projects. The rising interest rate during the year has been a challenge to the overall credit recovery trajectory in 2023.

The MSX 30 Index closed at 4,514 points for 2023 which is 7.1% decline from 2022. The value of traded securities during this year have reached RO1,133 million with increase of 20.5% compared with last year of RO 940 Million driven by equity trades, IPOs, and increased daily and monthly average volumes The Market Capitalization increased in this year by 0.3% and reached around RO23.80 Billion, compared with last year of around RO 23.7 Billion.

## The Bank's Performance

The Bank has completed 16 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 7.9 per cent in 2023, reaching RO 3.32 billion, compared to RO 3.08 billion in 2022. Customer deposits went up by 7.8 per cent to reach RO 2.48 billion compared to RO 2.30 billion. Loans & advances and financing grew by 7.8 per cent, reaching RO 2.69 billion. The Bank's operating income increased by 7.5 per cent, reaching RO 98.5 million in 2023. The profit after tax for the year 2023 grew by 10.2 per cent to reach RO 36.45 million.

**Capital and Reserves:** The capital and reserves of the Bank as of 31 December 2023 stood at RO 521.4 million compared to RO 460.9 million as of 31 December 2022. The Bank maintained sufficient capital buffers and the capital adequacy ratio of the bank stood at 17.36 per cent, well above the regulatory requirement. The Bank successfully raised CET-1 Capital through a rights issue of RO 50 million, which was oversubscribed by 1.44 times, showing the trust and confidence placed by shareholders in the Bank's potential to grow further. The Bank also raised AT1 capital of RO 54 million on 25 December 2023 after exercising the first call option on AT1 Capital of RO 54 million, issued in December 2018.

**Loans and Financing:** The increase in gross loans and financing in 2023 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 212.4 million to reach RO 2.802 billion as of 31 December 2023 from RO 2.589 billion as of 31 December 2022. The focus in 2023 was to maintain high-asset quality, which reflected in the low non-performing loans to gross loans ratio of 3.93 per cent, comparably the lowest amongst its industry peers.

**Customer Deposits:** Customer deposits of RO 2.478 billion at year-end 2023 reflected an increase of 7.8 per cent compared to 2022, which is mainly on account of the increase in Retail deposits. The Bank continues 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 10.2 per cent to RO 36.45 million as compared to 2022, due to increase in both net interest income and net fees and commission income in 2023 as compared to 2022. The return on equity of the Bank as at December 31, 2023 stood at 10.7 per cent.

## Business Units

The Bank is dedicated to constantly enhancing 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 long-term sustainability. Its employees are encouraged to aim high, enabled with a sense of empowerment to achieve their tasks. Coupled with continuous training and development, the management aims to constantly 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, the Bank continuously invests in new and secure technologies in order to provide world-class customer service and experience through multiple 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:

Project Finance, Syndications & Energy

Food and General Trading

Manufacturing, Real Estate & Contracting

Financial services, Travel, Tourism and Transport

Sharia-compliant Islamic banking services through ahli islamic counters

The Bank has strategically aligned its teams to concentrate on sectors key to 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 by providing a comprehensive range of competitively priced, funded and non-funded financial products and advisory services. ahlibank is fully committed to 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

Small and Medium Enterprises (SMEs) continue to play a vital role in the economic development of Oman. The empowerment of this sector contributes to the generation of job opportunities, enhancement of exports, facilitation of equitable income distribution, reduction of oil dependency, and an increased contribution to the country's GDP. With Oman reviving and redirecting its focus and resources towards SMEs, the country has developed various programs to establish and support new business units. Concurrently, there is a reliance on banks to continue playing a crucial role in the development of this sector. ahlibank Launched the "Tamkeen" crowdfunding initiative during fiscal year 2022 in collaboration with Beehive, marking it as the first of its kind in Oman. The programme provided Financial aid to 49 locally established firms with total funding exceeding RO 3.9 million.

## 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 recognises the importance of relationship building, ensuring that a comprehensive range of products is available 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, catering to the needs of government bodies and institutions, including Ministries and other governmental offices, such as pension funds. The unit provides products and services tailored to the government's diverse banking requirements. It collaborates with other departments within the Bank, such as Corporate Banking for funding needs, and Retail, Premium, and Private Banking for employee-related services, offering attractive, customised packages.

## Transaction Banking (Corporate E-channels)

Our transaction banking platform caters to the needs of businesses, corporations and institutions in terms of seamlessly managing their routine financial transactions, which encompass financing of international trade, cash management and liquidity management.

The difficulties companies encounter in securing short-term liquidity and their search for efficiency and financial optimisation have led to the rise of transaction banking, consolidating its position within corporate banking.

Transaction banking comprises three major verticals: Trade Finance sales, cash and liquidity management and the corporate products that complement the business lines, such as the payment gateway and the array of corporate cards. Together, these elements cater to the complete corporate digital ecosystem and enable seamless and convenient transaction solutions, providing our clients with state-of-the-art features that create an unmatched experience in managing their busy business lives. This focuses on driving efficiencies and ensuring robust cybersecurity measures and guaranteed confidentiality.

## Retail Banking

ahlibank continues to focus on designing and offering innovative products and services for its customers, its foothold and market presence, while simultaneously ensuring seamless and enriching experiences for our customers. As part of its retail network expansion and digitalization strategy, ahlibank opened its first digital branch in 2022 "ahli express', and by the end of 2023, 5 Multi-Functional Kiosks were operational. This strategy aims to increase touch points with customers, provide convenient services at a larger scale, contribute to the development of local communities and widen geographical coverage, all while implementing strategic sales plans that will efficiently maximise stakeholders' equity over the medium term.

## Private Banking Services

ahlibank's Private Banking Services cater exclusively to High Net Worth Individual (HNWI) clients, delivering a personalized and privileged financial experience. Our dedicated team of Relationship Managers and wealth management professionals works closely with clients to offer tailored services for deposits, transactional needs, and exclusive credit card offerings. Private Banking at ahlibank goes beyond basic financial services, extending to sophisticated financial planning, estate management, and concierge-level services. With one-to-one personalised service, we promise complete confidentiality in our service centres and lounges, ensuring that clients can explore unique opportunities with the utmost privacy and exclusivity. This commitment underscores our dedication to fostering a dynamic partnership that evolves with clients' changing needs.

### BENEFITS

| | | | |
|---|---|---|---|
| Preferential pricing on deposits and loans | Special discounted tariffs on bank charges | Free Infinite credit card and Signature debit card | Unlimited complimentary lounge access with 1 guest to over 1000+ international airports |

**Al Nukhba Premium Banking:** The Bank's clients benefit from the extensive range of service and financial and non-financial privileges, designed by a pool of experts. All the dedicated Relationship Managers (RMs) offer personalised services to clients through its various branches and Premium Service Centres.

Free credit and debit card

Special discounted tariffs on bank charges

Preferential pricing on deposits and loans

Discounts and offers from selected premium merchants

Personalised concierge service, free travel insurance, purchase protection and extended warranty

**Imtiyaz:** ahlibank customers can now access our dedicated banking services for the Imtiyaz segment, offering a seamless banking experience tailored to the demands of a modern lifestyle. Eligibility for this segment requires a minimum salary transfer of OR 1,000 or a deposit of OR 10,000 and above.

**MyChoice:** ahlibank presents an opportunity for its young customers to embark on the path to financial independence. By managing their own budget and starting to save with the MyChoice Youth Account, young customers can enjoy an array of specially designed perks and offers.

**Istqrar:** The Istqrar account, specifically designed for retirees, offers an array of attractive facilities. This special bank account caters to all basic banking needs, while providing added value through higher returns on fixed deposits, lower interest rates on personal, mortgage, and auto loans, among many other 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, including redemption against travel miles, travel protection insurance, extended appliance warranty, airport lounge access, purchase protection, concierge services, etc.

**Personal Loans:** ahlibank's personal loan facility, branded as "MyLoan" offers ready cash with high loan amounts, easy and suitable repayment options, and competitive interest rates. With simple documentation requirements and 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 many 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 of 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 monthly. This is coupled with the use of a chequebook to transact freely. Customers can use their funds anytime without notice while enjoying high interest rates on the balance available in their accounts.

**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 at the end of each day.

**MySaver:** With My Saver Plan, customers can invest small amounts every month, multiplied with regular bonuses over time. The account pays Attractive interest monthly based on the daily available balance. Free life insurance coverage up to is also bundled with the account.

**Exclusive Plus Account:** an interest-bearing saving account that offers customers high interest rates on their deposits and a transactional account's flexibility. 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 customers' assets and property. The insurance products cover unexpected events, protecting customers from collateral damage that could otherwise erode savings or investments.

**Alternative Channels:** To meet the growing demand for efficient ATM, CDM and digital banking services, ahlibank continues to enhance customer experience by providing convenient and seamless banking services and offering secure and reliable banking technologies.

To enhance and offer state-of-the-art digital banking services, the Bank has launched "ahliExpress", where customers can enjoy a seamless and efficient banking experience 24 x 7 through Multi-Functional Kiosks. This digital platform offers 12 banking services such as Instant account opening for new customers, additional account opening for existing customers, Cheque book printing, Debit card printing for multiple segments, Statement printing, Civil ID update, Personal video assistance and other such debit card services like Card activation, PIN change, Limit update etc.

ahlibank's free e-channel service offers 24-hour access to banking services that provide 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 Mobile Banking service, customers can enjoy easy access to services such as viewing transactions of accounts, debit and credit cards, making fund transfers locally and internationally, bill payments, viewing and downloading bank statements, instant account opening for new customers, additional account opening for existing customers, instant account opening for minors, avail instant top-up loan, view loan details and download loan statement, open fixed deposit, update Civil ID etc. All these services come with the assurance of the highest online security standards.

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 withdrawals, cash deposits, cheque deposits, utility bill payments, credit card payments, mobile top-ups, among other services. To enhance the cash deposit service experience and maximise CDM utilisation, the Bank has recently launched a new 'Cross cash deposit' service on CDM, which will allow customers to make cash deposits to any of ahlibank or ahli islamic accounts using any of the bank CDMs regardless of banking type. This online service allows customers to deposit cash to ahlibank or ahli islamic beneficiary accounts using any CDM within the Bank, and the amount is deposited instantly.

## Treasury

ahlibank's professional and experienced treasury team provides a comprehensive package of services in both treasury and investment products to individuals, corporations, commercial entities, 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 customised.

The Treasury and Investment division can 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 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 their clients' needs are met in the most efficient manner. In doing so, the Financial Institutions Group ensures that ahlibank's Brand recognition is enhanced in existing and 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 and 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 and 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, validation 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, the latest developments in the local and international markets, and the rules governing international trade, focusing on customer service.

Bank is in the phase of digitising trade finance with a front-end trade portal being implemented for customers and easing the end-to-end trade finance requirements of the customers. This will support the customer's growing needs and efficiently process trade finance transactions.

## Asset Management

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

During the year, ahlibank expanded its product suite by launching competitive fixed-income strategies, allowing clients 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 ahliGlobal Equity Fund, continues gaining traction with clients and offers investors' international diversification. The Asset Management team also manages several discretionary strategies, including thematic and regional equities.

We are steadfast in our commitment to advancing our product suite, with plans to introduce more innovative offerings in 2024. These additions will empower our clients with access to distinctive and compelling investment products, filling a void in the current market landscape.

The dedicated investment team at ahlibank is unwavering in pursuing our long-term vision. With considerable expertise spanning various markets and asset classes, we are well-positioned to deliver capabilities and instil confidence in our clients. Our approach revolves around a robust investment process grounded in thorough fundamentals, ensuring the attainment of superior risk-adjusted returns. Complementing this, we have implemented a disciplined Risk Management Framework to navigate and mitigate volatility effectively, safeguarding the interests of our clients.

## 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, strategic financial advisory and structured finance. It develops innovative, customised solutions for its clients backed by deep understanding and specialised 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 2023 across marquee corporate and GRE clients. During FY 2023, it was the joint issue manager for the successful initial public offering Abraj Energy Services SAOG. This IPO was amongst the largest IPOs at that time and was oversubscribed 8.7x, receiving total subscriptions for RO 790 million against issue size of RO 90 million. It also managed other capital market issuances, including the Rights Issue (RO 50 million) for ahlibank, Additional Tier I Offering (RO 54 million) for ahlibank, private placement Sukuk Offering by MB Holdings LLC for RO 30 million and the private placement of unsecured non-convertible subordinated bonds of Taageer Finance Co. SAOG (RO 15 million). It also acted as the collecting bank for the IPO of OQ Gas Networks.

The division is working on multiple loan syndication (including Islamic facilities) mandates for clients in manufacturing, waste management, mining, real estate, and port services to raise over RO 250 million. It continues to have a strong pipeline and is constantly engaging in a wide cross-section of mandated transactions across capital markets, loan markets and advisory.

The division continues to focus on building strong relationships and track record and delivering innovative solutions for its clients. It is increasing its focus on its platinum client as well as increasing the share of wallets. It is also working to strengthen its relationships with regional banks and investors.

## Brokerage

The brokerage services cover both Oman and other GCC markets by providing differentiated and focused services for our valued clients. The division generated a turnover of approximately RO 154 million representing approximately 7% of the market in 2023. It closed the year ranked 6th in Oman (6th in 2022) regarding market share. The brokerage division acted as a buy/sell-side broker on several landmark transactions.

The brokerage division continued to expand its research coverage of local equities and extended this to regional companies, which received positive market feedback. This strategic move solidified our market share and showcased our commitment to delivering comprehensive insights.

## Wealth Management Services

ahlibank's Wealth Management Services offer a comprehensive and integrated approach to financial stewardship for HNWI. Tailored for discerning clients, our wealth management professionals design personalized investment strategies aligned with individual financial goals. The core of our Wealth Management services includes exclusive access to diverse investment opportunities, featuring a comprehensive range of International Fixed Income Securities Bonds and Sukuk listed on major global exchanges. Clients benefit from diversified asset allocation across Equities, Bonds, and a broad spectrum of alternative investments through strategic investments in Global Mutual Funds and ETFs. With a commitment to financial inclusivity, our Wealth Management Services leverage the flexibility of "Systematic Investment Plans – SIPs." This innovative approach extends our reach beyond traditional HNI clientele, allowing a broader audience to participate in wealth creation over the long term. SIPs provide a disciplined investment avenue, enabling individuals to systematically invest fixed amounts at regular intervals, regardless of their initial capital. This inclusive strategy aligns with our dedication to helping clients build wealth over the long term, ensuring financial prosperity for a diverse range of investors. Our Wealth Management Services extend beyond traditional investments, encompassing sophisticated financial planning and a holistic view of a client's financial landscape. ahlibank is committed to delivering unparalleled service and fostering a lasting partnership that evolves with clients' changing financial needs and aspirations.


Exclusiv
for private clients

## 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. ahli islamic's network of twenty-two dedicated branches, located in strategically important locations 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 exclusively designed for its esteemed customers, including a dedicated relationship manager, specialized service centres, handpicked offers from select merchants, 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

**Current Account**
Non-profit paying, transactional account for individuals, corporates and institutions

**Savings Account**
Profit-paying account for regular savers who want to get the benefit of receiving Sharia-compliant profit on their savings

**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

**Term Investment Account**
Term deposits under Wakala mode are for customers who wish to earn higher profits at easy terms of 12 months, 24 months, 36 months, etc.

**Qitaf Savings Account**
Profit-paying account and transaction account for individuals receiving Sharia-compliant profit on their savings. This account features a 10% cash-back offer from the bank on salary transfers.

**Al Qimmah Wakala Account**
A profit-paying, non-transactional account based on Wakala mode, allowing customers to earn a high monthly profit.

**Special Offers**
Many attractive offers on different accounts are also offered regularly to attract new customers.

**Alternate Distribution Channels**
(ahli islamic net, SMS alerts, SMS banking, ahli islamic debit & credit cards).

**Branchless Banking**

**Priority Banking**

**Cash Management Services**

# Financing Products

## Corporate Banking

ahli islamic offers a comprehensive array of Shariah-compliant financing solutions catering 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.

## Sharia Advisory Services

ahli islamic regularly facilitates corporate entities by providing Sharia advisory and Sharia technical services and support for the development of Sharia-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/goods 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 instalments the proportionate share of the other co-owner until the title of the asset is completely transferred to the purchasing co-owner. Furthermore, during the entire tenor of the facility, one of the co-owners can rent out its undivided share in the asset to the other co-owner.

### Ijarah MBT:

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

### Wakalah Bil Istithmar (WBI)

In Wakalah Bil Istithmar financing, the Bank enters into an investment agency transaction with the 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. By the end of each quarter, half year, or any other defined period, the customer pays the profit.

### Istisna Finance

Istisna Finance is an Islamic financial product used to finance the production or construction of goods, properties, or projects. It is a contract between a financier and a manufacturer or builder, where the financier agrees to buy a specific asset or project which is yet to be constructed or manufactured at an agreed price and on a predetermined future date.

### Running Musharka (RM)

Running Musharakah is an Islamic financing product based on the principles of partnership and profit-sharing. It is a form of Musharakah, a joint enterprise where all partners share the profits and losses of a business venture. Running Musharakah is specifically designed to cater to the working capital needs of businesses.

### Retail Islamic Financing and Related Assets

**Personal (Goods) Finance:** Offers a high financing amount with a repayment period of up to 10 years at a highly competitive profit rate, designed 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 salary customers to add more convenience and freedom in owning their vehicles.

**Home Finance**: Up to 80% of the property value for ready property buying and construction for up to 25 years for people 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 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.

**Qard Hassan Finance:** A profit-free facility, Qard Hassan, will be offered to new employees from select entities. The new employees can avail up to RO 1,500 repayable in one year with a grace period of three months, during which the Bank will bear the life takaful during the said period. Qard is offered to new employees to help them settle through the displacement at the start of their roles with the government entity.

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

## Risk Management

The Bank strives to balance risk and returns while operating within the Risk Management Framework. The Risk Management Division closely monitors the core risk areas and reports to the Board Risk Committee. The primary goal of the Risk Management Division is to ensure that the Bank's asset and liability profile, trading positions and credit and operational activities are not exposed to losses that could threaten its stability and continuity.

Risk Management ensures that risk exposures do not become excessive, nor concentrated, relative to the Bank's capital and financial standing in line with the Bank's approved Risk Appetite Statement, which is cascaded to the business unit level and monitored regularly. The Risk Management Practices, Policies and Risk Appetite Statement are also regularly updated in line with the evolving business and regulatory environment.

The Bank manages the risks effectively and efficiently by monitoring and approving all retail and commercial credit applications. This emphasises 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 the identification of the various associated risks.

The Bank complies with Basel III Norms and 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. Regular reviews of portfolios and corrective measures are taken, where essential, to maintain high asset quality and support business growth. For cyber risks, the Bank has various procedures to ensure its readiness to respond to imminent cyber threats.

The Risk Management Function will continue to invest in new projects to adapt to the changing regulatory landscape, further enhancing risk management practices. It will also maintain adherence to international best practices and persist in monitoring and controlling exposures within the predetermined acceptable limits.

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

## Management Committees

Executive Management Committee

Credit & Investment Committee

Assets & Liabilities Committee

Credit Risk Management Committee

Operational Risk Committee

Technology Delivery Committee

Special Assets Committee

Products & Consumer Protection Committee

Technology & Digital Transformation Steering Committee

The Bank has established policies and measures to assess capital adequacy in accordance with Central Bank of Oman (CBO) regulations, which have been approved by the Board of Directors. Under these policies, the Bank assesses its capital against its risk profile to ensure it sufficiently supports all material risks to which it is exposed.

## Policies and Procedures

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

| | | | |
|---|---|---|---|
| Anti-Money Laundering Policy | Corporate Communication, Marketing and Branding Policy | Fraud Risk Management Framework | Product and Consumer Protection Policy |
| Asset Management Policy | Corporate Governance Policy | Fraud Risk Management Policy | Risk Management - Approach and Framework |
| Board Remuneration Policy | Corporate Social Responsibility Policy | Human Resources Policy | Sanctions Policy |
| Brokerage Policy | Credit and Investment Policy | Information Security Policy | Security and Safety Policy and Plan |
| Business Continuity Management Policy | Customer Complaints Redressal Policy | Liquidity and Funding Policy | Social and Environment Management System Policy |
| Capital Management Policy | Disclosure Policy | Market Risk Policy | Social Media Policy |
| Classification and Measurement Financial Assets and Liabilities | Dividend Policy | Operational Risk Management Framework | Treasury and Investment Policy |
| Cloud Policy | Electronic Banking Policy | Operational Risk Management Policy | Voice Recording Policy |
| Code of Business Conduct Policy | Expense Policy | Outsourcing Management Policy | Wealth Management Policy |
| Compliance Policy | Financial Institutions Policy | Personal Account Dealing Policy | Whistle Blowing Policy |

## Islamic Banking Related Policies

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

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

## Consumer Protection

The consumer protection framework implemented by ahlibank reinforces its foundation of integrity responsibility and excellence in our customer relationships. Consumer protection is not only part of ahlibank's mission, but also embedded in the core values of the Bank. ahlibank's efforts in year 2023 to ensure adherence with Financial Consumer Protection Regulatory Framework (FCPRF) are reiterated below:

### A. Disclosure and Transparency

1. ahlibank's customer services related documentation (Terms & Conditions, Account Opening Forms, Agreements, Contracts, etc.) have been comprehensively reviewed by respective product team, legal department and external legal firm for improvements in terms of transparency and clarity in adherence to the consumer protection framework requirements.

2. ahlibank has developed key facts statements (KFS) for all its Retail and SME products and published the KFS documents on its websites.

3. Awareness created across the bank about Key Facts Statements (KFS) and its uses.

4. Managing conflict of interest is adequately covered in bank's Compliance Policy and Code of Business Conduct policy.

5. ahlibank continues to ensure that written product related agreement copies are provided to customers where needed (Credit facilities, Loans, etc.).

6. Bank issue periodic statements to customers for their transactional accounts, cards, etc which are also available through its channels and branches.

### B. Fair Treatment and Business Conduct

1. ahlibank has amended it's internal policies and procedures (including credit policies), where needed in relation to compliance of the new Consumer Protection Framework.

2. The Bank's promotional and advertisement materials include appropriate warnings to customers on various risks.

3. The bank has organized various awareness training sessions to enhance skills of the front-line staff/ functions for ensuring fair treatment of the customers.

4. The Terms of Reference for Board of Directors and Management Committee has been reviewed and modified to oversee matters related to Consumer Protection.

### C. Data Protection and Privacy

The Bank's privacy policy is in line with new Data Protection Law of Oman and covers customers data rights protection
Bank has following controls in place to address regulatory requirements of data protection:

1. Internal policies for launching or amending Products & services.

2. Management Committees overseeing the bank's products & services and systems.

3. Product Development teams and Information Security team ensure protection of data, while developing or launching products.

4. Retention Procedure defining minimum period of records retention to be 10 years as stipulated by regulatory guidelines.

5. Charges for retrieval of customers records/data as defined in the bank's schedule of charges.

6. A dedicated ISO team under Risk Management department to control & monitor data confidentiality & security.

### D. Dispute Resolution Mechanisms

The Bank has a Board approved Customers Complaints Redressal Policy. It has a dedicated Quality Assurance and Compliance Management team. The Bank continuously creates awareness on its social media, websites on consumer rights and manner of submitting complaint to the bank. It has a defined escalation and turn-around time for handling customer complaints. The customer may submit complaints through various banking channels and following mechanism is adopted

1. Customers receive auto notifications of their complaints received by the bank with reference number for the case registered

2. Call back service from the bank's Quality Assurance unit to inform the customer that his/her case is under investigation.

3. On resolution, the customer is informed by the bank through SMS sent confirming closure of the case.

4. Bank maintain written records of all complaints through a Complaints Management System

## E. Role of the Board and Senior Management

At the Board level, the Executive Risk committee oversees matter relating to the implementation of the framework. At the Management level ,the Product committee was also revamped to Product and Consumer Protection Committee (PCPC) to oversee the implementation of the Consumer protection framework. The PCPC monitored the FCPRF implementation within the Bank. The Executive Management Committee and Board were periodically updated on the progress of the implementation.

## F. Financial Education and Financial Capability

Bank has developed financial education and financial capability plan which included three major initiatives for consumer education, namely i).Product awareness ii) financial tips iii) financial awareness events. Bank plans to use its various channels to improve customers' education and capability, which includes the following:

1. Posts and videos discussing various product awareness topics will be made on a monthly basis through Social Media & SMS

2. Regular awareness events, such as gatherings or seminars through Face-to-Face & virtual

3. Financial Tips through social media platforms

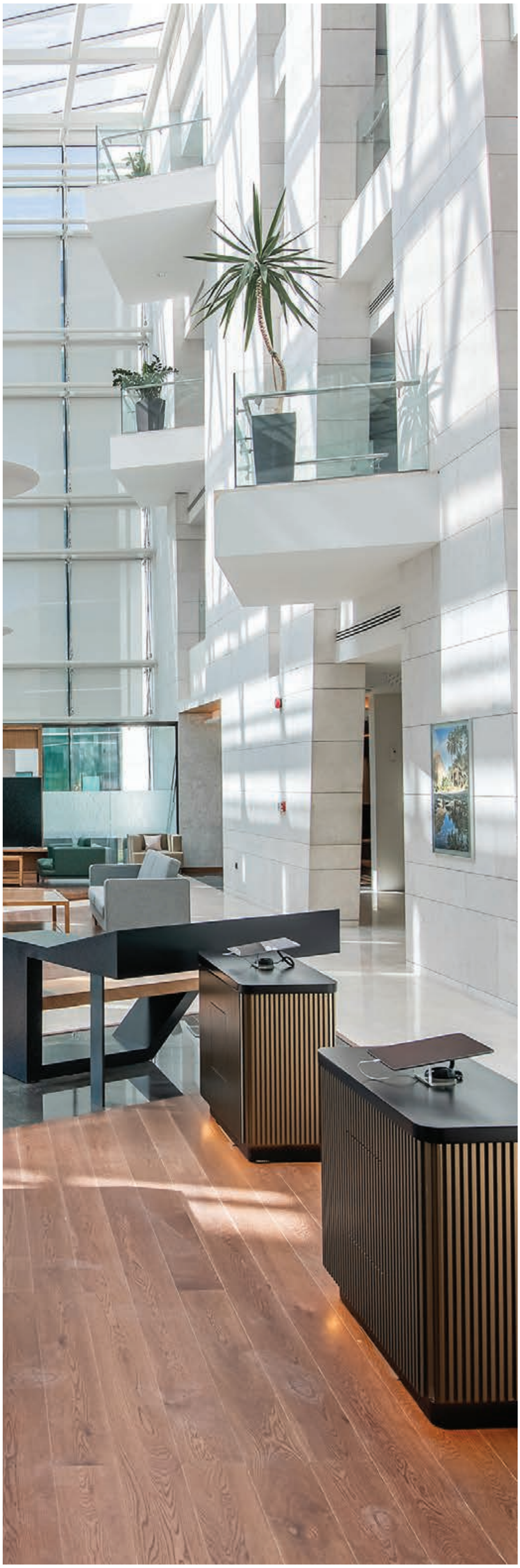
Bank has submitted the Financial Awareness Initiatives Report and plan to Central Bank of Oman(CBO).

## G. Other action Required by Licensed Entities

1. The Bank developed Charter of consumer rights and responsibilities and published it on both Ahlibank & Ahli Islamic websites

2. Bank's Retail banking services initiated conducting a half-yearly mystery shopping to perform qualitative monitoring of financial consumer protection.

3. Bank has regularly periodically updated the CBO on the progress



## Complaints Management

The Bank has a dedicated Complaint Management unit responsible for addressing customer feedback and managing customers complaints. The unit ensures compliance with all requirements related to Complaints Management and redressal. As per requirements of the Financial Consumer Protection Regulatory Framework, the following table details complaints data for 2023, and the comparative date for 2022.

*Disclosure on customer Complaint*

| Complaints Received by the bank for its customers | 31st Dec 2023 | 31st Dec 2022 |
|---|---|---|
| 1. Number of complaints pending at beginning of the year | 4 | 46 |
| 2. Number of complaints received during the year | 925 | 1162 |
| 3. Number of complaints Disposed during the year | 919 | 1158 |
| 3.1 Number of complaints rejected by the bank | Nil | Nil |
| 4. Number of complaints pending at the end of the year | 6* | 4 |
| 4.1 Number of complaints pending beyond 30 days | - | - |

** All complaints are within the compliant resolution timeframe*

During the year 2023, there were no cases on which any enforcement actions were on Bank for violations of consumer protection laws or Financial Consumer Protection Regulatory Framework (FCPRF).

The Bank's website (both ahlibank.om and ahliislamic.om) provides customers with easy access to information they need on their rights and responsibilities. The pages can be found under knowledge center:

Key Facts Statements https://ahlibank.om/key-facts-statements/

**For feedback and complaints, please call 24577177.**

The complaint will be acknowledged with a reference number and addressed in a reasonable time.

For any escalation, customers may contact:

**Mr. Ibrahim AlMaamari on phones number 24653015 / 24653093**
**WhatsApp 72400111 or email us on complaints@ahlibank.om.**

The above information is available in the website @ https://ahlibank.om/ahliconnect/

## Internal Audit

The Internal Audit Function reviews and provides 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 aligned with globally accepted methodologies and standards as propounded by the Institute of Internal Auditors (IIA), USA. This Function is an integral part of the Bank's control environment, providing independent assessments and reviews through audits based on a risk-based annual plan. It shares the findings with senior management and submits them to the Audit & Compliance Committee. All issues are diligently followed up for timely corrective actions and brought to their logical conclusions.

## Information Technology (IT)

The Bank continues to invest in and build upon its platforms, creating differentiated end-to-end digital products and services to meet the evolving expectations of our next-generation customers. We focus on crafting customer experiences facilitating various services across retail and corporate banking, lending, cards, payments, and customer acquisition and servicing. The Bank is also committed to developing innovative and disruptive solutions to simplify the customer experience, deliver market-leading products, and foster a high degree of digital engagement and adoption.

With rapid advancements in technology, we are leveraging innovative solutions to transform our operations and customer engagement methods. We continue to explore and invest in new technologies to maintain our position at the forefront of the industry. The Bank is also consistently investing in developing a modern technology stack, enabling the incorporation of new products and services. This involves building core systems, establishing enterprise service layers, integrating with various channels, and creating API connections with external counterparties, all while ensuring robust cyber and digital security measures.

The Bank's technological solutions, designed with our customers' interests at the core, exemplify best-in-class, technology-led, and client-centric offerings. These solutions ensure seamless and customised experiences. In our commitment to innovation, the Bank is focusing on developing cutting-edge technology products and strengthening its core systems and applications through strategic upgrades. Concurrently, we are enhancing our infrastructure to ensure improved resiliency and to maintain the high performance and availability standards our customers and regulators expect. Our initiative to re-architect the technology infrastructure to be Cloud-native is a testament to our commitment to agility, speed, and scalability. Significant investments have been made in resilience, characterised by initiatives such as software-defined networking, infrastructure standardisation, zero data loss methodologies, and robust governance. Our continuous enhancements in control processes, policies, Disaster Recovery (DR), Business Continuity Planning (BCP) management, and risk mitigation programs are pivotal in improving IT governance, ensuring regulatory compliance, and maximising the value of our technology investments.

The Bank has developed technology-enabled processes that minimise paperwork and ensure seamless processing with minimal manual intervention. We are focused on simplifying our architecture and modernising our systems to guarantee that our most critical processes are always available. This includes a comprehensive review of our applications to identify those that should be retired, retained, or reimagined. This year has witnessed significant progress in automation, marked by the completion of various initiatives and several others in progress. Through core technology enhancements, the implementation of Robotic Process Automation (RPA) and Chatbots has been pursued, benefiting both internal processes and clients with superior service delivery. The use of technology has catalysed new product developments and innovation throughout the year, further advancing the automation of various operational processes. Our approach to work is undergoing a profound transformation, characterised by the continuous adoption of breakthrough technologies. This approach is systematic, encompassing people, processes, and technological security controls to prevent, detect, respond to, and recover from cyber-attacks. It also ensures that sensitive company information remains secure by design and in practice.

## Digital Transformation

Digital transformation signifies a radical rethinking of how an organisation leverages technology, people, and processes to fundamentally alter its business performance. These fundamental shifts are often driven by the pursuit of new business models, the generation of additional revenue streams, and changes in customer behaviours and expectations around products and services. In the banking sector, digital transformation has revolutionised how banks operate and interact with their customers, including active collaboration with FinTechs to introduce innovative products and services.

As a cornerstone of its digital transformation strategy, ahlibank continues to lead the way in embracing digital technology. This effort is redefining the delivery and experience of banking services, improving product offerings, and distinguishing the Bank from its competitors. In recent years, the Bank has significantly enhanced its alternative delivery channels. These include internet banking, mobile banking, multi-functional kiosks, SMS banking, phone banking, and B2B solutions, all tailored to meet the evolving needs of our customers. A prime example is the Bank's multi-function kiosks, which enable customers to instantly open accounts and provide immediate access to debit cards, cheque books, and a virtual teller – a testament to how ahlibank is leading innovation in Oman's banking sector.

With more than 48% of Oman's population being under 24 years old, and with customer preferences shifting towards digital channels post-COVID, the Bank will continue to enhance and invest in its digital channels by adopting a mobile-first strategy. An example of this is our e-IPO mobile capability, which allows customers to apply for 1:1 leveraging seamlessly from the mobile application.

Apart from offering innovative digital products and channels, the Bank aims to maximise straight-through processing by increasing the adoption of digital and robotic process automation in most of its key processes. This will offer instant customer servicing and thereby reduce the turnaround time. The Bank's introduction of digital onboarding for new-to-bank customers, both in Islamic and Conventional banking, is just one of the many digital initiatives implemented.

The Bank is transforming its traditional banking infrastructure, emphasising cloud computing in projects like Customer Loyalty and International Remittances. Cloud adoption enhances scalability, agility, and cost-efficiency, streamlining internal processes and enabling rapid implementation of digital services. This positions the Bank as a leader in innovation, all underpinned by a commitment to security. This includes implementing strong cybersecurity measures like encryption, multi-factor authentication, and continuous monitoring to safeguard customer data and transactions, thereby fostering trust.

Like any progressive organisation, the Bank is keen to capitalise on and adopt the technologies of the 4th industrial revolution driven by digital transformation. This will further strengthen its market position and enhance its overall market share by providing best-in-class digital offerings, leading to instant digital fulfilment, improved turnaround times (TAT), enhanced customer experience, and improved customer retention.

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. This program aims to attract fresh, tech-savvy, entry-level graduates who are then equipped with emerging technology skills and knowledge, building on our digital credentials. This initiative aligns with the objectives of Oman Vision 2040, demonstrating the Bank's commitment to future growth and innovation.

## Our Most Valuable Asset

Human capital development continues to play a vital role in ahlibank's pursuit of excellence. Providing employees with a positive working environment is a key element of the Bank's responsibility, enhancing their level of engagement, commitment, loyalty, and overall satisfaction. The Bank links competencies to performance management at all levels to support employee development and align them with personalised training needs. This sustains highly skilled staff capabilities, enhancing ahlibank's path to excellence and maintaining its leading position within the Omani Market.

ahlibank is at the forefront of enhancing the capabilities and competencies of Oman’s youth, contributing effectively to the national agenda outlined in Oman Vision 2040 through job creation and skill development. In this vein, the Bank has continued its intake of the Himam Programme for the 9th batch. This annual initiative accelerates participants' career growth and prepares them for leadership roles at the Bank. Since its establishment in 2015, the Himam programme has employed 100 candidates across various departments. Additionally, the Bank launched the iGeneration Programme in 2023, employing 13 candidates over two batches. A third programme, the Business Programme, was established in 2018, with 145 individuals employed to date. These programmes are pillars of the Bank's strategy to prepare a generation of young Omanis who will build a brighter, more prosperous future for the Sultanate and support the government’s economic development vision.

Overall, ahlibank has consistently exceeded its Omanisation targets, creating 150 jobs and achieving a workforce Omanisation rate of 94.70% as at December 2023(91.30% in Executive Management). The Bank takes pride in having a 40.72% female workforce. One of the most significant Human Resources projects initiated in 2023 is the new HRMS. Aligned with the Bank's digital transformation strategy and service enhancements, and considering employee feedback, we will be launching an advanced HR system. This system will revolutionize HR service delivery, talent management, and technology, seamlessly integrated to create greater business value for ahlibankers. Furthermore, HR has launched a comprehensive Competency Framework, focusing on defined behavioural and technical competencies specific to each role. Implementing this framework will enable our employees to better identify development areas, seize training opportunities, and plan their career paths.

## Learning and Development

This serves as one of the cornerstones of our HR strategy, with our Learning and Development (L&D) team ensuring that employees are equipped with the necessary skills and knowledge to achieve success. We have successfully expanded the range of personalised courses available to our staff, designed to empower them to excel further by building skills applicable to both their current roles and potential future positions within the bank. In 2023, ahlibankers have attended over 1,750 of these courses.

Some of the courses delivered include:

**91**
Employees completed Middle Management Programme

**60**
Employees participated in Advanced Negotiation Skills course

**26**
Branch Manager underwent Advanced Branch Manager Programme

**104**
Employees attended Advanced Customer Service Programme

**111**
Total number of courses conducted

**1150**
Total Number of Trained Employee/ Unique (520)

## Corporate Social Responsibility

ahlibank upholds a strong commitment to social responsibility as an integral part of its operations, aiming to create added value for the local community. Through the 'ahli Cares' CSR initiative which is represented by over one hundred employee volunteers, the bank consistently supports charitable and voluntary efforts in the Sultanate, playing a pivotal role in fostering development across diverse societal segments.

Aligned with Oman's Vision 2040, ahlibank's CSR efforts focus on contributing to the socio-economic development of the country. CSR is central to the bank's overarching strategy, evident in programs aimed at enhancing lives throughout the Sultanate. The bank's continuous support for various social, educational, cultural, health, and sporting activities in Oman reflects its dedication to corporate values.

This commitment is paramount, demonstrated through various CSR activities. In 2023, ahlibank significantly contributed to various initiatives and sponsorships, totalling RO 316,152.940 (including RO 10,000 paid to Oman Charitable Organization).

## Engaging in Community Investment

In 2023, ahlibank continued its longstanding collaboration with the Oman Charitable Organisation, proudly making substantial contributions to support a wide range of community services. The funds donated played a vital role in addressing pressing societal needs, showcasing ahlibank's commitment to the holistic development of the Omani community. Additionally, the bank made a significant donation to the Omani Lawyers Association's "Fakku Kurba" initiative, aimed at clearing the financial debts of prisoners.

Furthermore, ahlibank actively participated in supporting seasonal events, such as the Holy month of Ramadan and Eid. Conventional branches distributed food items to cover the needs of less fortunate families during Ramadan, while Islamic branches initiated the "Kiswat Eid" program, distributing Eid essentials like clothing and celebratory items to disadvantaged families. Both initiatives were carried out by the bank's volunteers from ahli Cares, in collaboration with authorized associations and charitable teams registered under the Ministry of Social Development (MOSD).

Additionally, ahlibank, represented by the ahli Cares team, engaged in renovating and refurbishing deteriorated houses of less fortunate families under the "Sawa Nabni" (let’s build together) initiative, aiming to improve the living conditions of vulnerable households. This initiative highlighted the significant contributions of social responsibility efforts made by employees themselves, as they personally participated in the renovation process. ahlibank's commitment to enhancing individuals' health and well-being was further demonstrated through its annual participation in the national blood donation campaign, in collaboration with the Central Blood Bank in Bousher. This reflects the bank’s efforts to promote health awareness initiatives and enhance community engagement.

Aligning its CSR activities with the overall socio-economic development in the Sultanate of Oman, ahlibank also launched its first Souq initiative, aimed at supporting the growth and development of local SMEs. This pioneering initiative is part of the bank's commitment to aiding the implementation of Oman’s Vision 2040. As part of the bank's Ramadan CSR programs, the Souq provided a platform for 40 local SMEs from different sectors to showcase their products and services, supporting the local community's development, youth projects, and female entrepreneurs.

As far as environmental sustainability is concerned, ahlibank has recently launched its internal campaign on going paper light by introducing (Robotic Process Automation). This initiative aims to transition the bank towards a more paper light environment by reducing the reliance on paper consumption across all its operations. This comes in alignment with the banks approach towards adopting a digital culture that aids in minimizing environmental footprint.

# FIVE YEAR SUMMARY

| | RO' Million | | | | |
|---|---|---|---|---|---|
| | **Dec 23** | Dec 22 | Dec 21 | Dec 20 | Dec 19 |
| **Net profit** | **36.5** | 33.1 | 27.6 | 24.0 | 31.0 |
| **Total assets** | **3,318.3** | 3,075.5 | 3,052.6 | 2,702.5 | 2,518.5 |
| **Loans & advances and financings, net** | **2,694.2** | 2,500.4 | 2,402.0 | 2,218.9 | 2,055.0 |
| **Total Deposits** | **2,475.7** | 2,296.2 | 2,181.4 | 1,924.7 | 1,711.7 |
| **Total liabilities** | **2,797.0** | 2,614.5 | 2,625.6 | 2,314.1 | 2,129.3 |
| **Total Equity** | **521.4** | 460.9 | 427.0 | 388.3 | 389.2 |
| **Return on average assets (ROAA)** | **1.1%** | 1.1% | 1.0% | 0.9% | 1.3% |
| **Return on average equity (ROAE)** | **10.7%** | 10.8% | 9.7% | 9.1% | 11.9% |
| **Adjusted Return on average equity (ROAE)*** | **7.4%** | 7.7% | 6.5% | 5.5% | 8.6% |
| **Cost to income ratio** | **43.8%** | 43.9% | 43.2% | 42.1% | 39.6% |
| **Capital Adequacy Ratio** | **17.4%** | 16.3% | 16.7% | 15.7% | 16.9% |
| **Net Interest Margin** | **2.1%** | 2.2% | 2.2% | 2.1% | 2.0% |
| **Earnings per share (Baiza)** | **11.8** | 11.6 | 8.9 | 7.2 | 11.0 |
| **Total Number of branches** | **46** | 42 | 37 | 31 | 25 |
| **- Conventional** | **24** | 23 | 22 | 19 | 16 |
| **- Islamic** | **22** | 19 | 15 | 12 | 9 |
| **ATMs** | **70** | 57 | 55 | 41 | 36 |
| **Multi functional Kiosks (MFKs)** | **9** | 2 | - | - | - |
| **Number of Staff** | **943** | 864 | 795 | 730 | 656 |

**adjusted for AT1 interest*

# SECTION III

# AHLIBANK

## Our Values

Innovation

Integrity

Responsibility

Sustainability

Excellence

Deloitte.

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**STRICTLY PRIVATE & CONFIDENTIAL**

The Board of Directors
Ahli Bank SAOG
Muscat
Sultanate of Oman

**Agreed Upon Procedures report on Code of Corporate Governance**

**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 Corporate Governance Report of the Bank 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 Engaging Party**

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

The Engaging Party have prepared the Corporate Governance Report ("the Report") and remains solely responsible for it and are also responsible for identifying and ensuring that the contents of the Report comply with the Code.

**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, other matters might have come to our attention that would have been reported.

**Professional Ethics and Quality Control**

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

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

**Procedures and Findings**

We have performed the procedures described below, which were agreed with the Bank in the terms of our engagement letter dated 28 March 2023, on the compliance of the Report with the Code for the year ended 31 December 2023.

| Procedures | Findings |
|---|---|
| We obtained the Corporate Governance Report issued by the Board of Directors and determined if the items listed in Annexure 3 of the Code are included in the corporate governance report. | No findings 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 is based on the information provided to us by the management of the Bank. We did not subject the information contained in our report or given to us by management to checking or verification procedures except to the extent expressly stated above. This is normal practice when carrying out such limited scope procedures, but contrasts significantly with, for example, an audit. The procedures we performed were not designed to and are not likely to reveal fraud.

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 2023 and does not extend to the Bank's financial statements taken as a whole.

Deloitte & Touche

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

# CORPORATE GOVERNANCE REPORT-2023

## INTRODUCTION

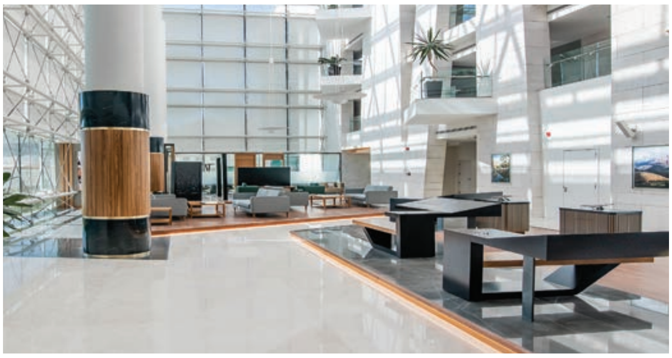
Sound and effective corporate governance is the foundation on which any organization or institution rests and operates. The execution of good and best practices—accountability, fairness, responsibility and transparency—are crucial in creating and sustaining shareholder value, and enhancing and retaining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

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



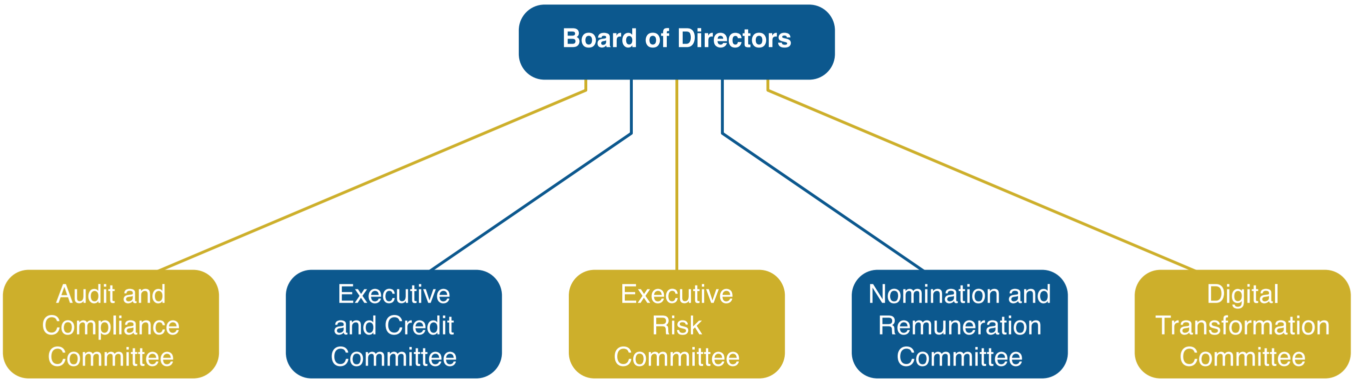
1. Satisfy the spirit of the law and not just the letter of the law.
2. Be transparent and maintain a high degree of disclosure levels.
3. Communicate externally, in a truthful manner, about how the Bank is running internally.
4. Implement a simple and transparent corporate structure driven solely by 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, five Board level sub-committees have been set up to ensure effective functioning of the Board.

## AHLI BANK 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 2026.

### 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, holding a Masters of Business Administration (MBA), University of Hull, UK and a Bachelor's of Science in Accounting (BS.A), University of Akron, Ohio, USA; Chief Executive Officer of Jabreen Capital, a regional private equity asset manager. He is a Chairman of Shamal Plastics SAOC; A board member of Liva, one of the largest insurance company in the GCC and also a board member of Eastridge Partners, Singapore, a Private Equity Asset Management Co. with a focus of investments in south East Asia. Previous experience as Investment Director of Oman Investment Fund (A Sovereign Wealth Fund) and CEO of OIF's subsidiary National Pioneer Investment & Development Company managing multibillion-dollar portfolio regionally and internationally. He has also worked for several years for the Central Bank of Oman and Oman Refinery. Mr. Al Jabri has accumulated more than 25 years of Investment and finance industry experience holding various leading positions.

**Rajeev Gogia** - *Second Deputy Chairman*
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 Ahli United Bank (Egypt) SAE; Ahli United Bank KSCP (Kuwait), Al Hilal Life (Bahrain) and Al Hilal Takaful (Bahrain). Mr. Rajeev has Over 26 years of industry and advisory experience in the Financial Services Sector.

**Abdul Hameed Ahmed Mohamed Al Bulushi** - *Director*
Hold High Diploma in Development, United Kingdom; Bachelor degree in Law, Egypt; Former Legal Expert in Civil Service Employees Pension Fund. Chairman, Oman Hospitality Company; Director at Al Nama Poultry Company and Osool Poultry Company. He has more than 32 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 of Private Market in Oman Investment Authority (OIA); Board Chairman of Nama Water Services and Board Member at Omantel. Having over 20 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 22 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 30 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; He has 15 years of diversified investment experience with over 8 years in senior leadership positions.

**Vivek Kastwar** - *Director*
Holds a Master's in Business Administration (MBA) from Prestige Institute of Management and Research in India, Bachelor's degree in commerce (accounting) from University of Delhi, India and GMPe from Indian Institute of Management, Lucknow, India. Chief Executive Officer – Ahli United Bank B.S.C (c). (DIFC Branch - UAE). Former Head of Corporate Banking, AUB B.S.C (c). (DIFC Branch - UAE). Has diversified banking experience of 28 years.

## 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 2023:

| Sl. No. | Board Meeting |
|---|---|
| 1. | 25-Jan-2023 |
| 2. | 27-Mar-2023 |
| 3. | 11-Apr-2023 |
| 4. | 30-Apr-2023 |
| 5. | 25-May-2023 |
| 6. | 26-Jul-2023 |
| 7. | 26-Oct-2023 |
| 8. | 06-Dec-2023 |
| 9. | 13-Dec-2023 |

## 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 | 9 | NRC | Yes |
| Anwar Hilal Hamdoon Al Jabri | First Deputy Chairman | Independent | 8 | ECC, NRC | Yes |
| Rajeev Gogia* | Second Deputy Chairman | Non-Independent | 9 | ERC, NRC | Yes |
| Abdul Hameed Ahmed Mohamed Al Bulushi | Director | Independent | 9 | ACC, ERC, DTC | Yes |
| Ibrahim Said Badar Al Eisri | Director | Independent | 8 | ECC, DTC | Yes |
| Salim Ali Hamed Al Hasni | Director | Independent | 9 | ERC | Yes |
| Wajid Ali Khan | Director | Non-Independent | 9 | ECC, DTC | Yes |
| Qais Abdullah Moosa Al Kharusi | Director | Independent | 9 | ACC | Yes |
| Vivek Kastwar** | Director | Non-Independent | 8 | ACC | N/A |
| Sanjeev Baijal*** | Second Deputy Chairman | Non-Independent | 1 | ACC | No |

** Elected as Second Deputy Chairman on 27 March 2023 ** Elected as a Board Member on 27 March 2023. *** Completed his tenure on 27 March 2023.*

*# Audit and Compliance Committee - ACC, Executive and Credit Committee - ECC, Executive Risk Committee - ERC, Nomination and Remuneration Committee – NRC and Digital Transformation Committee – DTC.*

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

## Sub-Committees

Ahli Bank has Five 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

## 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 2023:

| Composition of Audit and Compliance Committee | | Meeting Dates | | | |
|---|---|---|---|---|---|
| Director's Name | Position | 25-Jan-23 | 30-Apr-23 | 26-Jul-23 | 24-Oct-23 |
| Qais Abdullah Moosa Al Kharusi | Chairman | Yes | Yes | Yes | Yes |
| Abdul Hameed Ahmed Mohamed Al Bulushi | Member | Yes | Yes | Yes | Yes |
| Vivek Kastwar* | Member | N/A | Yes | Yes | Yes |
| Sanjeev Baijal** | Member | Yes | N/A | N/A | N/A |
| **Attendance** | | **3** | **3** | **3** | **3** |

** Elected as a Board Member on 27 March 2023. ** Completed his tenure on 27 March 2023*

## 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 2023:

| Composition of Executive and Credit Committee | | Meeting Dates | | | |
|---|---|---|---|---|---|
| Director's Name | Position | 24-Jan-23 | 19-Apr-23 | 25-Jul-23 | 19-Oct-23 |
| Anwar Hilal Hamdoon Al Jabri | Chairman | Yes | Yes | Yes | Yes |
| Ibrahim Said Badar Al Eisri | Member | Yes | Yes | Yes | Yes |
| Wajid Ali Khan | Member | Yes | Yes | Yes | Yes |
| **Attendance** | | **3** | **3** | **3** | **3** |

## 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 2023:

| Composition of Executive Risk Committee | | Meeting Dates | | | |
|---|---|---|---|---|---|
| Director's Name | Position | 24-Jan-23 | 19-Apr-23 | 25-Jul-23 | 24-Oct-23 |
| Rajeev Gogia | Chairman | Yes | Yes | - | Yes |
| Abdul Hameed Ahmed Mohamed Al Bulushi | Member | Yes | Yes | Yes | Yes |
| Salim Ali Hamed Al Hasni | Member | Yes | Yes | Yes | Yes |
| **Attendance** | | **3** | **3** | **2** | **3** |

### D. Nomination and Remuneration Committee

The role of the Nomination and Remuneration Committee includes:

- Reviewing the performance of all directors and the Management.
- Advising the Bank's Board and Chairman on the remuneration of Board Members, appointment of senior management personnel and remuneration of senior management personnel.
- Helping in the nomination of competent Board members.
- 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 2023:**

| Composition of Nomination and Remuneration Committee | | Meeting Dates | | |
|---|---|---|---|---|
| Director's Name | Position | 24-Jan-23 | 22-Mar-23 | 25-Jul-23 |
| Hamdan Ali Nasser Al Hinai | Chairman | Yes | Yes | Yes |
| Anwar Hilal Hamdoon Al Jabri | Member | Yes | Yes | Yes |
| Rajeev Gogia | Member | Yes | Yes | - |
| **Attendance** | | **3** | **3** | **2** |

### 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 2023:**

| Composition of Digital Transformation Committee | | Meeting Dates | | | |
|---|---|---|---|---|---|
| Director's Name | Position | 22-Feb-23 | 24-May-23 | 23-Aug-23 | 21-Nov-23 |
| 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 | Yes | Yes | Yes |
| **Attendance** | | **3** | **3** | **3** | **3** |

**F. Head Office Project Committee** (Dissolved during the year in April 2023 after completion of head office extension project)

The Head office project committee were 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 2023:**

| Composition of Head Office Project Committee | | Meeting Dates |
|---|---|---|
| Director's Name | Position | 19-Mar-2023 |
| Hamdan Ali Nasser Al Hinai | Chairman | Yes |
| Rajeev Gogia | Member | Yes |
| Abdul Hameed Ahmed Mohamed Al Bulushi | Member | Yes |
| **Attendance** | | **3** |

## Procedure For Standing As a Candidate For The Board:

Anyone who wishes to stand as a candidate for the Board and is eligible for the same as per the regulations as well as the Articles of Association, is required to submit an application form (as prescribed by the Capital Market Authority) at 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.

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

## Sharia Supervisory Board

The Shari'a Supervisory Board (SSB) is an independent body of specialized jurists in fiqh al-muamalat (Islamic commercial jurisprudence), appointed with the responsibilities of giving Shari'a directives, advices and approvals from the formation stage to the operations stage of the Bank, ensuring Shari'a compliance of the Bank by giving decisions on Shari'a Audit reports and producing a statement about Shari'a compliance of the Bank. The SSB complies with the regulatory requirements of the Central Bank of Oman in respect of their competency and 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 Ahli Islamic is comprised of three members whose brief profile is given below.

## Profile of SSB Members

**Dr. Mohammed Taher Al-Ibrahim** - *Chairman*
Dr. Mohammed Taher is a leading Shari'a scholar in the field of Islamic finance.He 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 degree 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 research in Islamic banking and has extensive experience in application of the Shari'a rules and principles in Islamic banking.

## Composition of SSB and Details of Meetings and Attendance Records of Members During the Year 2023

| Composition of the Sharia Supervisory Board | | Meeting Dates | | | |
|---|---|---|---|---|---|
| Director's Name | Position | 16-Mar-23 | 27-July-23 | 19-Oct-23 | 13-Dec-23 |
| 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 2023 have approved the remuneration and sitting fee of the SSB as below:

| Designation | Amount |
|---|---|
| Chairman of SSB | RO 10,000 per annum |
| Member of SSB | RO 8,000 per annum |
| Sitting Fees Per Meeting *(maximum of five meetings per year per member)* | RO 385 per meeting |

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

| Member Name | Position | Remuneration | Sitting Fees |
|---|---|---|---|
| Dr. Mohammed Taher Al-Ibrahim | Chairman | 10,000 | 1,540 |
| Dr. Mustaien Ali Abdulhamid | Deputy Chairman | 8,000 | 1,540 |
| Dr. Abdulraouf Abdullah Hamood Al-Tobi | Member | 8,000 | 1,540 |
| **Total** | | **26,000** | **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 23 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 25 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 27 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 and a m ember of Oman Business Forum. As Sr. GM Wholesale Banking, Hanaa spearheads the growth strategy for Corporate banking, project finance syndication as well as Investment banking and Financial Institutions. Hanaa has over 23 years of banking experience in leading Omani banks and has successfully led high performing teams in Corporate Banking, Project Finance and Syndications and spearheads the digital transformation initiatives for the Wholesale banking. She has successfully led major strategic financial transactions and advisory projects in Oman Bilaterally and on syndicated basis. Hanaa is the founding chairperson of the Talent Management Committee responsible for recruiting, developing and grooming high potential graduates for future leading positions within ahlibank. Hanaa currently holds the position of Chairperson; Ahli Global Equity Fund, Director Omran (SAOC) and Chairperson of their Board Audit and Risk Committee. She is a former Director; Nama Holding (SAOC) and was chairperson of the Board Audit and Risk Committee from 2020-2023.

**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 and Risk Management Committee of Credit Oman SAOC. Chairperson of the Chief Risk Officers Committee under Oman Bank Association. Having more than 24 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*
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 'Advanced Leadership Program' at Judge Business School at Cambridge University and 'Senior Executive Program' at London Business School. Taher has over 20 years of banking experience across strategy, finance, risk, operations and transformation functions in leading Omani Banks.

## 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 10,000 by Central Bank of Oman over the last three years based on CBO examination report observations.

2023: No penalty imposed by CBO for year 2023.
2022: No penalty imposed by CBO for year 2022.
2021: RO 10,000 - Related to tenor and age limit of Personal loans.

## 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 2023. The details of sitting fees paid are below:

| Name of Director | Sitting Fees Paid (RO) |
|---|---|
| Hamdan Ali Nasser Al Hinai | 6,800 |
| Anwar Hilal Hamdoon Al Jabri | 6,400 |
| Rajeev Gogia | 6,400 |
| Abdul Hameed Ahmed Mohamed Al Bulushi | 8,100 |
| Ibrahim Said Badar Al Eisri | 6,700 |
| Salim Ali Hamed Al Hasni | 5,200 |
| Wajid Ali Khan | 6,400 |
| Qais Abdullah Moosa Al Kharusi | 6,000 |
| Vivek Kastwar* | 4,400 |
| Sanjeev Baijal** | 800 |
| **Total** | **57,200** |

** Elected as a Board Member on 27 March 2023.*

*** Completed his tenure on 27 March 2023.*

The total remuneration paid to the top executives (top five) of the Bank amounted to RO 1.628 million during the year 2023, 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

Ahli Bank 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.

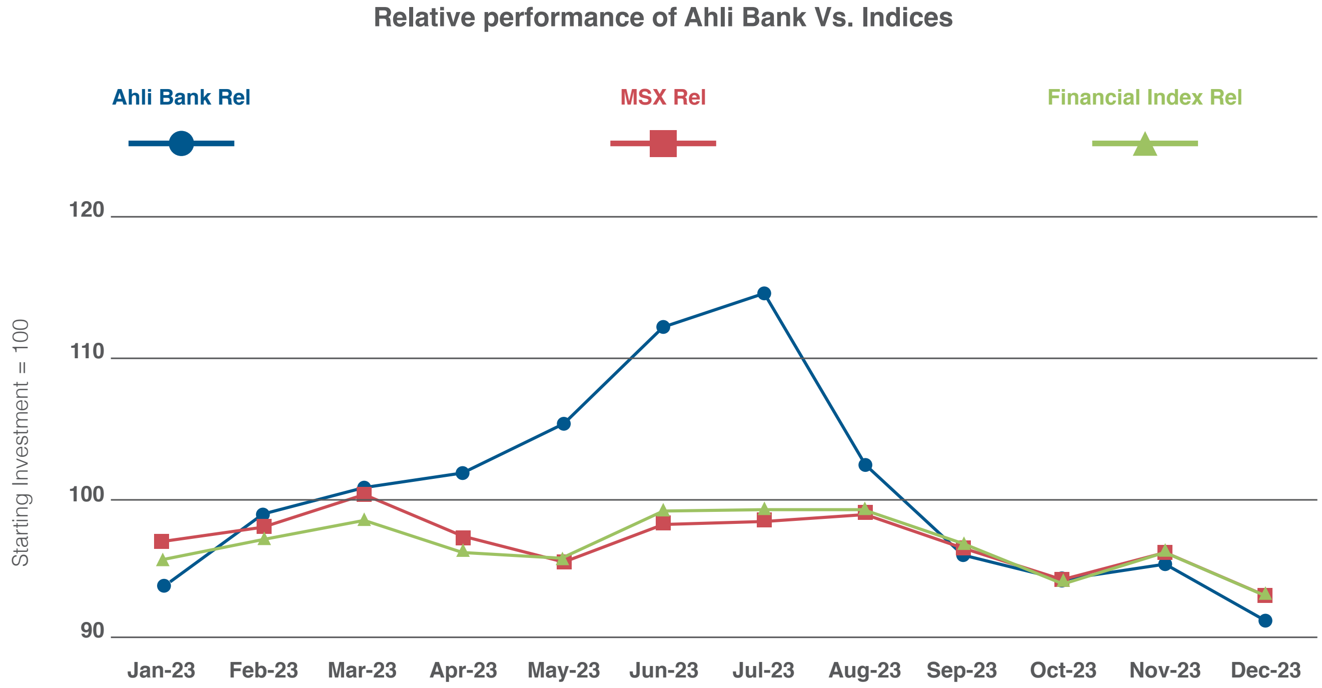
## MARKET PRICE DATA

### High / Low Share Prices in 2023

The table below shows the high / low prices of the Bank's shares in Rial Omani in 2023.

| Month | High | Low |
|---|---|---|
| Jan-23 | 0.171 | 0.160 |
| Feb-23 | 0.169 | 0.158 |
| Mar-23 | 0.180 | 0.168 |
| Apr-23 | 0.174 | 0.171 |
| May-23 | 0.198 | 0.170 |
| Jun-23 | 0.192 | 0.179 |
| Jul-23 | 0.200 | 0.190 |
| Aug-23 | 0.197 | 0.160 |
| Sep-23 | 0.192 | 0.162 |
| Oct-23 | 0.170 | 0.161 |
| Nov-23 | 0.170 | 0.160 |
| Dec-23 | 0.164 | 0.153 |

## Performance of Ahli Bank SAOG Vs MSX and Banking Indices




The Bank has outstanding Tier1 perpetual subordinated bonds as follows:

| Issue Date | RO | First Recall Option |
|---|---|---|
| 13 June 2019 | 20 million | 13 June 2024 |
| 11 August 2022 | 75 million | 11 August 2027 |
| 25 December 2023 | 54 million | 25 December 2028 |

## Distribution of Share Ownership Among Shareholders as of 31 December 2023:

| Name | Country of incorporation | Number of shares | % |
|---|---|---|---|
| Ahli United Bank B.S.C. | Bahrain | 822,380,096 | 35.00 |
| Al Hosn Investment Company SAOC | Oman | 332,703,763 | 14.16 |
| Al Hosn Business Development LLC | Oman | 227,235,108 | 9.67 |
| Civil Service Employees - Pension Fund | Oman | 203,030,360 | 8.64 |
| Ubhar Capital SAOC - Asset Management | Oman | 175,651,011 | 7.48 |
| Ministry of Defense - Pension Fund | Oman | 134,606,810 | 5.73 |
| Others | | 454,050,318 | 19.32 |
| **Total** | | **2,349,657,466** | **100.00** |

## EXTERNAL AUDITOR'S PROFILE – Deloitte

Deloitte & Touche (M.E.) LLP ("DME") is the affiliate for the territories of the Middle East and Cyprus of Deloitte NSE LLP ("NSE"), a UK limited liability partnership and member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL").

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DME is a leading professional services firm established in the Middle East region with uninterrupted presence since 1926. DME's presence in the Middle East region is established through its affiliated independent legal entities, which are licensed to operate and to provide services under the applicable laws and regulations of the relevant country. DME's affiliates and related entities cannot oblige each other and/or DME, and when providing services, each affiliate and related entity engages directly and independently with its own clients and shall only be liable for its own acts or omissions and not those of any other affiliate.

Deloitte billed an amount of RO 93,500 towards professional services rendered to the Bank for the year 2023 (RO 86,000 for audit and RO 7,500 for tax and other services).

### Other Important Matters:

As required by the Code of Corporate Governance, the Shareholders has appointed an independent third party for appraising the performance of the Board of Directors for the financial year 2023.

## 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

For the year ended
31 December 2023

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

## Report on the audit of the financial statements

### Opinion

We have audited the financial statements of **Ahli Bank SAOG** (the "Bank"), which comprise the statement of financial position as at 31 December 2023, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS Accounting Standards) (IFRSs).

### 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 are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements that are relevant to our audit of the Bank's financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### 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 matters | How our audit addressed the key audit matters |
|---|---|
| **Expected credit losses on loans and advances to customers**<br><br>As disclosed in Note 7 to the financial statements, the loans and advances of the Bank amounted to RO 2,694 million as at 31 December 2023 (2022: RO 2,500 million). This represented 81.2% (2022: 81.3%) of total assets. | We established an audit approach which includes both testing the design and operating effectiveness of internal controls over the determination of expected credit losses and risk-based substantive audit procedures. Our procedures over internal controls focused on the governance over the process controls around the expected credit loss (ECL) methodology, |

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



| Key audit matters | How our audit addressed the key audit matters |
|---|---|
| The determination of the Banks's allowance for expected credit losses for loans and advances to customers and off-balance sheet exposures measured at amortised cost is a material and complex estimate which requires management to apply significant judgements and make significant estimates in the evaluation of the credit quality and the estimation of inherent losses in the portfolio. Consequently, we considered this area to be a key audit matter.<br><br>The financial statement risk arises from several aspects requiring significant judgement of management, such as the estimation of probabilities of default and loss given defaults for various stages, the determination of significant increase in credit risk (SICR) and credit-impairment status (default), the use of different modelling techniques and consideration of manual adjustments.<br><br>In calculating expected credit losses, management considered credit quality indicators for each loan and portfolio, stratified loans and advances by risk grade and estimated losses for each loan based upon their nature and risk profile. Management applied post model adjustments overlays to address the impacts of regulatory relief provided to certain borrowers.<br><br>Auditing these complex judgements and estimates involved especially challenging auditor judgement due to the nature and extent of audit evidence and effort required to address these matters.<br><br>For further information on this key audit matter refer to notes 3.3.5, 4.1, 7, 35 and 35.1.7 to the financial statements. | completeness and accuracy of loan data used in the expected loss models, management review and approval of outcomes, the assignment of borrower's risk classification, consistency of application of accounting policies and the process for calculating individual allowances. We evaluated controls over approval, accuracy and completeness of impairment allowances and governance controls, including assessing key management committee meetings that form part of the approval process for loan impairment allowances.<br><br>The primary substantive procedures which we performed to address this key audit matter included, but were not limited to, the following:<br><br>- For a risk-based sample of individual loans, we performed a detailed credit review, assessed the information used for evaluating the creditworthiness and staging classification of individual borrowers and challenged the assumptions underlying the expected credit loss allowance calculations, such as estimated future cash flows, collateral valuations and estimates of recovery. We also evaluated the Bank's application of its impairment policy.<br><br>- For loans not tested individually, we tested the mathematical accuracy and computation of the allowance for expected credit losses by reperforming or independently calculating elements of the expected credit losses based on relevant source documents with the involvement of our modelling specialists. We challenged key assumptions, inspected the calculation methodology and traced a sample back to source data.<br><br>- For the stage 3 portfolio and for a sample of corporate exposures we assessed whether relevant impairment events had been identified in a timely manner and the appropriateness of the provisioning assumptions such as estimated future cash flows, collateral valuations and estimates of recovery. |

**Key audit matters (continued)**

| Key audit matters | How our audit addressed the key audit matters |
|---|---|
| | - The Bank performed an external validation of the model risk parameters, used in calculating the ECL during the reporting period. We considered the process of this external validation of the models and its impact on the results of the impairment estimate.<br><br>- We evaluated post model adjustments and management overlays. We further assessed the forward-looking information incorporated into the impairment calculations by involving our model specialists to challenge the economic scenarios chosen and weighting applied.<br><br>- We assessed the disclosure in the financial statements relating to this matter against the requirements of IFRSs. |
| **Risk of inappropriate access or changes to information technology ("IT") systems**<br><br>The Bank is vitally dependent on its complex information technology environment for the reliability and continuity of its operations and financial reporting process due to the extensive volume and variety of transactions which are processed daily across the Bank's businesses; this includes cyber risks.<br><br>Inappropriate granting of or ineffective monitoring of access rights to IT systems therefore presents a risk to the accuracy of financial accounting and reporting. Appropriate IT controls are required to protect the Bank's IT infrastructure, data and applications, ensure transactions are processed correctly and limit the potential for fraud and error as a result of change to an application or underlying data. | Our audit approach depends to a large extent on the effectiveness of automated and IT-dependent manual controls and therefore we updated our understanding of the Bank's IT-related control environment and identified IT applications, databases and operating systems that are relevant for the financial reporting process and to our audit.<br><br>For relevant IT-dependent controls within the financial reporting process we identified, with the involvement of our internal IT specialists, supporting general IT controls and evaluated their design, implementation and operating effectiveness. We updated our understanding of applications relevant for financial reporting and tested key controls particularly in the area of access protection, integrity of system interfaces and linkage of such controls to the reliability, completeness and accuracy of financial reporting including computer-generated reports used in financial reporting. Our audit procedures covered, but were not limited to, the following areas relevant for financial reporting: |

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



**Key audit matters (continued)**

| Key audit matters | How our audit addressed the key audit matters |
|---|---|
| Unauthorised or extensive access rights cause a risk of intended or unintended manipulation of data that could have a material effect on the completeness and accuracy of financial statements. Therefore, we considered this area as a key audit matter. | - IT general controls relevant to automated controls and computer-generated information covering access security, program changes, data centre and network operations;<br><br>- Controls regarding initial access granted to IT systems for new employees or employees changing roles, whether that access was subject to appropriate screening and it was approved by authorised persons;<br><br>- Controls regarding removal of employee or former employee access rights within an appropriate period of time after having changed roles or leaving the Bank;<br><br>- Controls regarding the appropriateness of system access rights for privileged or administrative authorisations (superuser) being subject to a restrictive authorisation assignment procedure and regular review thereof;<br><br>- Password protection, security settings regarding modification of applications, databases and operating systems, the segregation of department and IT users and segregation of employees responsible for program development and those responsible for system operations;<br><br>- Program changes approvals related to modification process in the production environment of applications, databases and operating systems;<br><br>- Key automated controls on significant IT systems relevant to business processes; and<br><br>- Computer generated information used in financial reports from relevant applications. |

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



**Other matter**

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

**Other information**

The Board of Directors (the Board) is responsible for the other information. The other information comprises the Chairman's report, the Corporate Governance report, Chief Executive Officer's message, Management discussion and analysis, Regulatory disclosure under Basel II – Basel III framework and Annual report section of Ahli Islamic (comprising the Shari'ah Supervisory Board report including list of fatwas, Financial Statements and Regulatory disclosure under Basel II – Basel III framework of Ahli Islamic), but does not include the financial statements and our auditors' 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 express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and the relevant disclosure requirements of the Commercial Companies Law of 2019, and the disclosure requirements issued by Capital Market Authority of the Sultanate of Oman and for such internal control as management 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, management is 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 management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

**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 these financial statements.

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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)**

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 management

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, 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.

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



**Report on other legal and regulatory requirements**

Further, we report that the financial statements comply, in all material respects, with the relevant disclosure requirements of the Commercial Companies Law of 2019 and the disclosure requirements issued by the Capital Market Authority.

Deloitte & Touche

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

**Signed by**
**Ahmed Al Qassabi**
**Partner**
**ACCA Membership No. 0820917**

# STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2023

| 2022 | 2023 | | Note | 2023 | 2022 |
|---|---|---|---|---|---|
| US$ '000 | **US$ '000** | | | **RO '000** | RO '000 |
| | | **ASSETS** | | | |
| 343,408 | **446,585** | Cash and balances with Central Bank of Oman | 5 | **171,935** | 132,212 |
| 195,187 | **229,190** | Due from banks | 6 | **88,238** | 75,147 |
| 761,462 | **787,805** | Investment securities | 8 | **303,305** | 293,163 |
| 6,494,635 | **6,997,818** | Loans, advances and financing, net | 7 | **2,694,160** | 2,500,435 |
| 102,351 | **50,847** | Other assets | 12 | **19,576** | 39,405 |
| 91,180 | **106,834** | Property, equipment and intangibles | 9 | **41,131** | 35,104 |
| 7,988,223 | **8,619,079** | **TOTAL ASSETS** | | **3,318,345** | 3,075,466 |
| | | **LIABILITIES AND EQUITY** | | | |
| 580,137 | **482,600** | Due to banks | 13 | **185,801** | 223,353 |
| 5,964,237 | **6,430,301** | Customers' deposits | 14 | **2,475,666** | 2,296,231 |
| - | **100,000** | Borrowed funds | 15 | **38,500** | - |
| 29,725 | **33,352** | Tax Liability | 11 | **12,840** | 11,444 |
| 216,879 | **218,556** | Other liabilities | 16 | **84,144** | 83,499 |
| 6,790,978 | **7,264,809** | **TOTAL LIABILITIES** | | **2,796,951** | 2,614,527 |
| | | **EQUITY** | | | |
| 506,405 | **636,275** | Share capital | 17 | **244,966** | 194,966 |
| 104,450 | **113,917** | Legal reserve | 18 | **43,858** | 40,213 |
| (6,397) | **597** | Fair value reserve | | **230** | (2,463) |
| 2,592 | **774** | Special reserve | 7 | **298** | 998 |
| 26,303 | **28,226** | Impairment reserve | 7 | **10,867** | 10,127 |
| 176,879 | **187,468** | Retained earnings | | **72,175** | 68,098 |
| 810,232 | **967,257** | **TOTAL NET EQUITY ATTRIBUTABLE TO THE OWNERS OF THE BANK** | | **372,394** | 311,939 |
| 387,013 | **387,013** | **TIER 1 PERPETUAL SUBORDINATED BONDS** | 20 | **149,000** | 149,000 |
| 1,197,245 | **1,354,270** | **TOTAL EQUITY** | | **521,394** | 460,939 |
| 7,988,223 | **8,619,079** | **TOTAL LIABILITIES AND NET EQUITY** | | **3,318,345** | 3,075,466 |
| 42 | **41** | Net assets value per share (US cents/baizas) | 21 | **159** | 160 |
| 613,817 | **570,413** | Contingent liabilities and commitments | 22 | **219,609** | 236,319 |

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

**Hamdan Ali Nasser Al Hinai**
Chairman

**Said Abdullah Al Hatmi**
**Chief Executive Officer**

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

# STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 31 DECEMBER 2023

| 2022 | 2023 | | Note | 2023 | 2022 |
|---|---|---|---|---|---|
| US$ '000 | US$ '000 | | | RO '000 | RO '000 |
| 328,405 | 371,543 | Interest income | 23 | 143,044 | 126,436 |
| (166,186) | (213,608) | Interest expense | 24 | (82,239) | (63,982) |
| 162,219 | 157,935 | **NET INTEREST INCOME** | | 60,805 | 62,454 |
| 64,045 | 85,224 | Income from Islamic financing and investments | 23 | 32,811 | 24,657 |
| (34,459) | (44,987) | Unrestricted investment account holders' share of profit and profit expense | 24 | (17,320) | (13,267) |
| 29,586 | 40,237 | **NET INCOME FROM ISLAMIC FINANCING AND INVESTMENTS** | | 15,491 | 11,390 |
| 37,306 | 42,921 | Fees and commission income | 26 | 16,525 | 14,363 |
| (2,347) | (3,310) | Fees and commission expense | 26 | (1,274) | (904) |
| 34,959 | 39,611 | **Net fees and commission income** | | 15,251 | 13,459 |
| 11,414 | 18,164 | Other operating income | 25 | 6,993 | 4,395 |
| 238,178 | 255,947 | **OPERATING INCOME** | | 98,540 | 91,698 |
| (33,931) | (34,005) | Net impairment on financial assets | 27 | (13,092) | (13,064) |
| 204,247 | 221,942 | **NET OPERATING INCOME** | | 85,448 | 78,634 |
| (63,048) | (67,912) | Staff expenses | 28 | (26,146) | (24,273) |
| (8,617) | (10,125) | Depreciation and amortisation | 9 | (3,898) | (3,317) |
| (32,835) | (33,995) | Other operating expenses | 29 | (13,088) | (12,642) |
| (104,500) | (112,032) | **OPERATING EXPENSES** | | (43,132) | (40,232) |
| 99,747 | 109,910 | **PROFIT BEFORE TAXATION** | | 42,316 | 38,402 |
| (13,798) | (15,232) | Tax expense | 11 | (5,864) | (5,312) |
| 85,949 | 94,678 | **PROFIT FOR THE YEAR** | | 36,452 | 33,090 |
| | | **OTHER COMPREHENSIVE INCOME / (LOSS)** | | | |
| | | **Items that will not be reclassified to profit or loss** | | | |
| 2,220 | 1,558 | - Equity investments at FVOCI - net changes in fair value | | 600 | 855 |
| | | **Items that will be reclassified to profit or loss** | | | |
| 549 | (79) | - Cash flow hedge - net changes in fair value | | (30) | 211 |
| (3,356) | 5,597 | - Changes in fair value of FVOCI debt investments | | 2,155 | (1,292) |
| (587) | 7,076 | **OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR** | | 2,725 | (226) |
| 85,362 | 101,754 | **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | 39,177 | 32,864 |
| 3 | 3 | Basic and diluted earnings per share (US cents/baizas) | 30 | 12 | 12 |

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

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

| | | Attributable to the owners of the Bank | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Share capital | Legal reserve | Subordinated loan reserve | Fair value reserve | Special reserve | Impairment reserve | Retained earnings | Total | Tier 1 Perpetual subordinated bonds | Total equity |
| | Note | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 |
| **Balance at 1 January 2023** | | **194,966** | **40,213** | **-** | **(2,463)** | **998** | **10,127** | **68,098** | **311,939** | **149,000** | **460,939** |
| Profit for the year | | - | - | - | - | - | - | 36,452 | 36,452 | - | 36,452 |
| Other comprehensive income | | - | - | - | 2,725 | - | - | - | 2,725 | - | 2,725 |
| **Transactions within equity** | | | | | | | | | | | |
| Transfer to legal reserve | 18 | - | 3,645 | - | - | - | - | (3,645) | - | - | - |
| Transfer to impairment reserve | 7 | | | | | | 740 | (740) | - | - | - |
| Transfer from special reserve | | | | | | (700) | | 700 | - | - | - |
| Issue of Tier 1 Perpetual bonds | | - | - | - | - | - | - | - | - | 54,000 | 54,000 |
| Redemption of Tier 1 perpetual bonds | 20 | - | - | - | - | - | - | - | - | (54,000) | (54,000) |
| Gain on sale of equity investments at FVOCI | 8 | - | - | - | (32) | - | - | 32 | - | - | - |
| Interest paid on Tier 1 perpetual subordinated bonds | 20 | - | - | - | - | - | - | (11,175) | (11,175) | - | (11,175) |
| | | - | 3,645 | - | (32) | (700) | 740 | (14,828) | (11,175) | - | (11,175) |
| **Transactions with owners recognised directly in equity** | | | | | | | | | | | |
| Cash dividends | 19 | - | - | - | - | - | - | (17,547) | (17,547) | - | (17,547) |
| Rights issue of shares | | 50,000 | - | - | - | - | - | - | 50,000 | - | 50,000 |
| Total transactions with owners | | 50,000 | - | - | - | - | - | (17,547) | 32,453 | - | 32,453 |
| At 31 December 2023 | | 244,966 | 43,858 | - | 230 | 298 | 10,867 | 72,175 | 372,394 | 149,000 | 521,394 |
| At 31 December 2023 (US$ '000) | | 636,275 | 113,917 | - | 597 | 774 | 28,226 | 187,468 | 967,257 | 387,013 | 1,354,270 |

| | | 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 subord-inated bonds | Total equity |
| | Note | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 |
| **At 1 January 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 | 18 | - | **3,309** | - | - | - | - | **(3,309)** | - | - | - |
| Transfer from subord-inated loan reserve | | - | - | **(3,000)** | - | - | - | **3,000** | - | - | - |
| Issue of Tier 1 Perpetual bonds | | - | - | - | - | - | - | - | - | **75,000** | **75,000** |
| Redemption of Tier 1 perpetual bonds | 20 | - | - | - | - | - | - | - | - | **(50,000)** | **(50,000)** |
| Loss on sale of equity investments at FVOCI | 8 | - | - | - | **315** | - | - | **(315)** | - | - | - |
| Interest paid on Tier 1 perpetual subordinated bonds | 20 | - | - | - | - | - | - | **(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 | 19 | - | - | - | - | - | - | **(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 CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2023

| 2022 | 2023 | | Note | 2023 | 2022 |
|---|---|---|---|---|---|
| US$ '000 | **US$ '000** | | | **RO '000** | RO '000 |
| | | **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| 99,747 | **109,910** | **Profit before taxation** | | **42,316** | 38,402 |
| | | Adjustments for: | | | |
| 8,617 | **10,125** | Depreciation and amortisation | 9 | **3,898** | 3,317 |
| 33,931 | **34,005** | Net impairment on financial assets | 27 | **13,092** | 13,064 |
| 355 | **2,060** | End of service benefits provision | 16 | **793** | 137 |
| (1,627) | **(3,915)** | Gain on sale of investments | 26 | **(1,507)** | (626) |
| 141,023 | **152,185** | **Cash from operating activities before changes in operating assets and liabilities** | | **58,592** | 54,294 |
| 10,000 | **(99,000)** | (Increase)/Decrease in due from banks | | **(38,115)** | 3,850 |
| (289,662) | **(537,188)** | Increase in loans, advances and financing | | **(206,817)** | (111,519) |
| (8,444) | **51,504** | Decrease/(Increase) in other assets | | **19,829** | (3,251) |
| (101,266) | **(97,536)** | Decrease in due to banks | | **(37,552)** | (38,988) |
| 298,286 | **466,065** | Increase in customers' deposits | | **179,435** | 114,840 |
| 7,824 | **552** | (Decrease)/Increase in other liabilities | | **214** | 3,011 |
| 57,761 | **(63,418)** | **Net cash (used in)/generated from operations** | | **(24,414)** | 22,237 |
| (6,209) | **(11,079)** | Tax paid | | **(4,266)** | (2,390) |
| (192) | **(941)** | End of service benefits paid | 16 | **(362)** | (74) |
| 51,360 | **(75,438)** | **Net cash (used in)/generated from operations** | | **(29,042)** | 19,773 |
| | | **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| (21,401) | **(25,938)** | Purchase of property and equipment | 9 | **(9,986)** | (8,240) |
| (92,033) | **(151,968)** | Purchase of investments | | **(58,508)** | (35,431) |
| 68,237 | **140,073** | Proceeds from sale/maturity of investments | | **53,927** | 26,271 |
| (45,197) | **(37,833)** | **Net cash used in investing activities** | | **(14,567)** | (17,400) |
| | | **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| - | **100,000** | Proceeds from borrowed funds | | **38,500** | - |
| (240,000) | **-** | Repayments of borrowed funds | | **-** | (92,400) |
| (7,792) | **-** | Repayment of subordinated loans | | **-** | (3,000) |
| (3,221) | **(3,613)** | Repayment of principal of lease liabilities | | **(1,392)** | (1,240) |
| (37,979) | **(45,577)** | Dividend paid | 19 | **(17,547)** | (14,622) |
| - | **129,870** | Net Proceeds from rights issue | | **50,000** | - |
| 194,805 | **140,260** | Net Proceeds from issue of Tier 1 perpetual bonds | | **54,000** | 75,000 |
| (129,870) | **(140,260)** | Redemption of Tier 1 perpetual bonds | | **(54,000)** | (50,000) |
| (24,156) | **(29,026)** | Interest paid on Tier 1 perpetual subordinated bond | 21 | **(11,175)** | (9,300) |
| (248,213) | **151,654** | **Net cash generated/(used in) financing activities** | | **58,386** | (95,562) |
| (242,050) | **38,383** | **NET CHANGE IN CASH AND CASH EQUIVALENTS** | | **14,777** | (93,189) |
| 779,278 | **537,228** | Cash and cash equivalents at 1 January | | **206,833** | 300,022 |
| 537,228 | **575,611** | **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | | **221,610** | 206,833 |

**CASH AND CASH EQUIVALENTS COMPRISE OF THE FOLLOWING**

| 2022 | 2023 | | Note | 2023 | 2022 |
|---|---|---|---|---|---|
| US$ '000 | **US$ '000** | | | **RO '000** | RO '000 |
| 342,041 | **445,221** | Cash and balances with Central Bank of Oman | 5 | **171,410** | 131,686 |
| 195,187 | **130,390** | Due from banks | 6 | **50,200** | 75,147 |
| 537,228 | **575,611** | **Cash and cash equivalents** | | **221,610** | 206,833 |

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

# NOTES TO THE FINANCIAL STATEMENTS
**FOR THE YEAR ENDED 31 DECEMBER 2023**

## 1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

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 six branches as at year end with twenty four conventional and twenty two Islamic branches. (2022 - twenty three conventional and nineteen 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 943 employees as at 31 December 2023 compared to 864 as at 31 December 2022

## 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 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 for the convenience of readers, 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 2023 and relevant for the Bank's operations

### 2.5.1 International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12

The amendments to IAS 12 have been introduced in response to the OECD's BEPS Pillar Two rules and include:

- A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
- Disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

Since the additional disclosures under IAS 12 is applicable to multinational enterprises, the Bank will not be subject to the same and the amendments will have no impact on the financial statements as at 31 December 2023.

### 2.5.2 Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

The amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

### 2.5.3 IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts (IFRS 17) is effective for reporting periods beginning on or after 1 January 2023. 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. Limited scope exceptions apply.

Other than the exceptions outlined below, the Bank has not identified contracts that result in the transfer of significant insurance risk, and therefore it has concluded that IFRS 17 does not have a material impact on the financial statements for the year ended 31 December 2023.

## 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 2023:

### 2.6.1 Amendments to IFRS 16: Lease Liability in a Sale and Leaseback

In September 2022, the IASB issued amendments to IFRS 16 to specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16. Earlier application is permitted and that fact must be disclosed.

The Bank is currently assessing the impact of this amendment on its financial statements.

### 2.6.2 Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020 and October 2022, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively. The Bank is currently assessing the impact of this amendment on its financial statements.

### 2.6.3 Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7

In May 2023, the IASB issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures to clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements.

The amendments will be effective for annual reporting periods beginning on or after 1 January 2024. Early adoption is permitted, but will need to be disclosed. The Bank is currently assessing the impact of this amendment on its financial statements.

# 3 SIGNIFICANT ACCOUNTING POLICIES

## 3.1 Foreign currency translation
Transactions in foreign currencies are translated into the respective functional currencies of the operations at the spot exchange rates at the dates of the transactions.

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

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 profit or loss, 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 spot 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 profit or loss 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.

When a financial asset becomes credit-impaired (as set out in Note 3.3.5 and is therefore regarded as 'Stage 3'), the Bank calculates interest income by applying the EIR to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

Interest income and expense presented in the statement of profit or loss 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
The Bank earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services. 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.

### 3.3.2 Measurement categories of financial assets and financial liabilities

**Financial assets**
The Bank has three principal classification categories for its 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 profit or loss. Dividends are recognised in the statement of profit or loss only when the right of payment has been established.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at 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 profit or loss as incurred. Subsequently, they are measured at fair value and any gains or losses are recognised in the statement of profit or loss.

**Business model assessment**
Business model available under IFRS 9 are:

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

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

**Financial assets**
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 profit or loss.

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

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

### 3.3.2.3 Cash and cash equivalents

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

### 3.3.2.4 Due from banks

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

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

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

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

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 profit or loss.

### 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 profit or loss over the period of borrowing using the effective interest rate method.

### 3.3.2.8 Deposits

Deposits 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:

1. The rights to receive cash flows from the asset have expired;
2. 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
3. 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.

**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 profit or loss.

### 3.3.4 Offsetting

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

### 3.3.5 Impairment

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

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

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

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

- debt investment securities and loans & advances and financings that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

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

### i) Measurement of ECL

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

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

### ii) Overview of ECL principles

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

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

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

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

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

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

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

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

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

*Stage 2:* Credit risk has increased significantly since initial recognition- recognise lifetime expected losses with revenue being calculated based on the gross amount of the asset.

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

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

### iii) ECL calculation

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

- probability of default (PD)
- loss given default (LGD)
- exposure at default (EAD)

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

Details of these statistical parameters/inputs are as follows:

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

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

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

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

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

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

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

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, written off loans & advances and financings receivable is recovered, the recovery is credited to the statement of profit or loss.

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 35.1.7

### 3.3.6 Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

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

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

### 3.3.7 Credit impaired financial assets

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

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

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

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 profit or loss. 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 33 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, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

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

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

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

### 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:

- (i) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or
- (ii) hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge); or
- (iii) 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 profit or loss.

**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 profit or loss.

## 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 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:

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

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 profit or loss.

Repairs and renewals are charged to the statement of profit or loss 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 profit or loss as an expense when incurred.

### 3.6 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 profit or loss.

### 3.7 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.

### 3.8 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 profit or loss 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.

### 3.9 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.

### 3.10 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 profit or loss.

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

### 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.

## 3.11 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.

## 3.12 Employee terminal benefits

### 3.12.1 Terminal benefits
End of service benefits are accrued in accordance with the terms of employment of the Bank's employees at the reporting date, having regard to the requirements of the Oman Labor Law RD 35/2003 (prior to 31 July 2023) and Oman Labor Law RD 53/2023 (starting 31 July 2023), as amended and in accordance with IAS 19 employee benefits. Contribution to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurance Law RD 72/1991, and amendments to the same that were effective 19 July 2023 by way of the Social Protection Fund Law RD 52/2023 are recognised as an expense in the statement of profit or loss when incurred.

### 3.12.2 Short term benefits

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

## 3.13 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.

## 3.14 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.

## 3.15 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.

## 3.16 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.

## 3.17 Perpetual bonds

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.

# 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 behavior (e.g the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 35.1.7, 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:

- determining criteria for significant increase in credit risk;
- choosing appropriate models and assumptions for measurement of ECL;
- establishing the number and relative weightings of forward looking scenarios for each type of product/market and the associated ECL; and
- 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 2023, the Bank has recognised a net profit after tax of RO 36.452 million. The Bank's quarterly average high quality liquid assets were RO 326.980 million as at 31 December 2023 with the liquidity coverage ratio of 159.70%.

### 4.5 Fair value estimation of unquoted securities

Significant judgement is exercised in the classification of fair value instruments as level 3 as the valuation of such instruments is driven by significant unobservable inputs. Management believes that income approach valuation technique of these investments is representative of the fair value of the underlying assets that are fair valued.

### 4.6 Fee and commission income

The recognition of fee and commission income depends on the purpose for which fees are assessed and the basis of accounting for any associated financial instrument. Management applies certain assumptions and judgements to determine the fees that are an integral part of the effective interest rate of a financial instrument, fees that are earned as services are provided, and fees that are earned on the execution of a significant act.

### 4.7 Taxation

Uncertainties exist with respect to the interpretation of tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and nature of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Bank establishes provisions, based on reasonable estimates, for possible consequences of finalisation of tax assessments of the Bank. The amount of such provisions is based on various factors, such as experience of previous tax assessments and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies

### 4.8 Determination of lease term

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Bank has several rental lease contracts that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease.

## 5 CASH AND BALANCES WITH CENTRAL BANK OF OMAN

| 2022 | 2023 | | 2023 | 2022 |
|---|---|---|---|---|
| US$ '000 | **US$ '000** | | **RO '000** | RO '000 |
| 46,057 | **50,769** | Cash | **19,546** | 17,732 |
| 1,299 | **1,299** | Capital deposit with Central Bank of Oman | **500** | 500 |
| 65 | **65** | ATM deposit with Central Bank of Oman | **25** | 25 |
| 245,987 | **276,452** | Clearing account with CBO | **106,434** | 94,705 |
| 50,000 | **118,000** | Placement with Central Bank of Oman | **45,430** | 19,250 |
| 343,408 | **446,585** | | **171,935** | 132,212 |

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 was RO 77.063 million (2022: RO 74.645 million)

## 6 DUE FROM BANKS

| 2022 | 2023 | | 2023 | 2022 |
|---|---|---|---|---|
| US$ '000 | **US$ '000** | | **RO '000** | RO '000 |
| - | **99,000** | Placements | **38,115** | - |
| 195,216 | **130,390** | Nostro account balances | **50,200** | 75,158 |
| (29) | **(200)** | Less: Impairment loss allowance - Refer note 35.1.7 | **(77)** | (11) |
| 195,187 | **229,190** | | **88,238** | 75,147 |

## 7 LOANS, ADVANCES AND FINANCING, NET

| 2022 | 2023 | | 2023 | 2022 |
|---|---|---|---|---|
| US$ '000 | US$ '000 | | RO '000 | RO '000 |
| | | **Conventional Banking** | | |
| 3,898,977 | 4,329,940 | Corporate lending | 1,667,027 | 1,501,106 |
| 1,531,374 | 1,573,208 | Retail lending | 605,685 | 589,579 |
| 5,430,351 | 5,903,148 | Loans & advances, gross | 2,272,712 | 2,090,685 |
| | | **Islamic Banking** | | |
| 897,584 | 947,649 | Corporate financing | 364,845 | 345,570 |
| 396,909 | 425,855 | Retail financing | 163,954 | 152,810 |
| 1,294,493 | 1,373,504 | Financing, gross | 528,799 | 498,380 |
| 6,724,844 | 7,276,652 | **Loans, advances and financing, gross** | 2,801,511 | 2,589,065 |
| (230,209) | (278,834) | Loans and financing impairment (including reserve interest and profit)* - Refer note 35.1.7 | (107,351) | (88,630) |
| 6,494,635 | 6,997,818 | | 2,694,160 | 2,500,435 |

*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:

| 2022 | 2023 | | 2023 | 2022 |
|---|---|---|---|---|
| US$ '000 | US$ '000 | | RO '000 | RO '000 |
| 1,928,283 | 1,999,063 | Personal loans | 769,639 | 742,389 |
| 1,056,391 | 946,272 | Construction | 364,315 | 406,711 |
| 608,619 | 706,452 | Wholesale and retail trade & other trade | 271,984 | 234,318 |
| 888,306 | 988,008 | Services | 380,383 | 341,998 |
| 436,845 | 642,532 | Financial institutions | 247,375 | 168,185 |
| 628,128 | 640,662 | Manufacturing | 246,655 | 241,829 |
| 192,118 | 267,475 | Electricity, gas and water | 102,978 | 73,966 |
| 27,898 | 48,343 | Mining and quarrying | 18,612 | 10,741 |
| 540,439 | 586,655 | Transport and communication | 225,862 | 208,069 |
| 199,708 | 255,756 | Government | 98,466 | 76,888 |
| 218,109 | 195,434 | Other | 75,242 | 83,972 |
| 6,724,844 | 7,276,652 | | 2,801,511 | 2,589,065 |

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.

### 7.1 Comparison of provision held as per IFRS 9 and required as per CBO norms as at 31 December 2023:

Disclosure requirements for the year ended 31 December 2023, containing the risk classification-wise gross and net amount outstanding, provision required as per CBO norms, allowance made as per IFRS 9, 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 | Reserve interest as per CBO norms | Provision held as per IFRS 9 | Difference between CBO provision required and provision held | Net amount as per CBO norms* | Net amount as per IFRS 9 |
|---|---|---|---|---|---|---|---|---|
| | | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) = (4)+(5)-(6) | (8)=(3)-(4) | (9) = (3)-(6) |
| | Stage 1 | 2,202,738 | 24,842 | - | 6,122 | 18,720 | 2,177,896 | 2,196,616 |
| Standard | Stage 2 | 275,638 | 3,109 | - | 10,669 | (7,560) | 272,529 | 264,969 |
| | Stage 3 | - | - | - | - | - | - | - |
| **Subtotal** | | **2,478,376** | **27,951** | **-** | **16,791** | **11,160** | **2,450,425** | **2,461,585** |
| | Stage 1 | - | - | - | - | - | - | - |
| Special Mention | Stage 2 | 212,955 | 2,402 | - | 15,523 | (13,121) | 210,553 | 197,432 |
| | Stage 3 | - | - | - | - | - | - | - |
| **Subtotal** | | **212,955** | **2,402** | **-** | **15,523** | **(13,121)** | **210,553** | **197,432** |
| | Stage 1 | - | - | - | - | - | - | - |
| Substandard | Stage 2 | - | - | - | - | - | - | - |
| | Stage 3 | 6,936 | 1,807 | 230 | 2,360 | (323) | 5,129 | 4,576 |
| **Subtotal** | | **6,936** | **1,807** | **230** | **2,360** | **(323)** | **5,129** | **4,576** |
| | Stage 1 | - | - | - | - | - | - | - |
| Doubtful | Stage 2 | - | - | - | - | - | - | - |
| | Stage 3 | 2,585 | 1,053 | 82 | 1,196 | (61) | 1,532 | 1,389 |
| **Subtotal** | | **2,585** | **1,053** | **82** | **1,196** | **(61)** | **1,532** | **1,389** |
| | Stage 1 | - | - | - | - | - | - | - |
| Loss | Stage 2 | - | - | - | - | - | - | - |
| | Stage 3 | 100,659 | 72,735 | 15,780 | 71,481 | 17,034 | 27,924 | 29,178 |
| **Subtotal** | | **100,659** | **72,735** | **15,780** | **71,481** | **17,034** | **27,924** | **29,178** |
| | Stage 1 | 661,920 | - | - | 494 | (494) | 661,920 | 661,426 |
| Other items not covered under CBO circular BM 977 and related instructions | Stage 2 | 54,922 | - | - | 1,369 | (1,369) | 54,922 | 53,553 |
| | Stage 3 | 164 | - | - | 39 | (39) | 164 | 125 |
| **Subtotal** | | **717,006** | **-** | **-** | **1,902** | **(1,902)** | **717,006** | **715,104** |
| | **Stage 1** | **2,864,658** | **24,842** | **-** | **6,616** | **18,226** | **2,839,816** | **2,858,042** |
| | **Stage 2** | **543,515** | **5,511** | **-** | **27,561** | **(22,050)** | **538,004** | **515,954** |
| **Total** | **Stage 3** | **110,344** | **75,595** | **16,092** | **75,076** | **16,611** | **34,749** | **35,268** |
| | **Total** | **3,518,517** | **105,948** | **16,092** | **109,253** | **12,787** | **3,412,569** | **3,409,264** |
| | **Total (US $'000)** | **9,139,005** | **275,190** | **41,797** | **283,773** | **33,214** | **8,863,816** | **8,855,232** |

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

## 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 | Reserve interest as per CBO norms | Provision held as per IFRS 9 | Difference between CBO provision required and provision held | Net Carrying amount as per CBO norms* | Net carrying amount as per IFRS 9 |
|---|---|---|---|---|---|---|---|---|
| | | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) = (4)+(5)-(6) | (8)=(3)-(4) | (9) = (3)-(6) |
| Classified as performing | Stage 1 | 102,997 | 75 | - | 1,502 | (1,427) | 102,922 | 101,495 |
| | Stage 2 | 308,758 | 223 | - | 21,426 | (21,203) | 308,535 | 287,332 |
| | Stage 3 | - | - | - | - | - | - | - |
| **Subtotal** | | **411,755** | **298** | **-** | **22,928** | **(22,630)** | **411,457** | **388,827** |
| Classified as non-performing | Stage 1 | - | - | - | - | - | - | - |
| | Stage 2 | - | - | - | - | - | - | - |
| | Stage 3 | 5,380 | 4,495 | 202 | 4,530 | (35) | 885 | 850 |
| **Sub total** | | **5,380** | **4,495** | **202** | **4,530** | **(35)** | **885** | **850** |
| **Total** | **Stage 1** | **102,997** | **75** | **-** | **1,502** | **(1,427)** | **102,922** | **101,495** |
| | **Stage 2** | **308,758** | **223** | **-** | **21,426** | **(21,203)** | **308,535** | **287,332** |
| | **Stage 3** | **5,380** | **4,495** | **202** | **4,530** | **(35)** | **885** | **850** |
| | **Total** | **417,135** | **4,793** | **202** | **27,458** | **(22,665)** | **412,342** | **389,677** |
| | **Total (US $'000)** | **1,083,468** | **12,450** | **525** | **71,319** | **(58,870)** | **1,071,018** | **1,012,148** |

**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 | 13,092 | 13,092 | - |
| Provisions required as per CBO norms/ held as per IFRS 9 | 105,948 | 109,253 | 12,787 |
| Gross NPL ratio (percentage) | 3.93% | 3.93% | - |
| Net NPL ratio (percentage) | 1.23% | 1.25% | -0.02% |

**** CBO provision does not include reserved interest*

**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.

**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.

**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. The reserve as at December 31, 2023 was RO 0.298 million, equivalent to US$ 0.77 million (2022: RO 0.998 million, equivalent to US$ 2.59 million)

### 7.4 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 | Reserve interest as per CBO norms | Provision held as per IFRS 9 | Difference between CBO provision required and provision held** | Net amount as per CBO norms* | Net amount as per IFRS 9 |
|---|---|---|---|---|---|---|---|---|
| | | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) = (4)+(5)-(6) | (8)=(3)-(4) | (9) = (3)-(6) |
| | Stage 1 | 2,060,340 | 23,445 | - | 7,837 | 15,608 | 2,036,895 | 2,052,503 |
| Standard | Stage 2 | 250,025 | 2,840 | - | 10,204 | (7,364) | 247,185 | 239,821 |
| | 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 | - | - | - | - | - | - | - |
| Substandard | Stage 2 | - | - | - | - | - | - | - |
| | Stage 3 | 17,415 | 4,302 | 223 | 7,839 | (3,314) | 13,113 | 9,576 |
| **Subtotal** | | **17,415** | **4,302** | **223** | **7,839** | **(3,314)** | **13,113** | **9,576** |
| | Stage 1 | - | - | - | - | - | - | - |
| Doubtful | Stage 2 | - | - | - | - | - | - | - |
| | Stage 3 | 4,903 | 1,796 | 371 | 2,078 | 89 | 3,107 | 2,825 |
| **Subtotal** | | **4,903** | **1,796** | **371** | **2,078** | **89** | **3,107** | **2,825** |
| | Stage 1 | - | - | - | - | - | - | - |
| Loss | Stage 2 | - | - | - | - | - | - | - |
| | Stage 3 | 75,255 | 53,388 | 11,140 | 48,849 | 15,679 | 21,867 | 26,406 |
| **Subtotal** | | **75,255** | **53,388** | **11,140** | **48,849** | **15,679** | **21,867** | **26,406** |
| 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** |
| **Total** | **Stage 3** | **97,780** | **59,486** | **11,734** | **58,801** | **12,419** | **38,294** | **38,979** |
| | **Total** | **3,304,819** | **87,829** | **11,734** | **91,249** | **8,314** | **3,216,990** | **3,213,570** |
| | **Total (US $'000)** | **8,583,945** | **228,127** | **30,478** | **237,010** | **21,594** | **8,355,819** | **8,346,935** |

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

## 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 | Reserve interest as per CBO norms | Provision held as per IFRS 9 | Difference between CBO provision required and provision held | Net Carrying amount as per CBO norms* | Net carrying amount as per IFRS 9 |
|---|---|---|---|---|---|---|---|---|
| | | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) = (4)+(5)-(6) | (8)=(3)-(4) | (9) = (3)-(6) |
| Classified as performing | 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 | - | - | - | - | - | - | - |
| **Subtotal** | | **442,976** | **998** | **-** | **19,388** | **(18,390)** | **441,978** | **423,588** |
| Classified as non-performing | Stage 1 | - | - | - | - | - | - | - |
| | Stage 2 | - | - | - | - | - | - | - |
| | Stage 3 | 23,435 | 11,888 | 3,138 | 12,080 | 2,946 | 11,547 | 11,355 |
| **Sub total** | | **23,435** | **11,888** | **3,138** | **12,080** | **2,946** | **11,547** | **11,355** |
| **Total** | **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** | **11,888** | **3,138** | **12,080** | **2,946** | **11,547** | **11,355** |
| | **Total** | **466,411** | **12,886** | **3,138** | **31,468** | **(15,444)** | **453,525** | **434,943** |
| | **Total (US $'000)** | **1,211,457** | **33,469** | **8,151** | **81,735** | **(40,115)** | **1,177,988** | **1,129,722** |

**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 | 13,064 | 13,064 | - |
| Provisions required as per CBO norms/ held as per IFRS 9 | 87,829 | 91,249 | 8,314 |
| Gross NPL ratio (percentage) | 3.77% | 3.77% | - |
| Net NPL ratio (percentage) | 1.47% | 1.50% | -0.03% |

**** CBO provision does not include reserved interest*

## 8 INVESTMENT SECURITIES

| 2022 | 2023 | | 2023 | 2022 |
|---|---|---|---|---|
| US$ '000 | US$ '000 | | RO '000 | RO '000 |
| | | **Equity investments:** | | |
| 22,810 | 41,244 | Measured at FVTPL | 15,879 | 8,782 |
| 48,117 | 92,769 | Designated at FVOCI | 35,716 | 18,525 |
| 70,927 | 134,013 | | 51,595 | 27,307 |
| | | **Debt investments:** | | |
| 690,535 | 653,792 | Designated at FVOCI | 251,710 | 265,856 |
| 761,462 | 787,805 | **Total investment securities** | 303,305 | 293,163 |

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

| 2022 | 2023 | | 2023 | 2022 |
|---|---|---|---|---|
| US$ '000 | US$ '000 | | RO '000 | RO '000 |
| | | **Equity investments:** | | |
| | | **A. Measured at FVTPL** | | |
| | | **Quoted investments - Oman** | | |
| - | 4,886 | Banking and investment sector | 1,881 | - |
| - | 4,886 | | 1,881 | - |
| | | **Quoted investments - Foreign** | | |
| 22,173 | 30,430 | Banking and investment sector | 11,715 | 8,536 |
| 121 | 290 | Manufacturing | 112 | 47 |
| 516 | 5,638 | Service sector | 2,171 | 199 |
| 22,810 | 36,358 | | 13,998 | 8,782 |
| | | **B. Designated at FVOCI** | | |
| | | **Quoted investments - Oman** | | |
| 29,747 | 27,108 | Banking and investment sector | 10,437 | 11,453 |
| 1,280 | 27,562 | Manufacturing | 10,611 | 493 |
| 6,063 | 4,025 | Service sector | 1,550 | 2,334 |
| 37,090 | 58,695 | | 22,598 | 14,280 |
| | | **Quoted investments - Foreign** | | |
| 3,777 | 9,776 | Banking and investment sector | 3,764 | 1,454 |
| 1,124 | 2,182 | Manufacturing | 840 | 432 |
| 6,126 | 8,289 | Service sector | 3,191 | 2,359 |
| - | 1,047 | Real Estate | 403 | - |
| 11,027 | 21,294 | | 8,198 | 4,245 |
| | | **Unquoted investments - Oman** | | |
| - | 12,780 | Manufacturing | 4,920 | - |
| - | 12,780 | | 4,920 | - |
| 70,927 | 134,013 | **Total** | 51,595 | 27,307 |

| 2022 | 2023 | Debt investments: | 2023 | 2022 |
|---|---|---|---|---|
| US$ '000 | **US$ '000** | **Designated at FVOCI** | **RO '000** | RO '000 |
| | | **Quoted investments - Oman** | | |
| 427,502 | **370,377** | Government development bonds | **142,595** | 164,588 |
| 46,260 | **72,608** | Government bonds | **27,954** | 17,810 |
| 126,873 | **132,610** | Government sukuks | **51,055** | 48,846 |
| 66,229 | **47,013** | Services | **18,100** | 25,498 |
| - | **6,623** | Manufacturing | **2,550** | - |
| 5,230 | **7,812** | Banking and investment | **3,008** | 2,014 |
| 672,094 | **637,043** | | **245,262** | 258,756 |
| | | **Quoted investments - Foreign** | | |
| 2,099 | **-** | Government bonds | **-** | 808 |
| 16,342 | **16,749** | Banking and investment | **6,448** | 6,292 |
| 18,441 | **16,749** | | **6,448** | 7,100 |
| 690,535 | **653,792** | **Total** | **251,710** | 265,856 |
| 761,462 | **787,805** | **Total investments** | **303,305** | 293,163 |

Equity investments designated at FVOCI include unquoted investments classified as fair value through other comprehensive income. Unquoted equity investment represents an investment Mazoon Mining LLC. The Bank currently holds a 4.5 % stake in the company (31 December 2022: Nil). In the current year the Bank has applied income approach (discounting of cash flows) technique for valuation purpose. Management believes that income approach valuation technique of this investment is representative of the fair value of the underlying assets that are fair valued.

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 gain recognised in other comprehensive income amounted to RO 0.032 million equivalent to US$ 0.08 million (2022: cumulative loss of RO 0.315 million equivalent to US$ 0.82 million)

Refer to Note 13 of the financial statements for the details of bonds issued as collaterals against the borrowed funds.

## 9 PROPERTY, EQUIPMENT & INTANGIBLES

| | Freehold land | Building | Leasehold imrovem -ents | 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 2023 | 7,091 | 7,634 | 4,391 | 7,072 | 10,576 | 180 | 1,126 | 8,503 | 8,611 | 55,184 |
| Additions | - | - | 257 | 446 | 269 | 44 | 106 | 812 | 8,052 | 9,986 |
| Transfers | - | 6,753 | 628 | 750 | 74 | - | 597 | - | (8,802) | - |
| Disposals / scrapped | - | - | (149) | (27) | - | (39) | (288) | - | - | (503) |
| Leases closed/ changed during the year | - | - | - | - | - | - | - | (1,648) | - | (1,648) |
| **At 31 December 2023** | **7,091** | **14,387** | **5,127** | **8,241** | **10,919** | **185** | **1,541** | **7,667** | **7,861** | **63,019** |
| **Accumulated depreciation and amortization:** | | | | | | | | | | |
| At 1 January 2023 | - | 2,177 | 2,869 | 4,340 | 6,012 | 126 | 821 | 3,735 | - | 20,080 |
| Charge for the year | - | 465 | 592 | 664 | 790 | 20 | 79 | 1,288 | - | 3,898 |
| Disposals / scrapped | - | - | (148) | (27) | - | (39) | (270) | - | - | (484) |
| Leases closed/ changed during the year | - | - | - | - | - | - | - | (1,606) | - | (1,606) |
| **At 31 December 2023** | **-** | **2,642** | **3,313** | **4,977** | **6,802** | **107** | **630** | **3,417** | **-** | **21,888** |
| **Net book value as at 31 December 2023** | | | | | | | | | | |
| **RO '000** | **7,091** | **11,745** | **1,814** | **3,264** | **4,117** | **78** | **911** | **4,250** | **7,861** | **41,131** |
| **US$ '000** | **18,418** | **30,506** | **4,712** | **8,478** | **10,694** | **203** | **2,366** | **11,039** | **20,418** | **106,834** |

| | Freehold land | Building | Leasehold imrovem -ents | 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 |

## 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 5-10 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 profit or loss

| 2022 | 2023 | | 2023 | 2022 |
|---|---|---|---|---|
| US$'000s | US$'000s | Particulars | RO'000s | RO'000s |
| 561 | 450 | Interest on lease liabilities | 173 | 216 |
| 322 | 82 | Expenses relating to short-term leases | 32 | 124 |
| 119 | 223 | Expenses relating to leases of low-value assets | 86 | 46 |
| 1,002 | 755 | Total | 291 | 386 |

### III. Amounts recognised in statement of cash flows

Refer to the cash flow statement for the payment made towards lease liabilities in the year 2023 and 2022

### IV. Lease Liabilities

Refer note 35.2.2 for maturity analysis of  liabilities as at 31 December 2023 and 31 December 2022

## 11 TAXATION

### a) Recognised in the statement of profit or loss

| 2022 | 2023 | | 2023 | 2022 |
|---|---|---|---|---|
| US$ '000 | US$ '000 | | RO '000 | RO '000 |
| | | Current tax | | |
| 14,313 | 16,173 | - Current year | 6,227 | 5,511 |
| (460) | (1,264) | - Prior years | (488) | (178) |
| (55) | 323 | Deferred tax | 125 | (21) |
| 13,798 | 15,232 | | 5,864 | 5,312 |

### b) Tax liability

| 2022 | 2023 | | 2023 | 2022 |
|---|---|---|---|---|
| US$ '000 | US$ '000 | | RO '000 | RO '000 |
| | | **Current tax** | | |
| 14,313 | 16,173 | - Current year | 6,227 | 5,511 |
| 15,412 | 17,179 | - Prior years | 6,613 | 5,933 |
| 29,725 | 33,352 | | 12,840 | 11,444 |

### c) Deferred tax liability

| 2022 | 2023 | | 2023 | 2022 |
|---|---|---|---|---|
| US$ '000 | US$ '000 | | RO '000 | RO '000 |
| (1,319) | (1,263) | At 1 January | (486) | (507) |
| 55 | (323) | Charged during the year | (125) | 21 |
| (1,264) | (1,586) | At 31 December | (611) | (486) |

### d) Movement in Tax Liability

| 2022 | 2023 | | 2023 | 2022 |
|---|---|---|---|---|
| US$ '000 | US$ '000 | | RO '000 | RO '000 |
| 22,450 | 29,725 | At 1 January | 11,444 | 8,643 |
| 13,797 | 15,232 | Charge for the year | 5,864 | 5,312 |
| (6,209) | (11,079) | Payments during the year | (4,266) | (2,390) |
| (313) | (526) | Additional provision/(reversal) made | (202) | (121) |
| 29,725 | 33,352 | At 31 December | 12,840 | 11,444 |

### 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% (2022: 15%) on taxable profits.

| 2022 | 2023 | | 2023 | 2022 |
|---|---|---|---|---|
| US$ '000 | US$ '000 | | RO '000 | RO '000 |
| 99,747 | 109,910 | Accounting profit for the year | 42,316 | 38,402 |
| 14,962 | 16,487 | Tax charge @ %15 on accounting profit | 6,347 | 5,760 |
| | | Add / (less) tax effects of: | | |
| (1,052) | (960) | Income not taxable | (369) | (405) |
| 112 | 145 | Non deductible expense / (income) | 56 | 43 |
| (225) | (441) | Others | (170) | (86) |
| 13,797 | 15,231 | Tax expense | 5,864 | 5,312 |

The effective tax rate of the Bank for 2023 was 13.86% (2022: 13.83%)

The Bank's tax assessments have been completed by the Tax Authorities upto the year 2020. The Bank has filed an appeal with the tax authorities for the disallowance of interest of Tier-1 perpetual bonds for the assessment year 2018 and has filed an objection for the assessed years 2019 and 2020. 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 2023.

## 12 OTHER ASSETS

| 2022 | 2023 | | 2023 | 2022 |
|---|---|---|---|---|
| US$ '000 | US$ '000 | | RO '000 | RO '000 |
| 75,421 | 27,460 | Acceptances | 10,572 | 29,037 |
| 3,122 | 2,919 | Prepaid expenses | 1,124 | 1,202 |
| 8,481 | 10,309 | Interest and profit receivable on investments | 3,969 | 3,265 |
| 10,418 | 5,777 | Derivatives - positive mark-to-market (note 34) | 2,224 | 4,011 |
| 5,111 | 4,499 | Other receivables | 1,732 | 1,968 |
| (202) | (117) | Less: Impairment loss allowance | (45) | (78) |
| 102,351 | 50,847 | | 19,576 | 39,405 |

## 13 DUE TO BANKS

| 2022 | 2023 | | 2023 | 2022 |
|---|---|---|---|---|
| US$ '000 | US$ '000 | | RO '000 | RO '000 |
| 535,404 | 454,522 | Inter-bank deposits | 174,991 | 206,131 |
| 3,382 | 6,649 | Vostro account balances | 2,560 | 1,302 |
| 41,351 | 21,429 | Borrowings under repurchase agreements | 8,250 | 15,920 |
| 580,137 | 482,600 | | 185,801 | 223,353 |

Borrowings from financial institutions under repurchase agreements are secured by collateralisation of OmGrid and Oztel bonds. The carrying values of collateralized bonds as of 31 December 2023 amounted to RO 11.893 million equivalent to US$ 30.890 million (31 December 2022: RO 24.692 million equivalent to US$ 64.14 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 2023, the fair value of collaterized assets are higher than the borrowings under repurchase agreements.

## 14 CUSTOMERS' DEPOSITS

| 2022 | 2023 | | 2023 | 2022 |
|---|---|---|---|---|
| US$ '000 | US$ '000 | | RO '000 | RO '000 |
| | | **Conventional Banking** | | |
| 2,545,720 | 2,568,873 | Time deposits | 989,016 | 980,102 |
| 1,465,857 | 1,649,888 | Demand deposits | 635,207 | 564,355 |
| 707,894 | 648,982 | Savings deposits | 249,858 | 272,539 |
| 4,719,471 | 4,867,743 | | 1,874,081 | 1,816,996 |
| | | **Islamic Banking** | | |
| 506,122 | 817,252 | Time deposits | 314,642 | 194,857 |
| 397,426 | 366,335 | Demand deposits | 141,039 | 153,009 |
| 341,218 | 378,971 | Savings deposits | 145,904 | 131,369 |
| 1,244,766 | 1,562,558 | | 601,585 | 479,235 |
| 5,964,237 | 6,430,301 | | 2,475,666 | 2,296,231 |

## 15 BORROWED FUNDS

| 2022 | 2023 | | 2023 | 2022 |
|---|---|---|---|---|
| US$ '000 | US$ '000 | | RO '000 | RO '000 |
| - | 100,000 | Financial institutions | 38,500 | - |

Borrowed funds includes unsecured US Dollar (USD) borrowing from foreign financial institutions. The financial covenants for this borrowing include the requirement for a minimum capital adequacy ratio and other covenants to be maintained by the Bank which have been complied for the year ended December 31, 2023

## 16 OTHER LIABILITIES

| 2022 | 2023 | | 2023 | 2022 |
|---|---|---|---|---|
| US$ '000 | US$ '000 | | RO '000 | RO '000 |
| 75,421 | 27,460 | Acceptances | 10,572 | 29,037 |
| 68,738 | 72,494 | Interest and profit payable | 27,910 | 26,464 |
| 22,010 | 25,005 | Accrued expenses | 9,627 | 8,474 |
| 11,117 | 9,792 | Lease liability | 3,770 | 4,280 |
| 9,390 | 11,714 | Staff related liabilities | 4,510 | 3,615 |
| 8,613 | 2,442 | Derivatives - negative mark-to-market (note 34) | 940 | 3,316 |
| 6,392 | 4,426 | Impairment allowance on off balance sheet items | 1,704 | 2,461 |
| 1,264 | 1,587 | Deferred Tax Liability (Note 11 (c)) | 611 | 486 |
| - | 36,018 | Matured deposits | 13,867 | - |
| 6,896 | 8,132 | Unearned business fees | 3,131 | 2,655 |
| 7,038 | 19,486 | Others | 7,502 | 2,711 |
| 216,879 | 218,556 | | 84,144 | 83,499 |

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

| 2022 | 2023 | | 2023 | 2022 |
|---|---|---|---|---|
| US$ '000 | US$ '000 | | RO '000 | RO '000 |
| 1,457 | 1,620 | At 1 January | 624 | 561 |
| 355 | 2,060 | Provided during the year (note 28) | 793 | 137 |
| (192) | (941) | Payments made during the year | (362) | (74) |
| 1,620 | 2,739 | At 31 December | 1,055 | 624 |

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 0.002 million was transferred to the "Investors' Trust Fund" (2022: RO 0.02 million equivalent to US$ 0.06 million).

## 17 SHARE CAPITAL

The authorised share capital of the Bank is 5,000,000,000 shares (31 December 2022: 2,500,000,000 shares) out of which 2,349,657,466 shares are issued and fully paid up - 1,949,657,466 shares at 100 baiza per share and 400,000,000 shares at 125 baiza (31 December 2022: 1,949,657,466 shares issued and fully paid up). During September 2023, the bank successfully completed a rights issue of 400,000,000 shares at 125 baiza.

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. As at December 31, 2023, shareholding of AUB was 822,380,096 shares equivalent to 35% (31 December 2022: 682,380,099 shares equivalent to 35%) and Al Hosn Investment Company SAOC was 332,703,763 shares equivalent to 14.16% (31 December 2022: 276,065,080 equivalent to 14.16%).

## 18 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 3.645 million equivalent to US$ 9.47 million (31 December 2022: RO 3.309 million equivalent to US$ 8.59 million) was transferred to legal reserve

## 19 DIVIDEND PAID AND PROPOSED

The Board of Directors have recommended dividend of 9 baizas per share (4.5 baizas per share as cash dividend and 4.5 baizas per share in the form of mandatory convertible bonds (MCBs)) which is subject to approval of the shareholders at the ensuing Annual General Meeting (31 December 2022: cash dividend of 9 baizas per share). The Bank will issue 103,661,359 MCBs at a price of 102 baizas (including issue expenses of 2 baizas per MCB) aggregating up to RO 10,573,458.618. The MCBs will bear an annual coupon of 6% payable semi-annually. The MCBs will be mandatorily converted into New Ordinary Shares on the second anniversary of the Issue Date, at the fixed contractual conversion price of 145 baizas per New Ordinary Share.

The cash dividend for 2022 was approved by the shareholders in Annual General Meeting and was paid in 2023.

## 20 TIER 1 PERPETUAL SUBORDINATED BONDS

| 2022 | **2023** | | **2023** | 2022 |
|---|---|---|---|---|
| US$ '000 | **US$ '000** | | **RO '000** | RO '000 |
| 387,013 | **387,013** | Tier 1 perpetual subordinated bonds | **149,000** | 149,000 |

In June 2019, the Bank had 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.

In August 2022, 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.

In December 2023, the Bank raised additional Tier I Capital of RO 54 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 25 December 2028 (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 54 million issued in December 2018 in line with terms and conditions.

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

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

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

## 21 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.

| 2022 | 2023 | | 2023 | 2022 |
|---|---|---|---|---|
| US$ '000 | **US$ '000** | | **RO '000** | RO '000 |
| 810,232 | **967,257** | Net assets | **372,394** | 311,939 |
| 1,949,657 | **2,349,657** | Issued and paid up shares (in 000's) at 31 December | **2,349,657** | 1,949,657 |
| 42 | **41** | Net asset value per share (US cents /baizas) | **159** | 160 |

## 22 CONTINGENT LIABILITIES AND COMMITMENTS

| 2022 | 2023 | | 2023 | 2022 |
|---|---|---|---|---|
| US$ '000 | **US$ '000** | | **RO '000** | RO '000 |
| 355,055 | **305,939** | Financial guarantees* | **117,786** | 136,696 |
| 109,800 | **116,388** | Letters of credit | **44,810** | 42,273 |
| 137,088 | **134,935** | Loan commitments | **51,950** | 52,779 |
| 11,874 | **13,151** | Capital commitments | **5,063** | 4,571 |
| 613,817 | **570,413** | | **219,609** | 236,319 |

*As at December 31, 2023, guarantees of RO 0.344 million were issued against counter guarantees of other banks (December 31, 2022: RO 0.838 million)

### Legal cases

As at 31 December 2023, 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.

## 23 INTEREST INCOME AND INCOME FROM ISLAMIC FINANCING AND INVESTMENTS

| 2022 | 2023 | | 2023 | 2022 |
|---|---|---|---|---|
| US$ '000 | **US$ '000** | | **RO '000** | RO '000 |
| 294,396 | **340,210** | Loans and advances | **130,981** | 113,342 |
| 33,724 | **29,130** | Investments | **11,215** | 12,984 |
| 285 | **2,203** | Due from banks | **848** | 110 |
| 328,405 | **371,543** | | **143,044** | 126,436 |
| 58,917 | **75,764** | Islamic financing | **29,169** | 22,683 |
| 5,128 | **9,460** | Islamic investment and due from banks | **3,642** | 1,974 |
| 64,045 | **85,224** | | **32,811** | 24,657 |
| 392,450 | **456,767** | Total | **175,855** | 151,093 |

## 24 INTEREST EXPENSE AND UNRESTRICTED INVESTMENT ACCOUNT HOLDERS' SHARE OF PROFIT AND PROFIT EXPENSE

| 2022 | 2023 | | 2023 | 2022 |
|---|---|---|---|---|
| US$ '000 | US$ '000 | | RO '000 | RO '000 |
| 96,264 | 138,564 | Time deposits | 53,347 | 37,062 |
| 47,761 | 55,764 | Demand and saving deposits | 21,469 | 18,388 |
| 7,738 | 4,566 | Borrowings | 1,758 | 2,979 |
| 14,423 | 14,714 | Inter-bank deposits | 5,665 | 5,553 |
| 166,186 | 213,608 | | 82,239 | 63,982 |
| 34,186 | 44,595 | Islamic customer deposits | 17,169 | 13,162 |
| 273 | 392 | Islamic Inter-bank borrowings | 151 | 105 |
| 34,459 | 44,987 | | 17,320 | 13,267 |
| 200,645 | 258,595 | Total | 99,559 | 77,249 |

## 25 OTHER OPERATING INCOME

| 2022 | 2023 | | 2023 | 2022 |
|---|---|---|---|---|
| US$ '000 | US$ '000 | | RO '000 | RO '000 |
| 535 | 1,925 | Gain on sale of investments, net | 741 | 206 |
| 7,020 | 9,322 | Foreign exchange gain, net | 3,589 | 2,703 |
| 2,769 | 4,927 | Dividend income | 1,897 | 1,066 |
| 1,090 | 1,990 | Unrealised gain on FVTPL investments, net | 766 | 420 |
| 11,414 | 18,164 | | 6,993 | 4,395 |

## 26 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:

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | **Retail banking** | **Wholesale banking, treasury and investment banking** | **Total** | Retail banking | Wholesale banking, treasury and investment banking | Total |
| | **RO '000** | **RO '000** | **RO '000** | RO '000 | RO '000 | RO '000 |
| **Disaggregated income** | | | | | | |
| Service charges | **1,178** | **1,227** | **2,405** | 1,027 | 669 | 1,696 |
| Fees income | **3,191** | **8,859** | **12,050** | 2,722 | 8,255 | 10,977 |
| Commission income | **382** | **1,688** | **2,070** | 82 | 1,608 | 1,690 |
| Total fee and commission income | **4,751** | **11,774** | **16,525** | 3,831 | 10,532 | 14,363 |
| Fee expense | **(1,274)** | **-** | **(1,274)** | (904) | - | (904) |
| Net fee and commission income | **3,477** | **11,774** | **15,251** | 2,927 | 10,532 | 13,459 |

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | **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 | **3,058** | **3,187** | **6,245** | 2,668 | 1,737 | 4,405 |
| Fees income | **8,289** | **23,010** | **31,299** | 7,069 | 21,442 | 28,511 |
| Commission income | **992** | **4,385** | **5,377** | 213 | 4,177 | 4,390 |
| Total fee and commission income | **12,339** | **30,582** | **42,921** | 9,950 | 27,356 | 37,306 |
| Fee expense | **(3,310)** | **-** | **(3,310)** | (2,347) | - | (2,347) |
| Net fee and commission income | **9,029** | **30,582** | **39,611** | 7,603 | 27,356 | 34,959 |

## 27 NET IMPAIRMENT ON FINANCIAL ASSETS

| 2022 | **2023** | | **2023** | 2022 |
|---|---|---|---|---|
| US$ '000 | **US$ '000** | | **RO '000** | RO '000 |
| | | **Net impairment charge** | | |
| (67) | **171** | Due from banks | **66** | (26) |
| 42,047 | **48,626** | Loans, advances and financing (net of recoveries) | **18,721** | 16,188 |
| 42 | **26** | Investment securities | **10** | 16 |
| 131 | **(88)** | Other assets | **(34)** | 50 |
| 2,427 | **(1,971)** | Loan commitments and financial guarantees | **(759)** | 935 |
| (1,519) | **(1,445)** | Recovery of loans written off earlier | **(555)** | (584) |
| 43,061 | **45,319** | | **17,449** | 16,579 |
| (9,130) | **(11,316)** | Less: Interest reserved during the period | **(4,357)** | (3,515) |
| 33,931 | **34,003** | | **13,092** | 13,064 |

## 28 STAFF EXPENSES

| 2022 | 2023 | | 2023 | 2022 |
|---|---|---|---|---|
| US$ '000 | US$ '000 | | RO '000 | RO '000 |
| 53,047 | 57,423 | Salaries and allowances | 22,108 | 20,423 |
| 5,593 | 3,894 | Other staff costs | 1,499 | 2,153 |
| 4,053 | 4,535 | Contribution to social insurance schemes | 1,746 | 1,560 |
| 355 | 2,060 | Employees end of service benefits (note 16) | 793 | 137 |
| 63,048 | 67,912 | | 26,146 | 24,273 |

## 29 OTHER OPERATING EXPENSES

| 2022 | 2023 | | 2023 | 2022 |
|---|---|---|---|---|
| US$ '000 | US$ '000 | | RO '000 | RO '000 |
| 29,287 | 30,709 | Operating and administration costs | 11,823 | 11,276 |
| 2,644 | 2,358 | Occupancy costs | 908 | 1,018 |
| 904 | 928 | Board related expenses | 357 | 348 |
| 32,835 | 33,995 | | 13,088 | 12,642 |

## 30 BASIC AND DILUTED EARNINGS PER SHARE

| 2022 | 2023 | | 2023 | 2022 |
|---|---|---|---|---|
| US$ '000 | US$ '000 | | RO '000 | RO '000 |
| 85,949 | 94,678 | Profit for the year | 36,452 | 33,090 |
| (24,157) | (29,026) | Less: AT1 Interest paid during the year | (11,175) | (9,300) |
| 61,792 | 65,652 | Profit Attributable to Equity Shareholders | 25,277 | 23,790 |
| 2,049,336 | 2,146,426 | Weighted average number of outstanding shares during the year (in 000's) | 2,146,426 | 2,049,336 |
| 3 | 3 | Earnings per share (cents / baizas) | 12 | 12 |

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.

## 31 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:

| 2022 | 2023 | | 2023 | 2022 |
|---|---|---|---|---|
| US$ 000 | US$ 000 | | RO '000 | RO '000 |
| | | **Directors and senior management** | | |
| 2,655 | 6,577 | Loans, advances and financing, gross | 2,532 | 1,022 |
| 996 | 3,557 | - secured | 1,370 | 383 |
| 1,658 | 2,967 | - unsecured | 1,142 | 639 |
| 7 | 217 | - Expected credit loss allowance | 84 | 3 |
| 3,953 | 8,429 | Customers' deposits | 3,245 | 1,522 |
| | | **Major shareholders, its parent company & its subsidiaries** | | |
| 4,891 | 3,070 | Due from banks | 1,182 | 1,883 |
| | | Other assets | | |
| 3,678 | 2,675 | - Fair value of Swaps | 1,030 | 1,416 |
| 12,288 | 3,570 | Due to banks | 1,375 | 4,731 |
| 55 | 410 | Customers' deposits | 158 | 21 |
| 65 | - | - Fair value of forward contracts | - | 25 |
| | | **Bank's investment fund** | | |
| 400 | 400 | Investments securities | 154 | 154 |

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 35.2.2 and 35.3.2 respectively.

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

| 2022 | 2023 | | 2023 | 2022 |
|---|---|---|---|---|
| US$ 000 | US$ 000 | | RO '000 | RO '000 |
| | | **Directors and senior management** | | |
| 88 | 143 | Interest income | 55 | 34 |
| 122 | 210 | Interest expense | 81 | 47 |
| 779 | 779 | Board remuneration proposed | 300 | 300 |
| 125 | 149 | Board sitting fees | 57 | 48 |
| 73 | 80 | Shariah Supervisory Board expenses | 31 | 28 |
| | | **Major shareholders, its parent company & its subsidiaries** | | |
| 7 | - | Interest income | - | 3 |
| 5 | 8 | Interest expense | 3 | 2 |
| (283) | (1,005) | Gain on fair value of interest rate swaps | (387) | (109) |

As at 31 December 2023, guarantees were issued to beneficiaries on behalf of related party amounting to RO 0.248 million equivalent to US$ 0.64 million (31 December 2022: RO 0.135 million equivalent to US$ 0.35 million).

The key management comprises of 5 members (2022: 5 members) of the management committee. Total remuneration paid during the year was RO 1.628 million for 2023 (2022: 1.460 million).

## 32 FINANCIAL INSTRUMENTS CLASSIFICATION

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

| | | 2023 | | | | |
|---|---|---|---|---|---|---|
| **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 | 171,935 | - | - | - | 171,935 |
| Due from banks | 6 | 88,238 | - | - | - | 88,238 |
| Loans, advances and financing, net | 7 | 2,694,160 | - | - | - | 2,694,160 |
| Investment securities | 8 | - | 251,710 | 35,716 | 15,879 | 303,305 |
| Other assets - acceptances and interest and profit receivable | 12 | 14,541 | - | - | - | 14,541 |
| Forward foreign exchange contracts | | - | - | - | 211 | 211 |
| Derivatives - positive mark-to-market | | - | 2,013 | - | - | 2,013 |
| **Financial liabilities** | | | | | | |
| Due to banks | 13 | 185,801 | - | - | - | 185,801 |
| Customers' deposits | 14 | 2,475,666 | - | - | - | 2,475,666 |
| Borrowed funds | 15 | 38,500 | - | - | - | 38,500 |
| Other liabilities - acceptances, interest and profit payable and matured deposit | 16 | 52,349 | - | - | - | 52,349 |
| Forward foreign exchange contracts | | - | - | - | 143 | 143 |
| Derivatives - negative mark-to-market | | - | 797 | - | - | 797 |

| | | 2023 | | | | |
|---|---|---|---|---|---|---|
| **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 | 446,585 | - | - | - | 446,585 |
| Due from banks | 6 | 229,190 | - | - | - | 229,190 |
| Loans, advances and financing, net | 7 | 6,997,818 | - | - | - | 6,997,818 |
| Investment securities | 8 | - | 653,792 | 92,769 | 41,244 | 787,805 |
| Other assets - acceptances and interest and profit receivable | 12 | 37,769 | - | - | - | 37,769 |
| Forward foreign exchange contracts | | - | - | - | 549 | 549 |
| Derivatives - positive mark-to-market | | - | 5,228 | - | - | 5,228 |
| **Financial liabilities** | | | | | | |
| Due to banks | 13 | 482,600 | - | - | - | 482,600 |
| Customers' deposits | 14 | 6,430,301 | - | - | - | 6,430,301 |
| Borrowed funds | 15 | 100,000 | - | - | - | 100,000 |
| Other liabilities - acceptances, interest and profit payable and matured deposit | 16 | 135,971 | - | - | - | 135,971 |
| Forward foreign exchange contracts | | - | - | - | 372 | 372 |
| Derivatives - negative mark-to-market | | - | 2,069 | - | - | 2,069 |

| | | 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 |

## 33 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).
Level 3 - Inputs that are not based on observable market data.
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 2023 | | | | 31 December 2022 | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets:** | RO '000 | RO '000 | | RO '000 | RO '000 | RO '000 | | RO '000 |
| Investments at FVTPL | 15,879 | - | - | 15,879 | 8,782 | - | - | 8,782 |
| Investments at FVOCI | 85,497 | 197,009 | 4,920 | 287,426 | 73,382 | 210,999 | - | 284,381 |
| *Derivative financial instruments* | | | | | | | | |
| Interest rate swaps | - | 2,013 | - | 2,013 | - | 2,646 | - | 2,646 |
| Forward foreign exchange contracts | 211 | - | - | 211 | 1,365 | - | - | 1,365 |
| | 101,587 | 199,022 | 4,920 | 305,529 | 83,529 | 213,645 | - | 297,174 |
| **Financial liabilities** | | | | | | | | |
| *Derivative financial instruments* | | | | | | | | |
| Interest rate swaps | - | 797 | - | 797 | - | 1,156 | - | 1,156 |
| Forward foreign exchange contracts | 143 | - | - | 143 | 2,160 | - | - | 2,160 |
| | 143 | 797 | - | 940 | 2,160 | 1,156 | - | 3,316 |
| **Financial assets:** | US$ '000 | US$ '000 | | US$ '000 | US$ '000 | US$ '000 | | US$ '000 |
| Investments at FVTPL | 41,244 | - | - | 41,244 | 22,810 | - | - | 22,810 |
| Investments at FVOCI | 222,069 | 511,712 | 12,780 | 746,561 | 190,603 | 548,049 | - | 738,652 |
| *Derivative financial instruments* | | | | | | | | - |
| Interest rate swaps | - | 5,228 | - | 5,228 | - | 6,873 | - | 6,873 |
| Forward foreign exchange contracts | 549 | - | - | 549 | 3,545 | - | - | 3,545 |
| | 263,862 | 516,940 | 12,780 | 793,582 | 216,958 | 554,922 | - | 771,880 |
| **Financial liabilities** | | | | | | | | |
| *Derivative financial instruments* | | | | | | | | |
| Interest rate swaps | - | 2,070 | - | 2,070 | - | 3,003 | - | 3,003 |
| Forward foreign exchange contracts | 372 | - | - | 372 | 5,611 | - | - | 5,611 |
| | 372 | 2,070 | - | 2,442 | 5,611 | 3,003 | - | 8,614 |

As of 31 December 2023, level 3 equity investments were valued on the basis of fair valuation carried out in accordance with appropriate valuation techniques based on income approach by discounting of cash flows. Unobservable inputs are used to measure fair value to the extent that relevant observable inputs are not available, using the best information available in the circumstances.
There are no transfers between levels of fair value measurement hierarchy during the years 2023 and 2022.

## 34 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 benchmark interest rate. 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 45.220 million equivalent to US$ 117.45 million (2022: RO 27.143 million equivalent to US$ 70.50 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 SOFR interest rate. 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.

## 35 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 acknowledges 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.

### 35.1 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).

#### 35.1.1 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 guarantees 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 committee, 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, regular 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 Management Committee, 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.

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 5 broad classification categories: Standard, Special Mention, Substandard, Doubtful, and Loss – as stipulated by Central Bank of Oman regulations and guidelines. Further, as mandated by IFRS 9, the loans & advances and financing, due from banks and investment debt securities are classified into stage 1, stage 2 and stage 3 based on criteria established by the Bank in line with the requirements of CBO.

### 35.1.2 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 Credit Lens model for risk rating of corporate borrowers. The Bank maintains an accurate and consistent corporate credit rating for all its customers.

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

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

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

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

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

### (b) Credit risk grading

The Bank uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The Bank's internal Risk Rating (RR) system is developed as a 10 grade system - enumerated from RR 1 to RR 10 - to risk rate a customer and to associate a default probability to each rating grade.The ratings will also assist studying the distribution of borrowers, grade wise exposures, transition of credit risk ratings over time, grade wise defaults, Non-Performing Loans (NPL) etc. Risk appetite/ Policy limits 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 |
|---|---|---|
| Standard | RR1 to RR6 | Not credit impaired on initial recognition- classified under 'Stage 1'. |
| Special Mention | RR7 | Identified SICR since initial recognition but is not deemed to be credit impaired- Classified under 'Stage 2'. |
| Non performing | RR8 to RR10 | Credit impaired- Classified under 'Stage 3'. |

### 35.1.3 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.

| | 2023 | | | |
|---|---|---|---|---|
| | 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) | 2,202,738 | 275,638 | - | 2,478,376 |
| Special mention loans (Risk rating 7) | - | 212,955 | - | 212,955 |
| Non performing loans (Risk rating 8-10) | - | - | 110,180 | 110,180 |
| | | | - | |
| Gross carrying amount (RO'000) | 2,202,738 | 488,593 | 110,180 | 2,801,511 |
| Gross carrying amount (US$'000) | 5,721,397 | 1,269,073 | 286,182 | 7,276,652 |
| Loss allowance (RO'000) | 6,122 | 26,192 | 75,037 | 107,351 |
| Loss allowance (US$'000) | 15,901 | 68,032 | 194,901 | 278,834 |
| Total loans, advances and financing, net (RO'000) | 2,196,616 | 462,401 | 35,143 | 2,694,160 |
| Total loans, advances and financing, net (US$'000) | 5,705,496 | 1,201,041 | 91,281 | 6,997,818 |
| **Corporate Loans, advances and financing** | | | | |
| Performing loans (Risk rating 1-6) | 1,461,516 | 272,921 | - | 1,734,437 |
| Special mention loans (Risk rating 7) | - | 209,671 | - | 209,671 |
| Non performing loans (Risk rating 8-10) | - | - | 87,764 | 87,764 |
| Gross carrying amount (RO'000) | 1,461,516 | 482,592 | 87,764 | 2,031,872 |
| Gross carrying amount (US$'000) | 3,796,145 | 1,253,486 | 227,958 | 5,277,589 |
| Loss allowance (RO'000) | 4,403 | 24,509 | 58,159 | 87,071 |
| Loss allowance (US$'000) | 11,436 | 63,660 | 151,062 | 226,158 |
| **Retail Loans, advances and financing** | | | | |
| Performing loans (Risk rating 1-6) | 741,221 | 2,717 | - | 743,938 |
| Special mention loans (Risk rating 7) | - | 3,284 | - | 3,284 |
| Non performing loans (Risk rating 8-10) | - | - | 22,417 | 22,417 |

| | 2023 | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| | **RO '000** | **RO '000** | **RO '000** | **RO '000** |
| Gross carrying amount (RO'000) | **741,221** | **6,001** | **22,417** | **769,639** |
| Gross carrying amount (US$'000) | **1,925,250** | **15,587** | **58,226** | **1,999,063** |
| | | | | |
| Loss allowance (RO'000) | **1,721** | **1,682** | **16,877** | **20,280** |
| Loss allowance (US$'000) | **4,470** | **4,369** | **43,836** | **52,675** |
| | | | | |
| **Credit related contingent items** | | | | |
| Performing grades (Risk rating 1-6) | **164,245** | **42,395** | **-** | **206,640** |
| Special mention grades (Risk rating 7) | **-** | **7,741** | **-** | **7,741** |
| Non performing loans(Risk rating 8-10) | **-** | **-** | **164** | **164** |
| | | | | |
| Gross carrying amount (RO'000) | **164,245** | **50,136** | **164** | **214,545** |
| Gross carrying amount (US$'000) | **426,611** | **130,223** | **426** | **557,260** |
| Loss allowance (RO'000) | **309** | **1,356** | **39** | **1,704** |
| Loss allowance (US$'000) | **803** | **3,522** | **101** | **4,426** |
| | | | | |
| **Due from banks (including balances with CBO)** | | | | |
| Performing banks (rated) | **240,179** | **-** | **-** | **240,179** |
| Performing banks (unrated) | **-** | **-** | **-** | **-** |
| | | | | |
| Gross carrying amount (RO'000) | **240,179** | **-** | **-** | **240,179** |
| Gross carrying amount (US$'000) | **623,842** | **-** | **-** | **623,842** |
| Loss allowance (RO'000) | **77** | **-** | **-** | **77** |
| Loss allowance (US$'000) | **200** | **-** | **-** | **200** |
| | | | | |
| **Investment securities** | | | | |
| Performing grades (Risk rating 1-6) | **251,710** | **-** | **-** | **251,710** |
| | | | | |
| Gross carrying amount (RO'000) | **251,710** | **-** | **-** | **251,710** |
| Gross carrying amount (US$'000) | **653,791** | **-** | **-** | **653,791** |
| Loss allowance (RO'000) | **76** | **-** | **-** | **76** |
| Loss allowance (US$'000) | **197** | **-** | **-** | **197** |
| | | | | |
| **Other assets** | | | | |
| Performing grades (Risk rating 1-6) | **5,786** | **4,227** | **-** | **10,013** |
| Special mention grades (Risk rating 7) | **-** | **559** | **-** | **559** |
| | | | | |
| Gross carrying amount (RO'000) | **5,786** | **4,786** | **-** | **10,572** |
| Gross carrying amount (US$'000) | **15,029** | **12,431** | **-** | **27,460** |
| Loss allowance (RO'000) | **32** | **12** | **-** | **44** |
| Loss allowance (US$'000) | **83** | **31** | **-** | **114** |

| | 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) | 5,331,177 | 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 |

*35.1.3 Exposure to credit risk (continued)*

| | 2022 | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| | **RO '000** | **RO '000** | **RO '000** | **RO '000** |
| 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 | 52,691 | 112,023 | 181,357 |
| **Retail Loans, advances and financing** | | | | |
| Performing loans (Risk rating 6-1) | 713,414 | 4,437 | - | 717,851 |
| Special mention loans (Risk rating 7) | - | 3,560 | - | 3,560 |
| Non performing loans (Risk rating 10-8) | - | - | 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 |
| **Credit related contingent items** | | | | |
| Performing grades (Risk rating 6-1) | 184,935 | 32,360 | - | 217,295 |
| Special mention grades (Risk rating 7) | - | 14,246 | - | 14,246 |
| Non performing loans (Risk rating 10-8) | - | - | 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 | 5,221 | 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 6-1) | 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 6-1) | 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 |

## 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 2022 US$ '000 | Gross maximum exposure 2022 US$ '000 | **Net maximum exposure 2023 US$ '000** | **Gross maximum exposure 2023 US$ '000** | | **Gross maximum exposure 2023 RO '000** | **Net maximum exposure 2023 RO '000** | Gross maximum exposure 2022 RO '000 | Net maximum exposure 2022 RO '000 |
|---|---|---|---|---|---|---|---|---|
| 297,351 | 297,351 | **395,816** | **395,816** | Balances with Central Bank of Oman | **152,389** | **152,389** | 114,480 | 114,480 |
| 195,187 | 195,216 | **229,190** | **229,390** | Due from banks | **88,315** | **88,238** | 75,158 | 75,147 |
| 6,494,635 | 6,724,844 | **6,997,817** | **7,276,652** | Loans, advances and financing | **2,801,511** | **2,694,160** | 2,589,065 | 2,500,435 |
| 4,615,205 | 4,796,561 | **5,051,431** | **5,277,590** | -Corporate | **2,031,872** | **1,944,801** | 1,846,676 | 1,776,854 |
| 1,879,430 | 1,928,283 | **1,946,386** | **1,999,062** | -Retail | **769,639** | **749,359** | 742,389 | 723,581 |
| 690,364 | 690,535 | **653,594** | **653,791** | Investment securities | **251,710** | **251,634** | 265,856 | 265,790 |
| 83,901 | 83,901 | **37,769** | **37,769** | Other assets | **14,541** | **14,541** | 32,302 | 32,302 |
| 10,418 | 10,418 | **5,776** | **5,776** | Derivative financial instruments | **2,224** | **2,224** | 4,011 | 4,011 |
| 7,771,856 | 8,002,265 | **8,319,962** | **8,599,194** | **Total on balance sheet exposure** | **3,310,690** | **3,203,186** | 3,080,872 | 2,992,165 |
| 148,962 | 148,962 | **148,086** | **148,086** | Loan & capital commitments | **57,013** | **57,013** | 57,350 | 57,350 |
| 464,854 | 464,854 | **422,327** | **422,327** | Financial guarantees and letters of credit | **162,596** | **162,596** | 178,969 | 178,969 |
| 613,816 | 613,816 | **570,413** | **570,413** | **Total off balance sheet exposure** | **219,609** | **219,609** | 236,319 | 236,319 |
| 8,385,672 | 8,616,081 | **8,890,375** | **9,169,607** | **Grand total** | **3,530,299** | **3,422,795** | 3,317,191 | 3,228,485 |

The above table represents the maximum credit risk exposure to the Bank at 31 December 2023 and 2022 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.

### 35.1.4 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 2023 was RO 52.421 million equivalent to US$ 136.158 million (2022: RO 48.783 million equivalent to US$ 126.71 million). Collateral amounting to RO 1,844.632 million equivalent to US$ 4,791.25 million (2022: RO 1,855.264 million equivalent to US$ 4,818.867 million ) are against loans & advances and financing which are not credit impaired.

### 35.1.5 Modification of loans

As per Bank assessment there is no de-recognition of the loans happened based on the deferment granted as the deferment 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 2023, the gross carrying amount of the restructured loans amounted RO 417.135 million equivalent to US$ 1,108.467 million (2022: RO 466.411 million equivalent to RO 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.

### 35.1.6 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 2023 was RO 3.714 million, equivalent to US$ 9.647 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.

### 35.1.7 Expected credit loss (ECL) measurement

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

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

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

**Measuring ECL - Explanation of inputs, assumptions and estimation techniques**

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

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12MPD), or over the remaining lifetime (Lifetime PD) of the obligation.

- EAD is based on the amount the bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD) . For example, for revolving commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

- Loss Given Default (LGD) represents the bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made it the default occurs in the next 12 months and lifetime LGD is the percentage of loss expected to be made it the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projected the PD, LGD and EAD for each future month and for each individual exposure of collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month).this effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12 months PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loan. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

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

- For amortizing products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12 month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.

- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a 'credit conversion factor' which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilization band, based on analysis of the bank's recent default data.

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

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.

- For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies, including contracted debt sales and price.

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

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

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

**Stage 3**
Financing exposure considered credit impaired. The Bank records an allowance for lifetime ECLs

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

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

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

**Movement in gross carrying amount**

| | 2023 | | | | |
|---|---|---|---|---|---|
| | **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** | 2,060,340 | 431,152 | 97,573 | **2,589,065** | **6,724,844** |
| Transfer between stages | | | | | |
| - Transfer to Stage 1 | 67,622 | (65,915) | (1,707) | **-** | **-** |
| - Transfer to Stage 2 | (141,891) | 141,891 | - | **-** | **-** |
| - Transfer to Stage 3 | (2,651) | (4,566) | 7,217 | **-** | **-** |
| Re-measurement of outstanding | 91,957 | 11,548 | 7,744 | **111,249** | **288,958** |
| Financial assets originated during the period | 251,974 | - | - | **251,974** | **654,478** |
| Financial assets matured during the period | (124,613) | (25,517) | (629) | **(150,759)** | **(391,582)** |
| Write off | - | - | (18) | **(18)** | **(47)** |
| **Balance at 31 December** | **2,202,738** | **488,593** | **110,180** | **2,801,511** | **7,276,652** |
| | | | | | |
| **Corporate Loans, advances and financing at Amortised cost** | | | | | |
| **Balance at 1 January** | 1,346,926 | 423,155 | 76,595 | **1,846,676** | **4,796,561** |
| Transfer between stages | | | | | |
| - Transfer to Stage 1 | 61,854 | (61,854) | - | **-** | **-** |
| - Transfer to Stage 2 | (137,966) | 137,966 | - | **-** | **-** |
| - Transfer to Stage 3 | (1,028) | (3,371) | 4,399 | **-** | **-** |
| Re-measurement of outstanding | 103,326 | 11,787 | 6,906 | **122,019** | **316,932** |
| Financial assets originated during the period | 164,282 | - | - | **164,282** | **426,705** |
| Financial assets matured during the period | (75,878) | (25,091) | (122) | **(101,091)** | **(262,574)** |
| Write off | - | - | (14) | **(14)** | **(36)** |
| **Balance at 31 December** | **1,461,516** | **482,592** | **87,764** | **2,031,872** | **5,277,589** |

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

| | 2023 | | | | |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Total** |
| | **RO '000** | **RO '000** | **RO '000** | **RO '000** | **US$ '000** |
| **Retail Loans, advances and financing at Amortised cost** | | | | | |
| **Balance at 1 January** | 713,414 | 7,997 | 20,978 | **742,389** | **1,928,283** |
| Transfer between stages | | | | | |
| - Transfer to Stage 1 | 5,767 | (4,061) | (1,706) | **-** | **-** |
| - Transfer to Stage 2 | (3,925) | 3,925 | - | **-** | **-** |
| - Transfer to Stage 3 | (1,623) | (1,195) | 2,818 | **-** | **-** |
| Re-measurement of outstanding | (11,369) | (239) | 838 | **(10,770)** | **(27,974)** |
| Financial assets originated during the period | 87,692 | - | - | **87,692** | **227,771** |
| Financial assets matured during the period | (48,735) | (426) | (507) | **(49,668)** | **(129,008)** |
| Write off | - | - | (4) | **(4)** | **(10)** |
| **Balance at 31 December** | **741,221** | **6,001** | **22,417** | **769,639** | **1,999,063** |
| | | | | | |
| **Debt investment securities at FVOCI** | | | | | |
| **Balance at 1 January** | 265,856 | - | - | **265,856** | **690,535** |
| Transfer between stages | | | | | |
| - Transfer to Stage 1 | - | - | - | **-** | **-** |
| - Transfer to Stage 2 | - | - | - | **-** | **-** |
| - Transfer to Stage 3 | - | - | - | **-** | **-** |
| Financial assets originated during the period | - | - | - | **-** | **-** |
| Financial assets matured during the period | (14,146) | - | - | **(14,146)** | **(36,744)** |
| Loss from change in fair value | - | - | - | **-** | **-** |
| **Balance at 31 December** | **251,710** | **-** | **-** | **251,710** | **653,791** |
| | | | | | |
| **Other financial assets at amortised cost** | | | | | |
| **Balance at 1 January** | 212,220 | 5,930 | - | **218,150** | **566,624** |
| Transfer between stages | | | | | |
| - Transfer to Stage 1 | 1,495 | (1,495) | - | **-** | **-** |
| - Transfer to Stage 2 | (9,665) | 9,665 | - | **-** | **-** |
| - Transfer to Stage 3 | - | - | - | **-** | **-** |
| Financial assets originated during the period | 52,084 | - | - | **52,084** | **135,283** |
| Financial assets matured during the period | (10,169) | (9,314) | - | **(19,483)** | **(50,605)** |
| **Balance at 31 December** | **245,965** | **4,786** | **-** | **250,751** | **651,302** |
| | | | | | |
| **Off balance sheet items at amortised cost** | | | | | |
| **Balance at 1 January** | 184,935 | 46,606 | 207 | **231,748** | **601,943** |
| Transfer between stages | | | | | |
| - Transfer to Stage 1 | 7,665 | (7,665) | - | **-** | **-** |
| - Transfer to Stage 2 | (28,081) | 28,081 | - | **-** | **-** |
| - Transfer to Stage 3 | - | - | - | **-** | **-** |
| Financial assets originated during the period | 7,506 | (16,211) | (38) | **(8,743)** | **(22,709)** |
| Financial assets matured during the period | (7,780) | (675) | (5) | **(8,460)** | **(21,974)** |
| **Balance at 31 December** | **164,245** | **50,136** | **164** | **214,545** | **557,260** |

**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** | **6,438,584** |
| 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 period | 232,754 | - | - | **232,754** | **604,554** |
| Financial assets matured during the period | (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** |
| | | | | | |
| **Corporate Loans, advances and financing at Amortised cost** | | | | | |
| **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 period | 158,940 | - | - | **158,940** | **412,831** |
| Financial assets matured during the period | (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)** | **(40,540)** |
| Financial assets originated during the period | 73,814 | - | - | **73,814** | **191,725** |
| Financial assets matured during the period | (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** |

| | 2022 | | | | |
|---|---|---|---|---|---|
| | **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** | 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 period | (146,874) | - | - | **(146,874)** | **(381,491)** |
| Financial assets matured during the period | - | - | - | - | - |
| Loss from change in fair value | - | - | - | - | - |
| **Balance at 31 December** | 265,856 | - | - | **265,856** | **690,535** |
| | | | | | |
| **Other financial assets at amortised cost** | | | | | |
| **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 period | 47,993 | - | - | **47,993** | **124,657** |
| Financial assets matured during the period | (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 period | 71,898 | - | - | **71,898** | **186,748** |
| Financial assets matured during the period | (41,037) | (33) | (4,509) | **(45,579)** | **(118,387)** |
| **Balance at 31 December** | 184,935 | 46,606 | 207 | **231,748** | **601,943** |

**Movement in impairment allowance and provision**

| | 2023 | | | | |
|---|---|---|---|---|---|
| | **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** | 7,837 | 22,027 | 58,766 | **88,630** | **230,208** |
| Transfer between stages | | | | | |
| - Transfer to Stage 1 | 3,319 | (1,970) | (1,349) | **-** | **-** |
| - Transfer to Stage 2 | (961) | 961 | - | **-** | **-** |
| - Transfer to Stage 3 | (7) | (546) | 553 | **-** | **-** |
| Impairment charged to income statement for | (4,066) | 5,720 | 17,067 | **18,721** | **48,626** |
| - Re-measurement of impairment allowances | (4,317) | 6,444 | 17,680 | **19,807** | **51,447** |
| - Financial assets originated during the period | 557 | - | - | **557** | **1,447** |
| - Financial assets matured during the period | (306) | (724) | - | **(1,030)** | **(2,675)** |
| Recoveries from impairment for credit losses | - | - | (4,953) | **(4,953)** | **(12,865)** |
| Interest reserve charged to interest income | - | - | 5,061 | **5,061** | **13,145** |
| Recoveries of reserved interest in interest income | - | - | (703) | **(703)** | **(1,826)** |
| Write off of impairment allowances | - | - | (18) | **(18)** | **(47)** |
| **Balance at 31 December** | 6,122 | 26,192 | 75,037 | **107,351** | **278,834** |
| | | | | | |
| **Corporate Loans, advances and financing at Amortised cost** | | | | | |
| **Balance at 1 January** | 6,407 | 20,286 | 43,129 | **69,822** | **181,356** |
| Transfer between stages | | | | | |
| - Transfer to Stage 1 | 1,077 | (1,077) | - | **-** | **-** |
| - Transfer to Stage 2 | (950) | 950 | - | **-** | **-** |
| - Transfer to Stage 3 | (3) | (228) | 231 | **-** | **-** |
| Impairment charged to income statement for | (2,128) | 4,578 | 14,799 | **17,249** | **44,802** |
| - Re-measurement of impairment allowances | (2,310) | 5,239 | 13,401 | **16,330** | **42,415** |
| - Financial assets originated during the period | 371 | - | - | **371** | **964** |
| - Financial assets matured during the period | (189) | (661) | - | **(850)** | **(2,208)** |
| Recoveries from impairment for credit losses | - | - | (2,680) | **(2,680)** | **(6,961)** |
| Interest reserve charged to interest income | - | - | 4,254 | **4,254** | **11,049** |
| Recoveries of reserved interest in interest income | - | - | (162) | **(162)** | **(421)** |
| Write off of impairment allowances | - | - | (14) | **(14)** | **(36)** |
| **Balance at 31 December** | 4,403 | 24,509 | 58,159 | **87,071** | **226,158** |
| | | | | | |
| **Retail Loans, advances and financing at Amortised cost** | | | | | |
| **Balance at 1 January** | 1,430 | 1,741 | 15,637 | **18,808** | **48,853** |
| Transfer between stages | | | | | |
| - Transfer to Stage 1 | 2,243 | (893) | (1,350) | **-** | **-** |
| - Transfer to Stage 2 | (10) | 10 | - | **-** | **-** |
| - Transfer to Stage 3 | (4) | (318) | 322 | **-** | **-** |
| Impairment charged to income statement for | (1,938) | 1,142 | 2,268 | **1,472** | **3,822** |
| - Re-measurement of impairment allowances | (2,007) | 1,205 | 4,279 | **3,477** | **9,030** |
| - Financial assets originated during the period | 186 | - | - | **186** | **483** |
| - Financial assets matured during the period | (117) | (63) | - | **(180)** | **(468)** |
| Recoveries from impairment for credit losses | - | - | (2,273) | **(2,273)** | **(5,904)** |
| Interest reserve charged to interest income | - | - | 807 | **807** | **2,096** |
| Recoveries of reserved interest in interest income | - | - | (541) | **(541)** | **(1,405)** |
| Write off of impairment allowances | - | - | (4) | **(4)** | **(10)** |
| **Balance at 31 December** | 1,721 | 1,682 | 16,877 | **20,280** | **52,675** |

| | 2023 | | | | |
|---|---|---|---|---|---|
| | 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** | 66 | - | - | **66** | **171** |
| Transfer between stages | | | | | |
| - Transfer to Stage 1 | - | - | - | - | - |
| - Transfer to Stage 2 | - | - | - | - | - |
| - Transfer to Stage 3 | - | - | - | - | - |
| Impairment charged to income statement for | 10 | - | - | **10** | **26** |
| - Re-measurement of impairment allowances | 10 | - | - | **10** | **26** |
| - Financial assets originated during the period | - | - | - | - | - |
| - Financial assets matured during the period | - | - | - | - | - |
| **Balance at 31 December** | 76 | - | - | **76** | **197** |
| | | | | | |
| **Other financial assets at amortised cost** | | | | | |
| **Balance at 1 January** | 57 | 32 | - | **89** | **231** |
| Transfer between stages | | | | | |
| - Transfer to Stage 1 | 17 | (17) | - | - | - |
| - Transfer to Stage 2 | - | - | - | - | - |
| - Transfer to Stage 3 | - | - | - | - | - |
| Impairment charged to income statement for | 35 | (3) | - | **32** | **83** |
| - Re-measurement of impairment allowances | 35 | (3) | - | **32** | **83** |
| - Financial assets originated during the period | - | - | - | - | |
| - Financial assets matured during the period | - | - | - | - | |
| **Balance at 31 December** | 109 | 12 | - | **121** | **314** |
| | | | | | |
| **Off balance sheet items at amortised cost** | | | | | |
| **Balance at 1 January** | 416 | 2,013 | 35 | **2,464** | **6,399** |
| Transfer between stages | | | | | |
| - Transfer to Stage 1 | 139 | (139) | - | - | - |
| - Transfer to Stage 2 | (91) | 91 | - | - | - |
| - Transfer to Stage 3 | - | - | - | - | - |
| Impairment charged to income statement for | (155) | (608) | 4 | **(759)** | **(1,973)** |
| - Re-measurement of impairment allowances | (383) | (604) | 4 | **(983)** | **(2,555)** |
| - Financial assets originated during the period | 243 | - | - | **243** | **631** |
| - Financial assets matured during the period | (15) | (4) | - | **(19)** | **(49)** |
| **Balance as at 31 December** | 309 | 1,357 | 39 | **1,705** | **4,426** |

**Movement in impairment allowance and provision**

| | 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** | 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 period | 1,296 | - | - | **1,296** | **3,369** |
| - Financial assets matured during the period | (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** | **230,210** |
| | | | | | |
| **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** | **34,023** |
| - Re-measurement of impairment allowances | (1,556) | 3,487 | 13,288 | **15,219** | **39,530** |
| - Financial assets originated during the period | 929 | - | - | **929** | **2,414** |
| - Financial assets matured during the period | (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 period | 367 | - | - | **367** | **953** |
| - Financial assets matured during the period | (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** |

| | 2022 | | | | |
|---|---|---|---|---|---|
| | 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** | 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 period | - | - | - | **-** | **-** |
| - Financial assets matured during the period | - | - | - | **-** | **-** |
| **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 period | - | - | - | **-** | **-** |
| - Financial assets matured during the period | - | - | - | **-** | **-** |
| **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 period | 867 | - | - | **867** | **2,250** |
| - Financial assets matured during the period | (31) | - | - | **(31)** | **(81)** |
| **Balance as at 31 December** | 416 | 2,013 | 35 | **2,464** | **6,398** |

## 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) Inadequate or unreliable financial and other information such as unavailability 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) Deferment/ delay in the date of commencement of commercial operations by more than one year.
g) Modification of terms resulting in concessions granted to the borrower.
h) A fall of 25% or more in the turnover or in the earnings before interest and taxes (EBIT) as compared to the previous year.
i) Erosion in networth by more than 20% as compared to the previous year end coupled with an increase in leverage.
j) A fall in the debt service coverage ratio to below 1.

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 [1.93% - 4.36%] and oil prices [USD 69.42 / bbl – USD 98.19 / 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.

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%.

| **2023** | | | **2023** | |
|---|---|---|---|---|
| **Impact on ECL** | **ECL** | | **ECL** | **Impact on ECL** |
| **US$'000** | **'US$'000** | | **RO'000** | **RO'000** |
| | **88,772** | ECL on non impaired financial assets under IFRS 9 | **34,176** | |
| **(7,952)** | **80,820** | Good scenario - 100% weighted | **31,116** | **(3,061)** |
| **(135)** | **88,637** | Base scenario - 100% weighted | **34,125** | **(51)** |
| **9,066** | **97,838** | Bad scenario - 100% weighted | **37,668** | **3,491** |
| 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 |

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 2023 and 2022.

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.

### 35.1.8 Settlement risk

Settlement risk is the risk of loss due to the failure of a party to honor 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.

### 35.1.9 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.

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | **Loans & advances and financing,gross** | **Due from banks** | **Investment securities** | Loans & advances and financing,gross | Due from banks | Investment securities |
| | **RO '000** | **RO '000** | **RO '000** | RO '000 | RO '000 | RO '000 |
| **Concentration by type** | | | | | | |
| Corporate | **2,031,872** | **-** | **81,701** | 1,846,676 | - | 61,110 |
| Personal | **769,639** | **-** | **-** | 742,389 | - | - |
| Sovereign | **-** | **-** | **221,604** | - | - | 232,053 |
| Banks | **-** | **88,315** | **-** | - | 75,158 | - |
| | **2,801,511** | **88,315** | **303,305** | **2,589,065** | **75,158** | **293,163** |
| **Concentration by location** | | | | | | |
| Oman | **2,795,628** | **38,115** | **274,660** | 2,587,795 | 1,098 | 273,035 |
| Other GCC countries | **5,357** | **15,972** | **8,935** | 772 | 18,592 | 4,384 |
| United Kingdom | **-** | **3,301** | **4,932** | - | 491 | - |
| United States of America | **-** | **28,203** | **2,374** | - | 49,608 | 8,644 |
| Others | **526** | **2,724** | **12,404** | 498 | 5,370 | 7,100 |
| | **2,801,511** | **88,315** | **303,305** | **2,589,065** | **75,158** | **293,163** |
| | **US$ '000** | **US$ '000** | **US$ '000** | US$ '000 | US$ '000 | US$ '000 |
| **Concentration by type** | | | | | | |
| Corporate | **5,277,590** | **-** | **212,211** | 4,796,561 | - | 158,728 |
| Personal | **1,999,062** | **-** | **-** | 1,928,283 | - | - |
| Sovereign | **-** | **-** | **575,594** | - | - | 602,734 |
| Banks | **-** | **229,390** | **-** | - | 195,216 | - |
| | **7,276,652** | **229,390** | **787,805** | **6,724,844** | **195,216** | **761,462** |
| **Concentration by location** | | | | | | |
| Oman | **7,261,372** | **98,999** | **713,403** | 6,721,545 | 2,852 | 709,183 |
| Other GCC countries | **13,914** | **41,486** | **23,207** | 2,004 | 48,290 | 11,387 |
| United Kingdom | **-** | **8,574** | **12,812** | - | 1,274 | - |
| United States of America | **-** | **73,255** | **6,166** | - | 128,853 | 22,451 |
| Others | **1,366** | **7,075** | **32,217** | 1,293 | 13,947 | 18,441 |
| | **7,276,652** | **229,389** | **787,805** | **6,724,842** | **195,216** | **761,462** |

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 35.1.9.

## 35.2 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.

### 35.2.1 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 35.2.2 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.

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.

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 to Executive Risk Committee on a quarterly basis.

### 35.2.2 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. 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 2023 and 2022 was 92.5%.

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

| | **2023** | 2022 |
|---|---|---|
| | **Lending ratio** | Lending ratio |
| Year end | **82.37%** | 83.31% |
| Maximum for the year | **90.77%** | 88.18% |
| Minimum for the year | **81.49%** | 83.13% |
| Average for the year | **86.01%** | 85.72% |

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 2023. 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 2023** | **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 | **171,410** | **-** | **-** | **525** | **171,935** |
| Due from banks | **42,615** | **45,623** | **-** | **-** | **88,238** |
| Investment securities | **217,283** | **84,919** | **645** | **458** | **303,305** |
| Loans, advances and financing, net | **587,668** | **96,134** | **409,516** | **1,600,842** | **2,694,160** |
| Other assets | **19,576** | **-** | **-** | **-** | **19,576** |
| Property & Equipment | **-** | **-** | **-** | **41,131** | **41,131** |
| **Total assets** | **1,038,552** | **226,676** | **410,161** | **1,642,956** | **3,318,345** |
| | | | | | |
| **Liabilities and equity** | | | | | |
| Due to banks | **91,311** | **94,490** | **-** | **-** | **185,801** |
| Customers' deposits | **481,119** | **875,402** | **593,857** | **525,288** | **2,475,666** |
| Borrowed funds | **-** | **-** | **38,500** | **-** | **38,500** |
| Tax Liability | **12,840** | **-** | **-** | **-** | **12,840** |
| Other liabilities | **31,832** | **11,528** | **-** | **40,784** | **84,144** |
| Tier 1 perpetual subordinated bonds | **-** | **-** | **-** | **149,000** | **149,000** |
| Shareholders' funds | **-** | **-** | **-** | **372,394** | **372,394** |
| **Total liabilities and equity** | **617,102** | **981,420** | **632,357** | **1,087,466** | **3,318,345** |
| **Net liquidity gap** | **421,450** | **(754,744)** | **(222,196)** | **555,490** | **-** |
| | | | | | |
| **Off balance sheet items** | | | | | |
| Irrevocable commitments to extend credit | **23,350** | **28,600** | **-** | **-** | **51,950** |
| Financial guarantees and letters of credit | **50,100** | **47,268** | **63,779** | **1,449** | **162,596** |
| Derivative products | **318,964** | **89,050** | **145,886** | **-** | **553,900** |
| **Total off balance sheet assets** | **392,414** | **164,918** | **209,665** | **1,449** | **768,446** |
| | | | | | |
| **Future Interest Cash Flows** | | | | | |
| - Inflows | **10,633** | **5,782** | **67,673** | **81,896** | **165,983** |
| - Outflows | **4,107** | **26,380** | **40,691** | **11,554** | **82,732** |
| **Net Cash Flows** | **6,526** | **(20,598)** | **26,983** | **70,342** | **83,251** |

| 31 DECEMBER 2023 | Upto three months or on demand | Above three months to twelve months | Above one year to five years | More than five years | Total |
|---|---|---|---|---|---|
| **Assets** | US$ '000 | US$ '000 | US$ '000 | US$ '000 | US$ '000 |
| Cash and balances with Central Bank of Oman | 445,221 | - | - | 1,364 | 446,585 |
| Due from banks | 110,690 | 118,500 | - | - | 229,190 |
| Loans, advances and financing, net | 1,526,411 | 249,699 | 1,063,677 | 4,158,031 | 6,997,818 |
| Investment securities | 564,371 | 220,568 | 1,676 | 1,190 | 787,805 |
| Other assets | 50,847 | - | - | - | 50,847 |
| Property & Equipment | - | - | - | 106,834 | 106,834 |
| **Total assets** | 2,697,540 | 588,767 | 1,065,353 | 4,267,419 | 8,619,079 |
| **Liabilities and equity** | | | | | |
| Due to banks | 237,171 | 245,429 | - | - | 482,600 |
| Customers' deposits | 1,249,660 | 2,273,772 | 1,542,486 | 1,364,383 | 6,430,301 |
| Borrowed funds | - | - | 100,000 | - | 100,000 |
| Tax Liability | 33,352 | - | - | - | 33,352 |
| Other liabilities | 82,681 | 29,943 | - | 105,932 | 218,556 |
| Tier 1 perpetual subordinated bonds | - | - | - | 387,013 | 387,013 |
| Shareholders' funds | - | - | - | 967,257 | 967,257 |
| **Total liabilities and equity** | 1,602,864 | 2,549,144 | 1,642,486 | 2,824,585 | 8,619,079 |
| **Net liquidity gap** | 1,094,676 | (1,960,377) | (577,133) | 1,442,834 | - |
| **Off balance sheet items** | | | | | |
| Irrevocable commitments to extend credit | 60,649 | 74,286 | - | - | 134,935 |
| Financial guarantees and letters of credit | 130,129 | 122,775 | 165,659 | 3,764 | 422,327 |
| Derivative products | 828,478 | 231,299 | 378,925 | - | 1,438,702 |
| **Total off balance sheet assets** | 1,019,256 | 428,360 | 544,584 | 3,764 | 1,995,964 |
| **Future Interest Cash Flows** | | | | | |
| - Inflows | 27,619 | 15,017 | 175,775 | 212,717 | 431,128 |
| - Outflows | 10,667 | 68,520 | 105,691 | 30,009 | 214,887 |
| **Net Cash Flows** | 16,952 | (53,503) | 70,084 | 182,708 | 216,241 |

| 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 and Equipment | - | - | - | 35,104 | 35,104 |
| **Total assets** | 880,964 | 269,656 | 540,719 | 1,384,127 | 3,075,466 |
| **Liabilities and equity** | | | | | |
| 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 | - |

| **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** |
| **Off balance sheet items** | | | | | |
| Irrevocable 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 and 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** | | | | | |
| Irrevocable 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 | 47,691 | 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** |

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

| **31 DECEMBER 2023** | **Upto three months or on demand** | **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 | **91,311** | **94,490** | **-** | **-** | **185,801** |
| Customers' deposits | **481,119** | **875,402** | **593,857** | **525,288** | **2,475,666** |
| Borrowed funds | **-** | **-** | **38,500** | **-** | **38,500** |
| **Total liabilities** | **572,430** | **969,892** | **632,357** | **525,288** | **2,699,967** |
| **Credit related commitments** | **23,350** | **28,600** | **-** | **-** | **51,950** |
| | **US$ '000** | **US$ '000** | **US$ '000** | **US$ '000** | **US$ '000** |
| Due to banks | **237,171** | **245,429** | **-** | **-** | **482,600** |
| Customers' deposits | **1,249,660** | **2,273,772** | **1,542,486** | **1,364,383** | **6,430,301** |
| Borrowed funds | **-** | **-** | **100,000** | **-** | **100,000** |
| **Total liabilities** | **1,486,831** | **2,519,201** | **1,642,486** | **1,364,383** | **7,012,901** |
| **Credit related commitments** | **60,648** | **74,286** | **-** | **-** | **134,934** |

| **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** |
|---|---|---|---|---|---|
| | **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** |

## 35.3 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.

### 35.3.1 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.

### 35.3.2 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.

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.

| 31 DECEMBER 2023 | 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 |
|---|---|---|---|---|---|---|---|
| | | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 |
| **Assets** | | | | | | | |
| Cash and balances with Central Bank of Oman | 1.50% | - | - | - | 500 | 171,435 | 171,935 |
| Due from banks | 3.48% | 50,123 | 38,115 | - | - | - | 88,238 |
| Loans, advances and financing, net | 6.05% | 674,768 | 97,159 | 602,277 | 1,319,956 | - | 2,694,160 |
| Investment securities | 4.98% | 11,000 | 9,383 | 205,955 | 40,514 | 36,453 | 303,305 |
| Other assets | | - | - | - | - | 19,576 | 19,576 |
| Property and equipment | | - | - | - | - | 41,131 | 41,131 |
| **Total assets** | | 735,891 | 144,657 | 808,232 | 1,360,970 | 268,595 | 3,318,345 |
| **Liabilities and equity** | | | | | | | |
| Due to banks | 5.06% | 91,311 | 94,490 | - | - | - | 185,801 |
| Customers' deposits | 3.66% | 328,739 | 825,833 | 1,111,553 | 10,342 | 199,199 | 2,475,666 |
| Borrowed funds | 7.02% | - | - | 38,500 | - | - | 38,500 |
| Tax liability | | - | - | - | - | 12,840 | 12,840 |
| Other liabilities | | - | - | - | - | 84,144 | 84,144 |
| Tier 1 perpetual subordinated bonds | 7.50% | - | - | - | - | 149,000 | 149,000 |
| Shareholders' funds | | - | - | - | - | 372,394 | 372,394 |
| **Total liabilities and equity** | | 420,050 | 920,323 | 1,150,053 | 10,342 | 817,577 | 3,318,345 |
| **Total interest rate sensitivity gap** | | 315,841 | (775,666) | (341,821) | 1,350,628 | (548,982) | - |
| **Cumulative interest rate sensitivity gap** | | 315,841 | (459,825) | (801,646) | 548,982 | - | - |
| | | 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 | 445,286 | 446,585 |
| Due from banks | 3.48% | 130,190 | 99,000 | - | - | - | 229,190 |
| Loans, advances and financing, net | 6.05% | 1,752,643 | 252,362 | 1,564,356 | 3,428,457 | - | 6,997,818 |
| Investment securities | 4.98% | 28,571 | 24,371 | 534,949 | 105,232 | 94,682 | 787,805 |
| Other assets | | - | - | - | - | 50,847 | 50,847 |
| Property and equipment | | - | - | - | - | 106,834 | 106,834 |
| **Total assets** | | 1,911,404 | 375,733 | 2,099,305 | 3,534,988 | 697,649 | 8,619,079 |
| **Liabilities and equity** | | | | | | | |
| Due to banks | 5.06% | 237,171 | 245,429 | - | - | - | 482,600 |
| Customers' deposits | 3.66% | 853,867 | 2,145,022 | 2,887,149 | 26,862 | 517,401 | 6,430,301 |
| Borrowed funds | 7.02% | - | - | 100,000 | - | - | 100,000 |
| Tax liability | | - | - | - | - | 33,352 | 33,352 |
| Other liabilities | | - | - | - | - | 218,556 | 218,556 |
| Tier 1 perpetual subordinated bonds | 7.50% | - | - | - | - | 387,013 | 387,013 |
| Shareholders' funds | | - | - | - | - | 967,257 | 967,257 |
| **Total liabilities and equity** | | 1,091,038 | 2,390,451 | 2,987,149 | 26,862 | 2,123,579 | 8,619,079 |
| **Total interest rate sensitivity gap** | | 820,366 | (2,014,718) | (887,844) | 3,508,126 | (1,425,930) | - |
| **Cumulative interest rate sensitivity gap** | | 820,366 | (1,194,352) | (2,082,196) | 1,425,930 | - | - |

| 31 December 2022 | 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 |
|---|---|---|---|---|---|---|---|
| | | 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 | - | - |
| | | | | | | | |
| | | 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% | 2,960,468 | 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 | 7.50% | - | - | - | - | 216,879 | 216,879 |
| Tier 1 perpetual subordinated bonds | | - | - | - | - | 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 | - | - |

### 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:

| 2022 | 2023 | | 2023 | 2022 |
|---|---|---|---|---|
| US$ '000 | US$ '000 | | RO '000 | RO '000 |
| 29,313 | 47,044 | Impact of +200 bps interest rate increase | 18,112 | 11,286 |
| (29,313) | (47,044) | Impact of -200 bps interest rate decrease | (18,112) | (11,286) |

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 2023** | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 |
| **Derivatives for hedging:** | | | | | | |
| Interest rate swaps | | | | | | |
| -Fair value hedge | 1,762 | 607 | 69,878 | - | - | 69,878 |
| -Cash flow hedge | 250 | 190 | 38,500 | - | - | 38,500 |
| **Derivatives:** | | | | | | |
| Forward purchase contracts | 45 | 45 | 222,761 | 159,482 | 44,525 | 18,754 |
| Forward sales contracts | 167 | 98 | 222,761 | 159,482 | 44,525 | 18,754 |
| | 2,224 | 940 | 553,900 | 318,964 | 89,050 | 145,886 |
| | US$ 000 | US$ 000 | US$ 000 | US$ 000 | US$ 000 | US$ 000 |
| **Derivatives for hedging:** | | | | | | |
| Interest rate swaps | | | | | | |
| -Fair value hedge | 4,578 | 1,576 | 181,501 | - | - | 181,501 |
| -Cash flow hedge | 650 | 493 | 100,000 | - | - | 100,000 |
| **Derivatives:** | | | | | | |
| Forward purchase contracts | 117 | 117 | 578,600 | 414,239 | 115,649 | 48,712 |
| Forward sales contracts | 433 | 255 | 578,600 | 414,239 | 115,649 | 48,712 |
| | 5,778 | 2,441 | 1,438,701 | 828,478 | 231,298 | 378,925 |

| | | | 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 |

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

### 35.3.3 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;

| 2022 | **2023** | **Security as per country** | **2023** | 2022 |
|---|---|---|---|---|
| US$ '000 | **US$ '000** | | **RO '000** | RO '000 |
| 1,854 | **3,818** | MSM - Oman +5% impact | **1,470** | 714 |
| (1,854) | **(3,818)** | MSM - Oman -5% impact | **(1,470)** | (714) |
| 1,692 | **2,883** | Other countries +5% impact | **1,110** | 651 |
| (1,692) | **(2,883)** | Other countries -5% impact | **(1,110)** | (651) |

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, Asset and Liabilities 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.

### 35.3.4 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 2023.

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

| 2022 | **2023** | | **2023** | 2022 |
|---|---|---|---|---|
| US$ '000 | **US$ '000** | | **RO '000** | RO '000 |
| 348,964 | **81,719** | US Dollar | **31,462** | 134,351 |
| 425 | **764** | Euro | **294** | 164 |
| 8,218 | **14,855** | UAE Dirham | **5,719** | 3,164 |
| 44 | **144** | GBP Sterling | **56** | 17 |
| 8,563 | **9,146** | Others | **3,521** | 3,297 |
| 366,214 | **106,628** | | **41,052** | 140,993 |

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 2023 on net assets is considered negligible.

## 35.4 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

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.

## 35.5 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 in case of various stressed scenarios.

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 has been reduced to 12.25% including capital conservation buffer of 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 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. The impact of above filter on the bank's regulatory capital is 17 bps.

| 2022 | **2023** | | **2023** | 2022 |
|---|---|---|---|---|
| US$ '000 | **US$ '000** | | **RO '000** | RO '000 |
| 716,579 | **890,896** | Common Equity Tier 1 (CET1) | **342,995** | 275,883 |
| 387,013 | **387,013** | Additional Tier 1 | **149,000** | 149,000 |
| 1,103,592 | **1,277,909** | Tier 1 | **491,995** | 424,883 |
| 36,975 | **32,382** | Tier 2 | **12,467** | 14,235 |
| 1,140,567 | **1,310,291** | Total regulatory capital | **504,462** | 439,118 |
| | | Risk weighted assets | | |
| 6,250,549 | **6,931,181** | Credit risk | **2,668,505** | 2,406,461 |
| 376,308 | **208,888** | Market risk | **80,422** | 144,878 |
| 367,895 | **407,842** | Operational risk | **157,019** | 141,640 |
| 6,994,752 | **7,547,911** | Total risk weighted assets | **2,905,946** | 2,692,979 |
| | | Capital adequacy ratio | | |
| 10.24% | **11.80%** | CET1 capital expressed as a percentage of total risk-weighted assets | **11.80%** | 10.24% |
| 15.78% | **16.93%** | Total tier I capital expressed as a percentage of total risk-weighted assets | **16.93%** | 15.78% |
| 0.53% | **0.43%** | Tier II capital expressed as a percentage of total risk-weighted assets | **0.43%** | 0.53% |
| 16.31% | **17.36%** | Total regulatory capital expressed as a percentage of total risk-weighted assets | **17.36%** | 16.31% |

## 36 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: | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | Retail banking | Wholesale banking, Treasury & Investment | Total | Retail banking | Wholesale banking, Treasury & Investment | Total |
| | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 |
| Net interest income | 22,816 | 37,989 | 60,805 | 20,452 | 42,002 | 62,454 |
| Net income from Islamic financing and investments | 6,776 | 8,715 | 15,491 | 6,217 | 5,173 | 11,390 |
| **Net interest income and income from islamic financing and investments** | 29,592 | 46,704 | 76,296 | 26,669 | 47,175 | 73,844 |
| Fee and commission income, net & Other operating income | 3,879 | 18,365 | 22,244 | 3,222 | 14,632 | 17,854 |
| **Net operating income** | 33,471 | 65,069 | 98,540 | 29,891 | 61,807 | 91,698 |
| Net impairment on financial assets | (711) | (12,381) | (13,092) | (1,085) | (11,979) | (13,064) |
| Operating expenses | (25,760) | (17,372) | (43,132) | (23,343) | (16,889) | (40,232) |
| **Profit before taxation** | 7,000 | 35,316 | 42,316 | 5,463 | 32,939 | 38,402 |
| Tax expense | (999) | (4,865) | (5,864) | (756) | (4,556) | (5,312) |
| **Segment profit for the year** | 6,001 | 30,451 | 36,452 | 4,707 | 28,383 | 33,090 |
| **Segment assets** | 758,513 | 2,559,833 | 3,318,345 | 733,036 | 2,342,430 | 3,075,466 |
| **Segment liabilities** | 1,053,354 | 1,743,597 | 2,796,951 | 843,924 | 1,770,603 | 2,614,527 |

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | **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 | **59,262** | **98,673** | **157,935** | 53,122 | 109,097 | 162,219 |
| Net income from islamic financing and investments | **17,602** | **22,635** | **40,237** | 16,150 | 13,436 | 29,586 |
| **Net interest income and income from islamic financing and investments** | **76,864** | **121,308** | **198,172** | 69,272 | 122,533 | 191,805 |
| Fee and commission income, net & Other operating income | **10,074** | **47,699** | **57,773** | 8,368 | 38,005 | 46,373 |
| **Net operating income** | **86,938** | **169,007** | **255,945** | **77,640** | **160,538** | **238,178** |
| Net impairment on financial assets | **(1,847)** | **(32,158)** | **(34,005)** | (2,818) | (31,113) | (33,931) |
| Operating expenses | **(66,909)** | **(45,123)** | **(112,032)** | (60,631) | (43,869) | (104,500) |
| **Profit before taxation** | **18,182** | **91,726** | **109,908** | **14,191** | **85,556** | **99,747** |
| Tax expense | **(2,595)** | **(12,637)** | **(15,232)** | (1,963) | (11,835) | (13,798) |
| **Segment profit for the year** | **15,587** | **79,089** | **94,676** | **12,228** | **73,721** | **85,949** |
| **Segment assets** | **1,970,163** | **6,648,916** | **8,619,079** | **1,903,991** | **6,084,232** | **7,988,223** |
| **Segment liabilities** | **2,735,983** | **4,528,826** | **7,264,809** | **2,192,009** | **4,598,969** | **6,790,978** |

## 37 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 25.504 million which is equivalent to US$ 66.25 million (2022: RO 6.347 equivalent to US$ 16.49 million)

## 38 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 DISCLOSURES

31 December 2023

Deloitte.

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

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

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

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

**Responsibility of the Engaging Party**

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

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

**Practitioner's Responsibilities**

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

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

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

**Professional Ethics and Quality Control**

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

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

Deloitte.

**Procedures and Findings**

We have performed the procedures agreed with you in our letter dated **28 March 2023** and as prescribed in the Central Bank of Oman ("CBO") Circular No BM 1027 dated 4 December 2007, with respect to the Basel II - Pillar III disclosures and Basel III related disclosures (the disclosures) of the **Ahli Bank SAOG** ("the Bank") set out on the attached pages as at and for the year ended 31 December 2023. The disclosures were prepared by the management in accordance with the CBO's Circular No. BM 1009 dated 13 September 2006 and Circular No. BM 1027 dated 4 December 2007 and BM 1114 dated 17 November 2013. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements (ISRS 4400 (Revised)). The procedures, as set out in Circular No. BM 1027 dated 4 December 2007, were performed solely to assist you in evaluating the Bank's compliance with the disclosure requirements set out in CBO's Circular number BM 1009 dated 13 September 2006 and BM 1114 dated 17 November 2013.

We report no findings based on the work performed.

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

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

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

Deloitte & Touche

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

# BASEL II PILLAR III AND BASEL III Disclosures

31 December 2023

## 1. INTRODUCTION

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 2023.

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. The figures presented in this report are included with the Islamic window of the Bank and results of the Islamic window are prepared separately.

## 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.

The Bank has following credit ratings at present:

**Capital Intelligence**
Foreign currency Long Term Rating: **BB**
Foreign currency Short term; **B**
Outlook: **Positive**

**Fitch Rating**
Viability rating; **bb-**
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 adjusts 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 2023, based on the CBO guidelines is as follows:

| Sl.No | Elements of Capital | Amount (RO'000) |
|---|---|---|
| | Tier I Capital | |
| 1 | Share capital | 244,966 |
| 2 | Legal reserves | 43,858 |
| 3 | Retained earnings* | 61,601 |
| | **Common Equity Tier I before deductions** | **350,425** |
| | **Deductions:** | |
| 4 | Cumulative unrealized losses and intangibles recognized directly in equity | (7,430) |
| | **Common Equity Tier 1** | **342,995** |
| | **Additional Tier I Capital** | |
| | Tier 1 perpetual subordinated bonds | 149,000 |
| | **Tier I capital after all deductions** | **491,995** |
| | **Tier II Capital** | |
| 5 | Revaluation reserves / cumulative fair value gains on FVOCI Instruments | 1,014 |
| 6 | Stage 1 & Stage 2 expected credit losses | 11,453 |
| 7 | Subordinated debt | - |
| | **Total Tier II Capital** | **12,467** |
| | **Total Regulatory Capital** | **504,462** |

*The Board of Directors have recommended dividend of 9 baizas per share (4.5 baizas per share as cash dividend and 4.5 baizas per share in the form of mandatory convertible bonds) which is subject to approval of the shareholders at the ensuing Annual General Meeting.

## CAPITAL ADEQUACY

### Qualitative disclosures

The Bank'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 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.

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 17.36% as against the CBO prescribed minimum requirement of 12.25% (including capital conservation buffer of 1.25%) as at 31 December 2023. 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, S&P Global, Fitch Ratings 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 2023-2026 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

## Quantitative disclosures

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

As on 31 December 2023

| Sl. No | Details | Gross balances (book value) | Net balances (book value) | Risk weighted assets |
|---|---|---|---|---|
| 1 | On-balances sheet items | 3,340,108 | 3,153,226 | 2,566,648 |
| 2 | Off-balance sheet items | 103,946 | 103,946 | 98,553 |
| 3 | Derivatives | 4,552 | 4,552 | 3,304 |
| 4 | Market risk | - | - | 80,422 |
| 5 | Operational Risk | - | - | 157,019 |
| | **Total** | | | **2,905,946** |
| | | | | |
| 6 | Tier 1 capital | | | 491,995 |
| 7 | Tier 2 capital | | | 12,467 |
| 8 | **Total Regulatory Capital** | | | **504,462** |
| 8.1 | Capital requirement for credit risk | | | 326,892 |
| 8.2 | Capital requirement for market risk | | | 9,852 |
| 8.3 | Capital requirement for operational risk | | | 19,235 |
| | **Total required capital** | | | **355,979** |
| 9 | CET 1 ratio | | | **11.80%** |
| 10 | Tier 1 ratio | | | **16.93%** |
| 11 | Total capital ratio | | | **17.36%** |

### ii) Capital adequacy:

As on 31 December 2023

| Sl. No | Details | Simple Approach Amount in RO 000's |
|---|---|---|
| 1 | Tier I capital (after supervisory deductions) | 491,995 |
| 2 | Tier II capital (after supervisory deductions and up to eligible limits) | 12,467 |
| 3 | Risk weighted assets – banking book | 2,668,505 |
| 4 | Risk weighted assets – operational risk | 157,019 |
| 5 | **Total Risk Weighted Assets – Banking Book + Operational Risk** | **2,825,524** |
| 6 | **Minimum required capital to support RWAs of banking book and operational risk** | **346,127** |
| | i) Minimum required Tier I capital for banking book and operational risk | 289,617 |
| | ii) Tier II capital required for banking book and operational risk | 56,510 |
| 7 | Tier I capital available for supporting trading book | 158,335 |
| 8 | Tier II capital available for supporting trading book | - |
| 9 | **Risk Weighted Assets – trading book** | **80,422** |
| 10 | Total capital required to support trading book | 9,852 |
| 11 | Minimum Tier I capital required for supporting trading book | 2,808 |
| 12 | **Total Regulatory Capital** | **504,462** |
| 13 | **Total Risk Weighted Assets – Whole bank** | **2,905,946** |
| 14 | **BIS Capital Adequacy Ratio** | **17.36%** |

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 17 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 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.

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

## Management Committees:

- Executive Management Committee
- Credit and Investment Committee
- Credit Risk Management Committee
- Special Assets Committee
- Assets and Liabilities Committee
- Operational Risk Committee
- Products and Consumer Protection Committee
- Technology and Digital Transformation Committee
- Technology Delivery 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

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

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.

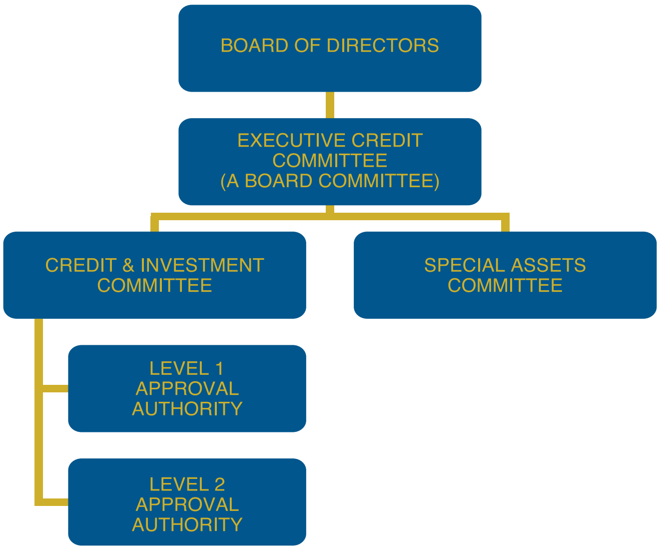
Risk Management quantifies the Bank's credit risk appetite in line with the Bank's strategic direction. A well-established process exists to ensuring the allocation of capital for the total credit risk to be assumed by the Bank; and measuring the actual use of capital at portfolio level.

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.

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-23 | 31-Dec-22 | 31-Dec-23 | 31-Dec-22 |
| 1 | Overdrafts | 90,108 | 79,914 | 95,699 | 73,356 |
| 2 | Personal loans | 739,361 | 741,017 | 769,639 | 742,389 |
| 3 | Loans and against trust receipts | 80,727 | 76,692 | 79,929 | 72,387 |
| 4 | Other loans | 1,818,471 | 1,624,974 | 1,843,143 | 1,691,758 |
| 5 | Bills purchased/ discounted | 11,581 | 11,364 | 13,101 | 9,175 |
| | **Total** | **2,740,248** | **2,533,961** | **2,801,511** | **2,589,065** |

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

| Sl No. | Type of Credit Exposure | Oman | Other GCC countries | India | Total |
|---|---|---|---|---|---|
| 1 | Overdrafts | 95,699 | - | - | 95,699 |
| 2 | Personal loans | 769,639 | - | - | 769,639 |
| 3 | Loans against trust receipts | 79,929 | - | - | 79,929 |
| 4 | Other loans | 1,837,260 | 5,357 | 526 | 1,843,143 |
| 5 | Bills Purchased/discounted | 13,101 | - | - | 13,101 |
| | **Total** | **2,795,628** | **5,357** | **526** | **2,801,511** |

### 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 | Total | Off Balance Sheet Exposure |
|---|---|---|---|---|---|---|
| 1 | Wholesale and retail trade | 31,538 | 236,431 | 4,015 | 271,984 | 41,683 |
| 2 | Mining and quarrying | 1,518 | 16,834 | 260 | 18,612 | 345 |
| 3 | Construction | 14,505 | 345,561 | 4,249 | 364,315 | 37,971 |
| 4 | Manufacturing | 8,027 | 236,904 | 1,724 | 246,655 | 39,603 |
| 5 | Transport and communication | 1,044 | 224,818 | - | 225,862 | 1,094 |
| 6 | Electricity, gas and water | 9,339 | 93,639 | - | 102,978 | 11,668 |
| 7 | Financial institutions | 363 | 246,967 | 45 | 247,375 | 1,735 |
| 8 | Services | 8,488 | 369,189 | 2,706 | 380,383 | 18,428 |
| 9 | Personal loans | 6,237 | 763,402 | - | 769,639 | 7 |
| 10 | Government | - | 98,364 | 102 | 98,466 | 7,447 |
| 11 | All others | 14,640 | 60,602 | - | 75,242 | 2,615 |
| | **Total** | **95,699** | **2,692,711** | **13,101** | **2,801,511** | **162,596** |

### 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 | Total | Off Balance Sheet Exposure |
|---|---|---|---|---|---|---|
| 1 | Upto 1 Month | 4,667 | 439,419 | 5,568 | 449,654 | 31,640 |
| 2 | 1-3 Months | 4,667 | 128,680 | 4,667 | 138,014 | 18,460 |
| 3 | 3-6 Months | 4,667 | 35,190 | 2,611 | 42,468 | 24,060 |
| 4 | 6-9 Months | 4,668 | 16,699 | 103 | 21,470 | 10,768 |
| 5 | 9-12 Months | 4,668 | 54,366 | - | 59,034 | 12,440 |
| 6 | 1-3 Years | 23,337 | 131,294 | - | 154,631 | 37,077 |
| 7 | 3-5 Years | 23,338 | 231,547 | - | 254,885 | 26,702 |
| 8 | Over 5 Years | 23,338 | 1,658,017 | - | 1,681,355 | 1,449 |
| | **Total** | **93,350** | **2,695,212** | **12,949** | **2,801,511** | **162,596** |

### 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 2023.

| 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 | 271,984 | 20,761 | 5,805 | 11,083 | 2,150 | 14 |
| 2 | Mining & quarrying | 18,612 | 2,925 | 75 | 1,709 | 203 | - |
| 3 | Construction | 364,315 | 4,296 | 8,609 | 1,731 | 2,470 | - |
| 4 | Manufacturing | 246,655 | 12,159 | 3,090 | 6,463 | 3,053 | - |
| 5 | Electricity, gas & water | 102,978 | - | 174 | - | 4 | - |
| 6 | Transport & communication | 225,862 | 2,433 | 1,020 | 1,427 | 365 | - |
| 7 | Financial institutions | 247,375 | - | 918 | - | (588) | - |
| 8 | Services | 380,383 | 14,979 | 8,284 | 7,040 | 1,864 | - |
| 9 | Personal loans | 769,639 | 22,417 | 3,403 | 16,877 | 1,527 | 4 |
| 10 | Government | 98,466 | - | 77 | - | 17 | - |
| 11 | All others | 75,242 | 30,210 | 859 | 28,707 | 7,656 | - |
| | **Total** | **2,801,511** | **110,180** | **32,314** | **75,037** | **18,721** | **18** |

*- Stage 3 allowance includes reserve interest amounting to RO 16.092 million.
^- Stage 3 includes additional ECL overlays of RO 10.221 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 | 2,795,628 | 109,654 | 32,297 | 74,589 | 18,658 | 18 |
| 2 | Other GCC countries | 5,357 | - | 17 | - | (385) | - |
| 3 | OECD countries | - | - | - | - | - | - |
| 4 | India | 526 | 526 | - | 448 | 448 | - |
| 5 | Pakistan | - | - | - | - | - | - |
| 6 | Others | - | - | - | - | - | - |
| | **Total** | **2,801,511** | **110,180** | **32,314** | **75,037** | **18,721** | **18** |

*- Stage 3 allowance includes reserve interest amounting to RO 16.092 million and additional ECL overlays of RO 10.221 million.

**vii) Movement of gross loans during the year: (RO '000)**

| SL No. | Details | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|---|
| 1 | Opening balance | 2,060,340 | 431,152 | 97,573 | **2,589,065** |
| 2 | Mitigation/ changes (+/) | (76,921) | 71,410 | 5,511 | **-** |
| 3 | New loans | 343,931 | 11,548 | 7,744 | **363,223** |
| 4 | Recovery of loans | 124,613 | 25,517 | 629 | **150,759** |
| 5 | Loans written off | - | - | 18 | **18** |
| 6 | Closing balance | 2,202,737 | 488,593 | 110,181 | **2,801,511** |
| 7 | Impairment allowance held | 6,122 | 26,192 | 75,037 | **107,351** |
| 8 | Reserve interest | - | - | 16,092 | **16,092** |

## 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 2023, subject to the standardized approach is as below:

RO 000's

| S. No. | Product / Rating | Capital Charge | | | | | | Total |
|---|---|---|---|---|---|---|---|---|
| | | 0% | 20% | 35% | 50% | 75% | Above 100% | |
| | **Rated** | | | | | | | |
| 1 | Sovereign | 482,210 | - | - | - | - | - | **482,210** |
| 2 | Banks | - | 42,462 | - | 22,745 | - | 39,760 | **104,967** |
| 3 | Corporate | - | - | - | - | 142,518 | - | **142,518** |
| | **Unrated** | | | | | | | |
| 1 | Corporate | - | - | - | - | - | 1,596,012 | **1,596,012** |
| 2 | Banks | - | 623 | - | 46 | - | - | **669** |
| 3 | Retail | - | - | - | - | - | 417,879 | **417,879** |
| 4 | Claims secured by residential property | - | - | 124,593 | - | - | 206,730 | **331,323** |
| 5 | Claims secured by commercial property | - | - | - | - | - | 178,502 | **178,502** |
| 6 | Past due loans | - | - | - | - | - | 19,245 | **19,245** |
| 7 | Other assets | 19,546 | - | - | - | - | 155,735 | **175,281** |
| | **Total Banking Book** | **501,756** | **43,085** | **124,593** | **22,791** | **142,518** | **2,613,863** | **3,448,606** |

## 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 2023 towards loans & advances not impaired amounted to RO 1,844.632 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 90.778 M; after application of haircut (0%) exposure stands at RO Nil.
Exposure covered by Shares collateral – RO 156.633 M; after application of haircut (50%) exposure stands at RO 78.316 M.
Exposure covered by Sovereign guarantee – RO 107.373 M; after application of haircut (0%) exposure stands at RO Nil.

| Particulars | RO 'Mn |
|---|---|
| Gross Exposure - banking book | 3,449 |
| Credit risk mitigation | (170) |
| Risk weight impact - for banking book | (611) |
| Risk weighted assets - banking book | 2,668 |
| **Capital charge for credit risk** | **327** |

### 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) on account of OTC derivatives (FX forwards, Interest Rate Swaps etc.) and RWA of RO 4.552 million as at 31 December 2023.

## 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 2023, 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 2023, equity investments classified as FVTPL amounted to OMR 15.879 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 41.052 million (including RO 31.462 million open position is in effectively pegged USD currency) as on 31 December 2023.

### Quantitative Disclosure:

### Capital Charge:

The exposure under the trading book of the Bank includes relatively small foreign exchange exposure primarily arising from the holding of day-end positions in currencies overnight, and exposure towards interest rate related instruments. Positions are monitored on daily basis to ensure open currency position is maintained within the regulatory limit. For the purpose of capital charge, the three month average of the sum of the net short positions or net long positions, whichever is higher, is taken. The average is worked out on the basis of the actual positions as obtained on all the working days during the three month period immediately preceding the reporting date.

In addition, the Bank holds a relatively smaller 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 2023 is shown below:

| Type of risk | 2023 | 2022 |
|---|---|---|
| Interest rate risk | - | - |
| Equity position risk | 2,541 | 1,405 |
| Foreign exchange risk | 3,893 | 10,185 |
| Percentage of NOP to regulatory capital | 8.39% | 32.11% |
| Regulatory ceiling (% to total net worth) | 40% | 40% |

Total risk weighted assets for trading book is RO 80.421 million with capital charge of RO 9.851 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

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 8 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:

| | 2023<br>RO '000 | 2022<br>RO '000 |
|---|---|---|
| Impact of +200 bps interest rate increase | **18,112** | 11,286 |
| Impact of -200 bps interest rate decrease | **(18,112)** | (11,286) |
| Impact of +200 bps interest rate increase as % of Capital | **+3.07%** | +2.47% |
| Impact of -200 bps interest rate decrease as % of Capital | **-3.07%** | -2.47% |

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 2023 is highlighted in Note 35.3.2 of the financial statements.

## 7. LIQUIDITY RISK

### Qualitative Disclosure

The Bank defines liquidity risk as its ability to meet all present and future financial obligations in a timely manner and without undue effort and cost through unconstrained access to funding at reasonable market rates and without affecting asset growth and business operations.

The following key factors are taken into consideration while assessing and managing the liquidity risk of the Bank:

- The need to have a well-diversified base for funding sources, comprising a portfolio of retail customers, large corporates and institutions, small & medium enterprises, high net worth individuals, without significant concentrations or correlations, thereby diversifying the funding base and mitigating concentration risks.

- Based upon the past behavioral pattern analysis of our main liabilities, management expects large portion of customer deposits to be rolled over at contractual maturity.

- As per the CBO directives, the Bank keeps at least 5% of its Demand & time deposit liabilities with CBO in the form of clearing balances

- Commitments for loans and advances are approved after taking into account the Bank's overall liquidity position.

The Bank's projected liquidity needs are analyzed, and optimum alternatives to manage the liquidity risk are discussed and approved in ALCO. The Risk Management department also independently reviews and evaluates the Bank's ability to access liquidity from different sources.

The Treasury and Risk management Departments identify liquidity at risk, which is monitored daily and reported periodically to ALCO. Liquidity and Funding Policy and a liquidity contingency plan have been established by the Bank.

### Liquidity and Funding Policy

The Liquidity and Funding policy of the Bank is intended to ensure that liquidity requirements are prudently and effectively managed such that anticipated and unanticipated funding needs are met on an ongoing basis in a controlled manner at the least possible cost.

The Bank's ALCO reviews the Liquidity Policy annually and submits recommendations for changes, if any, to the Bank's Chief Executive Officer (CEO) for review and submission to the Executive Committee and Board as applicable.

There are a number of techniques which the Bank uses to manage its Liquidity position. The key ones are:

- Placing limits on maturity mismatches
- Maintaining a stock of liquid assets
- Diversification of liabilities
- Access to wholesale markets
- Multi-currency liquidity management

The Bank also maintains significant investments in liquid instruments issued by Government & banks principally for maintaining liquidity. The Bank also has standby lines of credit to meet its obligations at any given time, if the need arises.

### Stock of Liquid Assets

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

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

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

### Diversification of liabilities

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

The liquidity policy recognizes the inherent value of the Bank's longer term depositors. The Bank seeks to establish strong and lasting relationships with depositors and other liability holders so as to foster a stable funding base. Trends in liability balances by category are reviewed by the ALCO on a monthly basis.

The Bank also recognizes that an over reliance on short dated inter-bank deposits can lead to difficulties in extreme market conditions. The Bank's exposure to such deposits is reviewed by the ALCO on a monthly basis.

## Multi-currency liquidity

Where positions in specific foreign currencies are significant to its business, the Bank addresses the measurement and management of liquidity in these individual currencies. It is considered appropriate to consolidate several (usually minor) currencies and monitor the aggregate exposure expressed in base currency.

When monitoring exposure in aggregate, the Bank assesses the convertibility of individual currencies, the timing of access to funds, the impact of potential disruptions to foreign exchange markets, and exchange risks before presuming that surplus liquidity in one currency can be used to meet a shortfall in another currency.

Performance against limits is monitored daily by Treasury with any exceptions being immediately reported to ALCO members. Review of all liquidity positions against limits is performed by Head of Risk Management and Treasury based on figures produced by the Treasury Middle Office / Finance Department.

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

## 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 2023 are provided in note 35.2.2 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, 2023** | | | | | |
|---|---|---|---|---|---|
| **Currency** | **Upto 1 month** | **1 - 3 months** | **3 - 6 months** | **6 - 9 months** | **9 - 12 months** |
| Aggregate | 99.35% | 47.44% | 20.08% | -2.89% | -21.85% |
| OMR | 78.47% | 42.29% | 22.49% | -6.35% | -26.83% |
| USD | 131.83% | 48.74% | 5.36% | -1.87% | -9.06% |
| Others | 375.39% | 217.44% | 178.52% | 153.68% | 9.65% |

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

## 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; and
- Regularly verifying and reconciling transactions and accounts.

### Reputation Risk

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

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

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

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 2023, the Bank has carried out a comprehensive BCP test and an IT Control test on a working day in order to test the resilience of the Bank's business systems at the DR site. The scope of the test was arrived at based on the Business Impact Analysis (BIA) carried by the Bank and the results of the BCP/ volume tests were submitted to the Board. The Bank has in place a crisis management team, and the processes to be followed during a disaster scenario has been detailed out in the BCP documents of the Bank.

### Fraud Risk Management

The Bank takes effective prevention and detection of fraudulent activities extremely serious and cooperate with the judicial and regulatory authorities and support national, regional and international initiatives to combat fraud. It endeavor to develop a culture of fraud awareness and prevention across all areas of its operations to limit possible financial losses and safeguard the brand and financial reputation of the Bank.

### Concentration Risk

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

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


### Information Security Risk

The Bank has adopted an Information Security Management System (ISMS) /process and a framework by which the Bank ensures, protects and secures information resources that process and maintain information which are vital to its operations. The main component of this framework is the Information Security Policy that provides direction for formulation, implementation, and management of Information Security Management System. Since protection of customer information is the top-most priority, the Bank strives to safeguard the confidentiality, availability and integrity of the data of its customers and business partners at all times. The bank has maintained ISO 27001 certification since 2012 and PCI DSS certification since 2015.

### 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) | 2023 | 2022 | 2021 |
|---|---|---|---|
| Net interest income | **76,296** | 73,845 | 65,564 |
| Non-interest income | **22,243** | 17,853 | 16,874 |
| Provision for unpaid interest | **4,358** | 3,515 | 2,951 |
| Gain on sale of investment | **(741)** | (177) | (2,945) |
| Insurance and other irregular items | **(4)** | (12) | (61) |
| **Gross income** | **102,152** | **95,024** | **82,383** |
| Average Income | | | 93,186 |
| Gross Income times of Alpha (%15) | | | 13,978 |
| **Operational risk based on Basic Indicator Approach** | | | **174,725** |

Capital Charge for Operational Risk under Basic Indicator Approach as per Basel II is RO 12.562 million as of 31 December 2023.

The Risk weighted assets for operational risk as per Basel II is RO 157.019 million with the capital charge of RO 19.235 million.

## 9. COMPENSATION POLICY

In line with the CBO guidelines on remuneration disclosures as part of Pillar III, the Bank is committed to fair, balanced, performance-oriented compensation practices that align long-term employee and shareholder interests. The policy is endeavored to attract, retain and motivate the best people in the industry. The Bank has a Board appointed Nomination and Remuneration Committee whose primary objective is to advise the Bank's Board Chairman on the remuneration of Board members, appointment and remuneration of senior management personnel.

Performance awards are based on the achievement of both financial and non-financial objectives. The Performance Management System is aimed at achieving the Bank's business plans and objective through continuous and focused performance of the employees. The objective of Performance Review process is to assess the employee on his/her performance against assigned key Performance Indicators and objectives. At senior management levels, the overall Bank's performance is the overriding criteria while awarding performance awards. The payout is based on consideration of all aspects governing performance including the stage of business, market conditions, and time horizon of risks, sustainable returns and the cyclical nature of certain businesses. The Bank is committed to responsible compensation practices which balance reward based on performance and promoting principled behavior and actions. The compensation is designed to contribute to the Bank's objectives and encourages prudent risk taking and adherence to applicable laws, guidelines and regulations.

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 (2022: 5 members) of the management committee. Total remuneration paid during the year was RO 1.628 million for 2023 (2022: RO 1.460 million)

The total amount of remuneration paid for the 23 Material risk takers (MRT) was RO 3.396 million. An amount of RO 0.311 million was deferred being above the threshold (31 December, 2022 - 24 Material risk takers, total amount paid RO 3.170 million, RO 0.208 million deferred)

## 10. SUBSIDIARIES AND SIGNIFICANT INVESTMENTS

The Bank does not have any subsidiary or other significant equity investments as on 31 December 2023.

## 11. BASEL III CAPITAL DISCLOSURES

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 (and equivalent for non-joint stock companies) plus related stock surplus/premium | 244,966 |
| 2 | Retained earnings (net of proposed cash dividend of 4.5%) | 61,601 |
| 3 | Accumulated other comprehensive income (and other reserves) | 43,858 |
| 4 | Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1) | - |
| **5** | **Common Equity Tier 1 capital before regulatory adjustments** | **350,425** |
| **Common Equity Tier 1 capital: regulatory adjustments** | | |
| 6 | Prudential valuation adjustments | 3,313 |
| 7 | Goodwill (net of related tax liability) | - |
| 8 | Other intangibles other than mortgage-servicing rights (net of related tax liability) | 4,117 |
| 9 | Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability) | - |
| 10 | Cash-flow hedge reserve | - |
| 11 | Shortfall of provisions to expected losses | - |
| 12 | Securitization gain on sale (as set out in paragraph 14.9 of CP-1) | - |
| 13 | Gains and losses due to changes in own credit risk on fair valued liabilities | - |
| 14 | Defined-benefit pension fund net assets | - |
| 15 | Investments in own shares (if not already netted off paid-in capital on reported balance sheet) | - |
| 16 | Reciprocal cross-holdings in common equity | - |
| 17 | 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) | - |
| 18 | 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) | - |
| 19 | Mortgage servicing rights(amount above 10% threshold) | - |
| 20 | Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability) | - |
| 21 | Amount exceeding the 15% threshold | - |
| 22 | of which: significant investments in the common stock of financials | - |
| 23 | of which: mortgage servicing rights | - |
| 24 | of which: deferred tax assets arising from temporary differences | - |
| 25 | National specific regulatory adjustments | - |
| 26 | Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions | - |
| 27 | **Total regulatory adjustments to Common equity Tier 1** | **7,430** |
| 28 | **Common Equity Tier 1 capital (CET1)** | **342,995** |
| | Additional Tier 1 capital: Instruments | |
| 29 | Directly issued qualifying Additional Tier 1 instruments plus related stock surplus (31+32) | 149,000 |
| 30 | of which: classified as equity under applicable accounting standards | 149,000 |
| 31 | of which: classified as liabilities under applicable accounting standards | - |
| 32 | *Directly issued capital instruments subject to phase out from Additional Tier 1* | - |
| 33 | 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) | - |
| 34 | *of which: instruments issued by subsidiaries subject to phase out* | - |
| 35 | **Additional Tier 1 capital before regulatory adjustments** | **149,000** |

| | | |
|---|---|---|
| | **Additional Tier 1 capital : regulatory adjustments** | |
| 36 | Investments in own Additional Tier 1 instruments | - |
| 37 | Reciprocal cross-holdings in Additional Tier 1 instruments | - |
| 38 | 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) | - |
| 39 | Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions) | - |
| 40 | National specific regulatory adjustments | - |
| | OF WHICH: [INSERT NAME OF ADJUSTMENT] | - |
| | OF WHICH: ……. | - |
| 41 | Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions | - |
| 42 | **Total regulatory adjustments to Additional Tier 1 capital** | **-** |
| 43 | **Additional Tier 1 capital (AT1)** | **149,000** |
| 44 | **Tier 1 capital (T1 = CET1 + AT1)** | **491,995** |
| | **Tier 2 capital: instruments and provisions** | |
| 45 | Directly issued qualifying Tier 2 instruments plus related stock surplus | - |
| 46 | *Directly issued capital instruments subject to phase out from Tier 2* | - |
| 47 | 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) | - |
| 48 | *of which: instruments issued by subsidiaries subject to phase out* | |
| 49 | Provisions (including gain on investments) | 12,467 |
| 50 | **Tier 2 capital before regulatory adjustments** | **12,467** |
| | **Tier 2 capital: regulatory adjustments** | |
| 51 | Investments in own Tier 2 instruments | - |
| 52 | Reciprocal cross-holdings in Tier 2 instruments | - |
| 53 | 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) | - |
| 54 | Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions) | - |
| 55 | 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 | - |
| 56 | **Total regulatory adjustments to Tier 2 capital** | **-** |
| 57 | **Tier 2 capital (T2)** | **12,467** |
| 58 | **Total capital (TC = T1 + T2)** | **504,462** |
| 59 | **Total risk weighted assets** | **2,905,946** |
| 59a | *Credit risk weighted assets* | 2,668,505 |
| 59b | *Market risk weighted assets* | 80,422 |
| 59c | *Operational risk weighted assets* | 157,019 |
| | **Capital Ratios and buffers** | |
| 60 | Common Equity Tier 1 (as a percentage of risk weighted assets) | 11.80% |
| 61 | Tier 1 (as a percentage of risk weighted assets) | 16.93% |
| 62 | Total capital (as a percentage of risk weighted assets) | 17.36% |
| 63 | 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% |
| 64 | *of which: capital conservation buffer requirement* | 1.250% |
| 65 | *of which: bank specific countercyclical buffer requirement* | - |
| 66 | *of which: G-SIB buffer requirement* | - |
| 67 | Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets | 4.80% |

| | | |
|---|---|---|
| | **National Minima (if difference from Basel 3)** | |
| 68 | National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum) | 8.250% |
| 69 | National Tier 1 minimum ratio (if different from Basel 3 minimum) | 10.250% |
| 70 | National total capital minimum ratio (if different from Basel 3 minimum) | 12.250% |
| | **Amounts below the thresholds for deduction (before risk weighting)** | |
| 71 | Non-significant investments in the capital of other financials | 20,220 |
| 72 | Significant investments in the common stock of financials | - |
| 73 | Mortgage servicing rights (net of related tax liability) | - |
| 74 | Deferred tax assets arising from temporary differences (net of related tax liability) | - |
| 75 | Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap) | 11,453 |
| 76 | Cap on inclusion of provisions in Tier 2 under standardised approach | 33,356 |
| 77 | Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap) | - |
| 78 | 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)** | |
| 79 | Current cap on CET1 instruments subject to phase out arrangements | - |
| 80 | Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities) | - |
| 81 | Current cap on AT1 instruments subject to phase out arrangements | - |
| 82 | Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities) | - |
| 83 | Current cap on T2 instruments subject to phase out arrangements | - |
| 84 | 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 2023 | Published financial statements | Under regulatory scope of consolidation |
|---|---|---|
| | As at 31 December 2023 | As at 31 December 2023 |
| **Assets** | | |
| Cash and balances with Central Bank of Oman | 171,935 | 171,935 |
| Certificates of deposit | - | - |
| Due from banks | 88,238 | 88,238 |
| Loans and advances | 2,694,160 | 2,694,160 |
| Investments in securities | 303,305 | 303,305 |
| Loans and advances to banks | - | - |
| Property and equipment | 41,131 | 41,131 |
| Deferred tax assets | - | - |
| Other assets | 19,576 | 19,576 |
| **Total assets** | **3,318,345** | **3,318,345** |
| **Liabilities** | | |
| Due to banks | 185,801 | 185,801 |
| Customer deposits | 2,475,666 | 2,475,666 |
| Borrowings | 38,500 | 38,500 |
| Deferred tax liabilities | 611 | 611 |
| Other liabilities | 96,373 | 96,373 |
| Subordinated bonds | - | - |
| **Total liabilities** | **2,796,951** | **2,796,951** |
| **Shareholders' Equity** | | |
| Paid-up share capital | 244,966 | 244,966 |
| Share premium | - | - |
| Legal reserve | 43,858 | 43,858 |

| | | |
|---|---|---|
| Retained earnings | 72,175 | 72,175 |
| Special reserve | 298 | 298 |
| Impairment reserve | 10,867 | 10,867 |
| Cumulative changes in fair value of investments | 230 | 230 |
| **Total shareholders' equity** | **372,394** | **372,394** |
| Tier 1 Perpetual subordinated bonds | 149,000 | 149,000 |
| **Total equity** | **521,394** | **521,394** |
| **Total liability and shareholders' funds** | **3,318,345** | **3,318,345** |

## 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 2023 | Year ended December 2023 | Under Regulatory scope of consolidation | Reference |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with CBO | 171,935 | 171,935 | |
| Balance with banks and money at call & short notice | 88,238 | 88,238 | |
| Balance with banks and money at call & short notice, of which | - | 88,315 | |
| - Stage 1 / 2 impairment allowance, of which | - | (77) | |
| - amount eligible for T2 | | | |
| Investments, of which: | 303,305 | 303,305 | |
| Fair Value Through Other Comprehensive income (FVOCI) | - | 287,426 | |
| Fair Value Through Profit & Loss (FVTPL) | - | 15,879 | |
| - Stage 1 / 2 impairment allowance, of which | | - | |
| - amount eligible for T2 | | - | |
| Loans and advances – Net, of which: | 2,694,160 | 2,694,160 | |
| - Loans and advances to domestic banks | - | - | |
| - Loans and advances to non-resident banks | - | - | |
| - Loans and advances to domestic customers | - | 2,111,654 | |
| - Loans and advances to non-resident for operations abroad | - | 5,882 | |
| - Loans and advances to SMEs | - | 155,176 | |
| - Financing from Islamic banking window | - | 528,799 | |
| - Expected credit loss allowance, of which | - | (107,351) | |
| - Stage 3 Impairment allowance and Reserve interest & profit | - | (75,035) | |
| - Stage 1 / 2 impairment allowance, of which | - | (32,316) | |
| - amount eligible for T2 | - | 11,453 | **h** |
| - amount ineligible for T2 | - | 20,863 | |
| Fixed assets | 41,131 | 41,131 | |
| - Intangibles (CET1 adjustment) | - | (4,117) | **e** |
| - Other fixed Asset | - | (37,014) | |
| Other assets | 19,576 | 19,576 | |
| Other assets, of which | - | 19,621 | |
| - Stage 1 / 2 impairment allowance, of which | - | (45) | |
| - amount eligible for T2 | - | - | |
| - amount ineligible for T2 | - | (45) | |
| **Total Assets** | **3,318,345** | **3,318,345** | |
| **Capital & Liabilities** | | | |
| Paid-up Capital, of which: | 244,966 | 244,966 | |
| - Amount eligible for CET1 | 244,966 | 244,966 | **a** |
| Reserves & Surplus; of which | 276,428 | 276,428 | |

*Step 2: Expansion of Balance sheet under Regulatory scope of consolidation (continued)*

| | | | |
|---|---|---|---|
| - Amount eligible for CET1 (Legal reserve) | - | 43,858 | **b** |
| - Amount eligible for CET1 (Subordinated debt reserve) | - | - | **d** |
| - Amount eligible for CET1 (Retained earnings) | - | 61,601 | **c** |
| - Proposed cash dividend (removed from retained earnings) | - | 10,574 | |
| - Amount ineligible for CET1 (Special Reserve) | - | 298 | |
| - Amount eligible for AT1 (Tier 1 perpetual bonds) | - | 149,000 | **f** |
| - Amount ineligible for T2 (Impairment reserve) | - | 10,867 | |
| - Amount eligible for T2 (Investments Fair value gains) | - | 1,014 | **i** |
| - AFS investments fair value loss (CET1 adjustment) | - | (3,314) | **e** |
| - AFS investments fair value gain unutilized | - | 2,530 | |
| **Total Capital** | **521,394** | **521,394** | |
| Deposits from banks | 185,801 | 185,801 | |
| Customer deposits, of which | 2,475,666 | 2,475,666 | |
| - Deposits for customers | - | 1,874,081 | |
| - Deposits of Islamic Banking window | - | 601,585 | |
| Borrowings, of which: | 38,500 | 38,500 | |
| - From banks | 38,500 | 38,500 | |
| Borrowings in form of bonds, Debentures & sukuks, of which | - | - | |
| - Amount eligible for T2 | - | - | |
| - Amount ineligible for T2 | - | - | |
| Other liabilities & provisions | 96,984 | 96,984 | |
| Other liabilities & provisions , of which | - | 98,688 | |
| - Stage 3 provision | - | (39) | |
| - Stage 1 / 2 provision, of which | - | (1,665) | |
| - amount eligible for T2 | - | - | |
| - amount ineligible for T2 | - | (1,665) | |
| **TOTAL** | **3,318,345** | **3,318,345** | |

## Step 3: Step Reconciliation of Regulatory Capital:

| | **Common Equity Tier 1 capital: instruments and reserves (RO' 000)** | | |
|---|---|---|---|
| | **For the year ended 31 December 2023** | **Component of regulatory capital reported by Bank** | **Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from step 2** |
| 1 | Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus | 244,966 | a |
| 2 | Retained earnings | 61,601 | c |
| 3 | Accumulated other comprehensive income (and other reserves) | 43,858 | b |
| 4 | **Common Equity Tier 1 capital before regulatory adjustments** | **350,425** | |
| 5 | Prudential valuation adjustments | (7,430) | 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** | **(7,430)** | |
| 8 | **Common Equity Tier 1 capital (CET1)** | **342,995** | |

| | | | |
|---|---|---|---|
| 9 | Additional Tier 1 capital (AT1) | 149,000 | f |
| | **Tier 1 capital (T1 = CET1 + AT1)** | **491,995** | |
| | | | |
| 10 | Directly issued qualifying Tier 2 instruments plus related stock surplus | - | h |
| 11 | Expected credit loss allowance / Provisions | 11,453 | |
| 12 | Fair value reserve of FVOCI investments | 1,014 | i |
| | **Tier 2 capital before regulatory adjustments** | **12,467** | |
| | **Tier 2 capital: regulatory adjustments** | **-** | |
| | **Tier 2 capital (T2)** | **12,467** | |
| **Total capital (TC = T1 + T2)** | | **504,462** | |

## 11.2 MAIN FEATURES OF REGULATORY CAPITAL

Table below discloses the key features of all the regulatory capital issued by the Bank;

| 1 | Ahli Bank SAOG | Common Equity Share Capital | 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 |
| 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 |
| 4 | Transitional Basel III rules | Common Equity Tier 1 | Additional Tier I | Additional Tier I | Additional Tier I |
| 5 | Post-transitional Basel III rules | Common Equity Tier 1 | Eligible | Eligible | Eligible |
| 6 | Eligible at solo/group/ group & solo | Solo | Solo | Solo | Solo |
| 7 | Instrument type (types to be specified by each jurisdiction) | Common Equity Share Capital | Private placement | Rights Issue of Perpetual Subordinated bonds | Private placement |
| 8 | Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date) | RO 244.966 million | RO 20 million | RO 75 million | RO 54 million |
| 9 | Par value of instrument | RO 244.966 million | RO 20 million | RO 75 million | RO 54 million |
| 10 | Accounting classification | Shareholders' Equity | Equity | Equity | Equity |
| 11 | Original date of issuance | Bank started operations in 1997 | 13-June-2019 | 11-August-2022 | 25-December-2023 |
| 12 | Perpetual or dated | Perpetual | Perpetual | Perpetual | Perpetual |
| 13 | Original maturity date | No maturity | No maturity | No maturity | No maturity |
| 14 | Issuer call subject to prior supervisory approval | No | Yes | Yes | Yes |
| 15 | Optional call date, contingent call dates and redemption amount | 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 | | | |
| | Coupons / dividends | | | | |
| 17 | Fixed or floating dividend/coupon | Floating | Fixed | Fixed | Fixed |
| 18 | Coupon rate and any related index | NA | 7.50% | 7.50% | 7.50% |
| 19 | Existence of a dividend stopper | NA | NA | NA | NA |
| 20 | Fully discretionary, partially discretionary or mandatory | Fully discretionary | Fully discretionary | Fully discretionary | Fully discretionary |
| 21 | Existence of step up or other incentive to redeem | No | NA | NA | NA |
| 22 | Noncumulative or cumulative | Noncumulative | Noncumulative | Noncumulative | Noncumulative |
| 23 | Convertible or non-convertible | Non-convertible | Non-convertible | Non-convertible | Non-convertible |
| 24 | If convertible, conversion trigger (s) | NA | NA | NA | NA |
| 25 | If convertible, fully or partially | NA | NA | NA | NA |
| 26 | If convertible, conversion rate | NA | NA | NA | NA |
| 27 | If convertible, mandatory or optional conversion | NA | NA | NA | NA |
| 28 | If convertible, specify instrument type convertible into | NA | NA | NA | NA |
| 29 | If convertible, specify issuer of instrument it converts into | NA | NA | NA | NA |
| 30 | Write-down feature | Yes | Yes | Yes | Yes |
| 31 | If write-down, write-down trigger(s) | Statutory approach | Statutory approach | Statutory approach | Statutory approach |
| 32 | If write-down, full or partial | Write down fully | Full or partial | Full or partial | Full or partial |
| 33 | If write-down, permanent or temporary | Permanent | Permanent | Permanent | Permanent |
| 34 | If temporary write-down, description of write-up mechanism | NA | NA | NA | NA |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | NA | 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 |
| 37 | If yes, specify non-compliant features | NA | NA | NA | NA |

## 12. BASEL III LIQUIDITY DISCLOSURES

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) | 326,980 | 326,980 |
| **Cash Outflows** | | | |
| 2 | Retail deposits and deposits from small business customers, of which: | 987,165 | 47,253 |
| 3 | Stable deposits | 23,522 | 706 |
| 4 | Less stable deposits | 963,643 | 46,547 |
| 5 | Unsecured wholesale funding, of which: | 839,064 | 404,286 |
| 6 | Operational deposits (all counterparties) and deposits in networks of cooperative banks | 1,899 | 475 |
| 7 | Non-operational deposits (all counterparties) | 688,860 | 255,506 |
| 8 | Unsecured debt | 148,305 | 148,305 |
| 9 | Secured wholesale funding | - | - |
| 10 | Additional requirements, of which | | |
| 11 | Outflows related to derivative exposures and other collateral requirements | 142,289 | 142,289 |
| 12 | Outflows related to loss of funding on debt products | - | - |
| 13 | Credit and liquidity facilities | 16,639 | 1,664 |
| 14 | Other contractual funding obligations | | |
| 15 | Other contingent funding obligations | 45,974 | 2,299 |
| 16 | **TOTAL CASH OUTFLOWS** | **2,031,131** | **597,791** |
| **Cash Inflows** | | | |
| 17 | Secured lending (e.g. reverse repos) | | |
| 18 | Inflows from fully performing exposures | 333,789 | 250,757 |
| 19 | Other cash inflows | 171,878 | 142,289 |
| 20 | **TOTAL CASH INFLOWS** | **505,667** | **393,046** |
| | | | |
| 21 | **TOTAL HQLA** | | **326,980** |
| 22 | **TOTAL NET CASH OUTFLOWS** | | **204,743** |
| 23 | **LIQUIDITY COVERAGE RATIO (%)** | | **159.70%** |

## 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 2023.**

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 | 504,462 | - | - | - | 504,462 |
| 2 | Regulatory Capital | 504,462 | - | - | - | 504,462 |
| 3 | Other Capital Instruments | - | - | - | - | - |
| 4 | **Retail Deposits and Deposits from small Business Customers** | 516,052 | 143,730 | 187,782 | 228,226 | 998,329 |
| 5 | Stable Deposit | 141,034 | 2,477 | 2,395 | 2,059 | 140,670 |
| 6 | Less Stable Deposit | 375,018 | 141,253 | 185,387 | 226,167 | 857,659 |
| 7 | **Wholesale Funding** | 618,419 | 177,635 | 301,652 | 314,511 | 863,365 |
| 8 | Operational | 2,044 | - | - | - | 1,022 |
| 9 | Other Wholesale Funding | 616,375 | 177,635 | 301,652 | 314,511 | 862,343 |
| 10 | **Liabilities with matching interdependent Assets** | | | | | |
| 11 | **Other Liabilities** | - | - | - | 38,500 | 38,500 |
| 12 | NSFR Derivative Liability | - | - | - | - | - |
| 13 | All other liabilities and equities not included in above categories | 283,024 | - | - | 38,500 | - |
| 14 | **Total ASF** | - | | | | 2,404,656 |
| **RSF ITEM** | | | | | | |
| 15 | **Total NSFR high-quality liquid assets (HQLA)** | - | | | | 10,656 |
| 16 | **Deposits held at other financial institutions for operational purposes** | 41,656 | - | - | - | 20,828 |
| 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 | - | 153,010 | 51,151 | - | 48,527 |
| 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 | - | - | - | 1,741,013 | 1,479,861 |
| 21 | With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk | 93,032 | 411,274 | 95,589 | - | 299,948 |
| 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 | - | - | - | 124,562 | 80,965 |
| 24 | Securities that are not in default and do not qualify as HQLA, including exchange-traded equities | - | - | - | 78,285 | 66,542 |
| 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 | - | (32) | 69 | 32 | 68 |
| 30 | NSFR derivative liabilities before deduction of variation margin posted | - | - | - | - | - |
| 31 | All other assets not included in the above categories | - | - | - | 97,497 | 97,497 |
| 32 | **Off-balance sheet items** | - | 125,318 | 37,965 | 61,835 | 11,256 |
| 33 | **Total RSF** | - | - | - | - | 2,116,149 |
| 34 | **NET STABLE FUNDING RATIO** | - | - | - | - | 113.63% |

## 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 | 3,318,345 | 3,153,830 |
| 2 | Adjustments for derivative financial instruments | 4,552 | 6,526 |
| 3 | Adjustment for securities financing transactions (i.e., repos and similar secured lending) | 11,893 | 11,444 |
| 4 | Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures) | 93,556 | 99,490 |
| 5 | Other adjustments | - | - |
| **6** | **Leverage ratio exposure** | **3,428,346** | **3,271,290** |

**Table 2: Leverage ratio common disclosure template**

| | Item | Current Quarter | Previous Quarter |
|---|---|---|---|
| 1 | On-balance sheet items (excluding derivatives and SFTs, but including collateral) | 3,318,345 | 3,153,830 |
| 3 | **Total on-balance sheet exposures** (excluding derivatives and SFTs) (sum of lines 1 and 2) | 3,318,345 | 3,153,830 |
| | Derivative Exposures | | |
| 4 | Replacement cost associated with all derivatives transactions (i.e., net of eligible cash variation margin) | 2,224 | 4,287 |
| 5 | Add-on amounts for PFE associated with all derivatives transactions | 2,328 | 2,239 |
| 11 | Total derivative exposures (sum of lines 4 to 10) | **4,552** | **6,526** |
| | **Securities financing transaction exposures** | | |
| 12 | Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions | 8,250 | 8,250 |
| 14 | CCR exposure for SFT assets | 3,643 | 3,194 |
| 16 | **Total securities financing transaction exposures (sum of lines 12 to 15)** | **11,893** | **11,444** |
| | **Other Off-balance sheet exposures** | | |
| 17 | Off-balance sheet exposure at gross notional amount | 162,596 | 169,761 |
| 18 | (Adjustments for conversion to credit equivalent amounts) | (69,040) | (70,271) |
| 19 | **Off-balance sheet items (sum of lines 17 and 18)** | **93,556** | **99,490** |
| | **Capital and total exposures** | | |
| 20 | **Tier 1 capital** | **491,995** | **475,701** |
| 21 | **Total exposures (sum of lines 3, 11, 16 and 19)** | **3,428,346** | **3,271,290** |
| | **Leverage Ratio** | | |
| 22 | **Basel III leverage ratio (%)** | **14.35%** | **14.50%** |

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

The Basel II, Pillar III report is prepared in accordance with the requirements of Basel II, Pillar III disclosures as set out in the CBO circulars BM1009 and BM1027.

Basel III capital and liquidity disclosures are prepared in accordance with CBO Circular BM 1114 'Regulatory Capital and Composition of Capital Disclosure Requirements under Basel III' issued on 17 November 2013, CBO circular dated March 20, 2018 and BM 1127 'Basel III – Framework on Liquidity Coverage Ratio (LCR) and LCR disclosure standard' issued on 24 December 2014, respectively. The NSFR disclosure has been prepared in accordance to CBO Circular reference BM 1147 dated 26 October 2016. The Bank's disclosure on leverage was prepared as per CBO circular on leverage ratio, issued on 27 August 2017 and CBO circular No. BM 1157 on Implementation of Basel III Leverage Ratio Standard dated 30 December 2018.

For ahli Bank SAOG

Hamdan Ali Nasser Al Hinai
Chairman

Date: 29 January 2024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# AHLI ISLAMIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

In the name of Allah, The Beneficent, The Merciful

**Ahli Islamic, Ahli Bank SAOG**

**Shari'a Supervisory Board Report**

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

**To the Board of Directors of Ahli Bank SAOG**

*Assalam Alikum wa Ramat Allah wa Barakatuh*

Shari'a Supervisory Board has reviewed the products and the contracts relating to the transactions which were made by Ahli Islamic, Ahli Bank SAOG (the "Bank") during the period (01.01.2023 to 31.12-2023) ended 2023 to ensure that they comply with the *Fatawa* issued by the Board as per Sharia rules and principles.

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

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

In opinion of the Board:

1. The contracts, transactions and dealings entered into by the Bank during the year ended 2023 are in compliance with Shari'a rules and principles.
2. The distribution of profit and charging of losses relating to investment accounts conform to the base that had been approved by the Shari'a Supervisory Board of the Bank in accordance with rules and principles of Islamic Shari'a.
3. All earning that has been realized from sources or by means prohibited by rules and principles of Islamic Shari'a have been disposed of by the management of the Bank to charitable causes,
4. The calculation of *Zakah* is in compliance with Shari'a rules and principles.

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

<u>Sharia Supervisory Board</u>

**Sheikh Dr. Mohammed Taher Al-Ibrahim (Chairman)**

**Sheikh Dr. Mustain Ali Abdul Hameed (Deputy Chairman)**

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

## SSB Resolution during year 2023

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

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

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**In the Name of Allah, the Merciful, the Compassionate**

**Fatwa of Shari'a Supervisory Board on**

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

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

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

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

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

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

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

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

(a) Profit income received by the Fund; and

(b) Realized or unrealized gains derived by the Fund.

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

And Allah knows what is right.

**Sharia Supervisory Board**

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

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

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

الأهلي الإسلامي
ahli islamic

**In the Name of Allah, the Merciful, the Compassionate**

**Fatwa of Shari'a Supervisory Board on**

**Purchase of Shares and their Shari'a Compliance**

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

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

**1.0. Shares and their Trading**

1.1. A share represents an undivided share in the capital of a corporation, just as it represents an undivided share in its assets and the rights associated with it upon conversion of the capital into tangible things, benefits, debts and so on.

1.2. It is permissible to buy and sell shares of corporations, on a spot or deferred basis, in which delay is permissible, if the activity of the corporation is permissible irrespective of its being an investment (that is, the share is acquired with the aim of profiting from it) or dealing in it (that is, with the intention of benefiting from the difference in prices).

1.3. The fundamental rule is that of prohibition of acquiring shares and transactions (investment and trading) in the shares of corporations that sometimes undertake transactions in Riba and other prohibited things even when their primary activity is permissible, but from this rule subscription and transactions (investment or trading) are exempted with the following conditions:

1.3.1. That the corporation does not state in its memorandum of association that one of its objectives is to deal in interest, or in prohibited goods or materials like pork (swine) and the like[1].

---

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

i. Advertising
   - Advertisers of pork, alcohol, gambling, tobacco, and all other non-Islamic activities.
   - Advertising means and modes which contravene the tenets of Islam

ii. Media & Entertainment
   - Producers, distributors and broadcasters of music, movies, television shows and musical radio shows
   - Cinema operators except News Channels, Newspapers, Sports Channels, Children's Channels, Educational Channels.

iii. Alcohol

iv. Financial Services, except:
   - o Islamic Banks,
   - o Islamic Financial Institutions,
   - o Islamic Insurance Companies and
   - o Defined as a company having:
     - ➢ Shariah Committee or Shariah scholar to supervise all activities
     - ➢ All products are Islamic
     - ➢ All investments and non-operating business activities of the company are Islamic
     - ➢ Passes the criteria mentioned in this resolution.

v. Gambling

vi. Pork related activities

vii. Pornography

viii. Tobacco and electronic cigarettes/vaping products

ix. Recreational cannabis, including products derived from cannabis used recreationally

x. Cannabis-based products which are produced, sold and consumed under medical supervision for health reasons are considered compliant

xi. Trading of gold and silver as cash on deferred basis

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

1.3.2. That the collective amount raised as loan on interest – whether long-term or short-term debt – does not exceed 33% of the market capitalization of the corporation, knowingly that raising loans on interest is prohibited whatsoever the amount is. In case this percentage is higher with minor percentage then the SSB will review the case in view of minimal percentage of Shari'a non-compliant income from prohibited activity stated in point 3 below, cash in hand and overall business activity perspective, whether Shari'a exception can be given.

1.3.4. That the amount of income generated from prohibited component does not exceed 5% of the total income of the corporation irrespective of the income being generated by undertaking a prohibited activity, by ownership of a prohibited asset or in some other way. If a source of income is not properly disclosed then more effort is to be exerted for identification thereof giving due care and caution in this respect.

1.3.5. It is essential for the investing bank to purify the prohibited income of the forbidden element.

**2.0. Elimination of Prohibited Income**

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

2.1.1. The elimination of prohibited income is obligatory on one who is the owner of the share, whether an investor or a trader, at the end of the financial period, even if the payment is due at the time of issuance of the final financial statements whether quarterly, annual or for other period. Accordingly, elimination is not obligatory for one who sells the shares before the end of the financial period.

2.1.2. The subject-matter of elimination is the prohibited income specific to the share whether or not the profits have been distributed and whether or not the corporation has declared a profit or suffered a loss.

2.1.3. Elimination is not obligatory for the intermediary, agent or manager out of part of their commission or wages, because this is their right in lieu of the work they have undertaken.

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

**3.0. Purification Process**

3.1. Purification is based on two things:

3.1.1 The first element is the benefit of the interest-based loan in the event that the bank or financial institution borrows with interest.

3.1.2 The second element is the forbidden revenue, whatever its source.

3.2. The purification is as follows:

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

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

3.2.2. In the event that there is a prohibited income, the entire amount of the prohibited income must be set aside, regardless of the source from which it came, whether or not profits were made, and whether profits were distributed or not. And if the revenue is not known precisely, it must be calculated approximately in order to discharge the obligation of the dealer.

3.2.3. As for the way to get rid of the forbidden element, it is by dividing the total forbidden revenue of the company whose shares are dealt with by the number of shares of that company, so what pertains to each share is obtained, then the result is multiplied by the number of shares owned by that dealer (whether it is an individual, company, fund, etc.,). The result of that equation is the amount that must be disposed of.

3.2.4. It is not permissible to benefit from the prohibited element in any way, nor to employ it as fictional device (Hilah) in any way, so the dealer does not calculate it from his zakat or from his own charity, nor pay tax from it, nor use it in advertising, or anything else.

3.2.5. The responsibility for getting rid of the prohibited element rests with the investor (investing bank or individual) if it deals for itself or if it manages an investment fund or portfolio.

## 4.0. Shari'a Monitoring and Compliance

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

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

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

[(Total Interest - Bearing Debt)/(12 months Average Capital Cap)] x 100

Threshold: 33 percent

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

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

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

Threshold: 33 percent

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

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

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

Dividends x (Non-Permissible Revenue / Total Revenue)

And Allah knows what is right.

**Sharia Supervisory Board**

**Dr. Mohammed Taher Al-Ibrahim**

**(Chairman of SSB)**

**Dr. Mustain Ali Abdul Hameed**

**(Deputy Chairman of SSB)**

**Dr. Abdul Raouf Abdullah Al-Tobi**

**(SSB Member)**

In the Name of Allah, the Merciful, the Compassionate

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

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

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

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

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

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

**SSB Opinion**

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

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

**And based on the above**:

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

And Allah knows what is right.

**Sharia Supervisory Board**

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

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

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

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

**In the Name of Allah, the Merciful, the Compassionate**

**Fatwa of Shari’a Supervisory Board on**

**Running Muasharaka Financing Product**

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

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

**The SSB Opinion:**

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

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

And all praise is due to Allah.

**Shari'a Supervisory Board**

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

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

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

**In the Name of Allah, the Merciful, the Compassionate**

**Fatwa of Shari'a Supervisory Board on**

**Bills Financing Product**

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

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

**The SSB Opinion:**

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

And all praise is due to Allah.

**Shari'a Supervisory Board**

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

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

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

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



## Report on the audit of the financial statements

### Opinion

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

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

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

### Basis for opinion

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions ("ASIFI") issued by AAOIFI. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Islamic Window in accordance with the AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions, and we have fulfilled our other ethical responsibilities in accordance with this Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other matter

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

### Other information

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

**Other information (continued)**

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

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

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

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

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

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

**Auditor's responsibilities for the audit of the financial statements**

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

As part of an audit in accordance with AAOIFI, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

Deloitte.

## 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 appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

Deloitte & Touche

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

# STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2023

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

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

**Hamdan Ali Nasser Al Hinai**
**Chairman**

**Said Abdullah Al Hatmi**
**Chief Executive Officer**

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

# STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 31 DECEMBER 2023

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

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

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

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

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

# STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2023

| 2022 US$ '000 | 2023 US$ '000 | | Note | 2023 RO '000 | 2022 RO '000 |
|---|---|---|---|---|---|
| | | **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| 3,850 | 21,584 | **Profit for the year** | | 8,310 | 1,482 |
| | | Adjustments for: | | | |
| 1,945 | 2,535 | Depreciation - property and equipment | 17 | 976 | 749 |
| 14,197 | 4,413 | Net impairment on financial assets | | 1,699 | 5,466 |
| (75) | (621) | Gain on sale of investment | | (239) | (29) |
| 19,917 | 27,911 | **Operating profit before change in operating assets and liabilities** | | 10,746 | 7,668 |
| (11,052) | (7,592) | Increase in Murabaha receivables | | (2,923) | (4,255) |
| (310,309) | 33,151 | (Increase)/Decrease in Musharaka receivables | | 12,763 | (119,469) |
| (2,179) | (3,036) | Increase in Service ijarah receivables | | (1,169) | (839) |
| (577) | (686) | Increase in Credit card receivables | | (264) | (222) |
| (57) | (91,083) | Increase in Wakala bil Istithmar | | (35,067) | (22) |
| - | (13,117) | Increase in Istisna Receivable | | (5,050) | - |
| - | (192) | Increase in Qard Hassan Financing | | (74) | - |
| - | (99,000) | Increase in Wakala Placements | | (38,115) | - |
| 10,348 | (1,626) | (Increase)/Decrease in other assets | | (626) | 3,984 |
| 2,065 | (2,242) | (Decrease)/Increase in due to banks | | (863) | 795 |
| 37,070 | (8,699) | (Decrease)/Increase in customers' current accounts | | (3,349) | 14,272 |
| 2,017 | 8,195 | Increase in other liabilities | | 3,155 | 776 |
| 171,706 | 318,013 | Increase in equity of investment account holders | | 122,435 | 66,107 |
| (81,051) | 159,997 | **Cash generated from (used in) operations** | | 61,599 | (31,205) |
| | | **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| 71,631 | 5,218 | Decrease in Investment in Ijarah assets - Ijarah Muntahia Bittamleek | | 2,009 | 27,578 |
| (42,234) | (31,919) | Purchase of investments | | (12,289) | (16,232) |
| - | 2,119 | Proceeds from sale/maturity of investments | | 816 | - |
| (1,492) | (7,163) | Purchase of Property, equipment and Intangibles | 17 | (2,755) | (575) |
| 27,905 | (31,745) | **Net cash (used in) generated from investing activities** | | (12,219) | 10,771 |
| | | **CASH FLOWS FROM FINANCING ACTIVITY** | | | |
| - | 25,974 | Proceeds from allocation of capital | | 10,000 | - |
| (1,266) | (1,345) | Repayment of principal of lease liabilities | | (518) | (488) |
| (1,266) | 24,629 | **Net cash generated/(used in) from financing activity** | | 9,482 | (488) |
| (54,337) | 152,881 | **NET CHANGE IN CASH AND CASH EQUIVALENTS** | | 58,862 | (20,922) |
| 107,027 | 52,690 | Cash and cash equivalents at 1 January | | 20,283 | 41,205 |
| 52,690 | 205,571 | **CASH AND CASH EQUIVALENTS AT 31 DECEMBER (Refer below)** | | 79,145 | 20,283 |

| 2022 US$ 000 | 2023 US$ 000 | | | 2023 RO '000 | 2022 RO '000 |
|---|---|---|---|---|---|
| 49,708 | 203,740 | Cash and current balances with Central Bank of Oman | 6 | 78,440 | 19,135 |
| 2,982 | 1,831 | Due from banks | 7 | 705 | 1,148 |
| 52,690 | 205,571 | **Cash and cash equivalents** | | 79,145 | 20,283 |

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

| 2022 US$ '000 | 2023 US$ '000 | | Note | 2023 RO '000 | 2022 RO '000 |
|---|---|---|---|---|---|
| | | **Sources of charity fund** | | | |
| 3 | **4** | Fund at the beginning of the year | | **2** | 1 |
| 10 | **3** | Penalties to customer for late payment | | **1** | 4 |
| 5 | **5** | Sharia Non-compliant income | | **2** | 2 |
| 18 | **12** | | | **5** | 7 |
| | | **Uses of charity fund** | | | |
| | | Distributed to charity organizations | | | |
| - | **1** | Association for Early Intervention for children with disabilities | | **0.3** | - |
| - | **1** | Oman Cancer Association | | **0.3** | - |
| - | **1** | Oman Hereditary Blood Disorder Association | | **0.3** | - |
| - | **1** | Oman Diabetes Association | | **0.3** | - |
| - | **1** | Oman Autism Association | | **0.3** | - |
| - | **1** | Oman Association for Hearing Impaired | | **0.3** | - |
| 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 |
| 14 | **6** | Total uses of charity fund during the year | | **2** | 5 |
| 4 | **6** | **Undistributed charity fund at the end of the year** | 20 | **3** | 2 |

The accompanying notes form an integral part of these financial statements

# NOTES TO THE FINANCIAL STATEMENTS
**FOR THE YEAR ENDED 31 DECEMBER 2023**

## 1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Ahli Islamic (The Islamic Window) was licensed by Central Bank of Oman (CBO) to operate as an Islamic Banking Window of Ahli Bank SAOG (The Bank). The Islamic Window offers a full range of Islamic banking services and products. The principal activities of the Islamic Window include accepting Sharia compliant Istisna, Qard Hassan, customer deposits, providing Sharia compliant financing based on Murabaha, Wakala, Musharaka, Ijarah, and undertaking investment activities and providing commercial banking services and other investment activities permitted under the Islamic Banking Regulatory Framework (IBRF) issued by the CBO. The Islamic Window was operating through a network of twenty two branches as at year end (31 December 2022: nineteen branches).

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

## 2 BASIS OF PREPARATION

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

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

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

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

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

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

## 3 STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

The revised FAS 1 supersedes the earlier FAS 1 General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions and introduces the concepts of quasi equity, off balance sheet assets under management and other comprehensive income to enhance the information provided to the users of the financial statements.

#### 3.1.1 FAS 39 Financial Reporting for Zakah

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

#### 3.1.2 FAS 44

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

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

#### 3.2.1 FAS 40 Financial Reporting for Islamic Finance Windows

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

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

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

#### 3.2.3 FAS 43 Accounting for Takaful: Recognition and Measurement

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

#### 3.2.4 FAS 45 Quasi-equity including investment accounts

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

#### 3.2.5 FAS 46 Off-Balance sheet assets under management

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

**3.2.6 FAS 47 Transfer of Assets between investment pools**

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

## 4 SIGNIFICANT ACCOUNTING POLICIES

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

### 4.1 Foreign currency translation

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

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

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

### 4.2 Cash and cash equivalents

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

### 4.3 Murabaha receivable

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

### 4.4 Musharaka

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

### 4.5 Wakala bil Istithmar

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

#### Wakala Investment Accounting

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

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

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

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

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

Wakala - Agency Accounting

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

### 4.6 Ijarah assets – Ijarah Muntahia Bittamleek

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

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

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

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

### 4.7 Investments

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

Classification

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

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

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

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

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

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

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

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

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

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

## Measurement

### Initial recognition

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

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

### Subsequent measurement

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

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

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

## Measurement principles

### Amortised cost measurement

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

## Fair value measurement

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

### 4.8 Credit Cards

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

### 4.9 Service Ijarah

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

### 4.10 Istisna receivable

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

### 4.11 Qard Hasan

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

### 4.12 Property, equipment and Intangibles

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

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

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

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

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

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

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

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

### 4.13 Customers' current accounts

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

### 4.14 Equity of investment account holders

Equity of investment accountholders (IAH) are funds held by the Islamic Window in pool of unrestricted investment account, which is invested by the Islamic Window ('Mudarib') in its own discretion. These include funds raised under Mudaraba contracts and Wakala contracts. The funds received under the Wakala arrangement is invested in the investment pool and is considered as investment made by an investment account holder. Under both the Mudaraba and a comingled Wakala arrangement, the investment 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.

## 4.15 Profit equalisation reserve

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

## 4.16 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.

## 4.17 Revenue recognition

### 4.17.1 Murabaha

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

### 4.17.2 Musharaka

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

### 4.17.3 Ijarah

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

### 4.17.4 Wakala bil Istithmar

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

### 4.17.5 Income from investments

Income from investments is recognised when earned.

### 4.17.6 Istisna

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

### 4.17.7 Service Ijarah

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

### 4.17.8 Dividend

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

### 4.17.9 Fee and commissions

Fee and commission income recognised when earned.

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

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

#### 4.17.10 Islamic Window share as a Mudarib

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

#### 4.17.11 Profit suspension

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

### 4.18 Provisions

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

### 4.19 Taxation

Taxation is calculated and paid by the Bank on an overall basis. Taxation expense in these financial statements represents allocation of such taxation to the Islamic Window. The notional tax expense on the Islamic Window result for the year at the statutory effective tax rate would amount to RO 1.247 Mn (2022: (0.221Mn)).

### 4.20 Impairment of Financial Contracts

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

#### Impairment assessment- ECL

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

#### Measurement of ECL

The measurement of ECL reflects:

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

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

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

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

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

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

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

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

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

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

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

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

Details of these statistical parameters/inputs are as follows:

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

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

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

### Presentation of allowance for ECL in the statement of financial position

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

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

### Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial assets are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition.

### Write off

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

### 4.21 Fair value

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

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

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

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

### 4.22 De-recognition of financial assets and liabilities

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

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

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

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

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

### 4.23 Employee terminal benefits

#### 4.23.1 Terminal benefits

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

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

#### 4.23.2 Short term benefits

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

### 4.24 Earnings prohibited by Sharia

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

### 4.25 Zakah

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

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

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

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

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

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

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

## 5 Critical accounting estimates and judgements

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

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

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

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

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

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

## 6 CASH AND BALANCES WITH CENTRAL BANK OF OMAN

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

## 7 DUE FROM BANKS

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

## 8 MURABAHA RECEIVABLES

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

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

### 8.1 DEFERRED PROFIT

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

## 9 WAKALA BIL ISTITHMAR

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

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

## 10 MUSHARAKA RECEIVABLES

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

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

## 11 INVESTMENT SECURITIES

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

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

## 12 IJARAH ASSETS - IJARAH MUNTAHIA BITTAMLEEK

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

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

## 13 CREDIT CARD RECEIVABLES

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

## 14 SERVICE IJARAH

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

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

## 15 ISTISNA RECEIVABLE

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

## 16 QARD HASSAN FINANCING

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

## 16.1 FINANCING ACTIVITIES

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

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

Disclosure requirements for the year ended 31 December 2023, containing the risk classification-wise gross and net amount outstanding, provision required as per CBO norms, allowance made as per IFRS 9, profit recognised as per IFRS 9 and suspended profit required as per CBO are given below based on CBO circular BM 1149.

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

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

## 16.2 Restructured Loans **

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

**Net of provisions and suspended profit as per CBO norms*

## 16.3 Impairment charge and provisions held

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

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

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

**** CBO provision does not include suspended profit*

## 16.4 FINANCING ACTIVITIES

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

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

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

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

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

### 16.5 Restructured Loans

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

**Net of provisions and suspended profit as per CBO norms*

### 16.6 Impairment charge and provisions held

| | As per CBO Norms*** | As per IFRS 9 | Difference |
|---|---|---|---|
| Impairment loss charged to profit and loss account | 1,982 | 1,982 | - |
| Provisions required as per CBO norms/ held as per IFRS 9 | 17,254 | 14,359 | 5,126 |
| Gross NPL ratio (percentage) | 3.54% | 3.54% | - |
| Net NPL ratio (percentage) | 0.58% | 1.98% | -1.40% |

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

**** CBO provisions does not include suspended profit*

## 17 Property, equipment and Intangibles

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

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

## 18 OTHER ASSETS

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

## 19 DUE TO BANKS

| 2022 US$ '000 | 2023 US$ '000 | | 2023 RO '000 | 2022 RO '000 |
|---|---|---|---|---|
| 2,262 | **21** | Vostro account balances | **8** | 871 |
| 2,262 | **21** | | **8** | 871 |

## 20 OTHER LIABILITIES

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

## 21 EQUITY OF INVESTMENT ACCOUNT HOLDERS

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

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

## 22 SHARE CAPITAL

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

## 23 CONTINGENT LIABILITIES AND COMMITMENTS

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

## 24 INCOME FROM FINANCING ACTIVITIES

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

## 25 INCOME FROM INVESTING ACTIVITIES

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

## 26 OTHER OPERATING INCOME

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

## 27 RETURN TO INVESTMENT ACCOUNT HOLDERS

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

## 28 STAFF EXPENSES

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

## 29 OTHER OPERATING EXPENSES

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

## 30 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.

## 31 RELATED PARTY TRANSACTIONS

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

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

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

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

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

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

## 32 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The fair value of investments classified as fair value through equity as at 31 December 2023 is RO 62.052 million equivalent to US$ 161.17 million (31 December 2022 is RO 50.510 million equivalent to US$ 131.19 million) with cost amounts to RO 51.229 million equivalent to US$ 133.06 million (31 December 2022: RO 34.969 million equivalent to US$ 90.83 million).

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

**Valuation of financial instruments:**

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

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

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

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

| | 2023 | 2023 | 2023 | 2022 | 2022 | 2022 |
|---|---|---|---|---|---|---|
| | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 |
| | Level 1 | Level 2 | Total | Level 1 | Level 2 | Total |
| **Financial assets** | | | | | | |
| Investment - debt type instruments at fair value through equity | 49,192 | - | 49,192 | 45,237 | - | 45,237 |
| Investment - equity type instrument at fair value through equity | 12,860 | - | 12,860 | 5,273 | - | 5,273 |
| | 62,052 | - | 62,052 | 50,510 | - | 50,510 |
| **Financial assets** | US$ '000 | US$ '000 | US$ '000 | US$ '000 | US$ '000 | US$ '000 |
| Investment - debt type instruments at fair value through equity | 127,771 | - | 127,771 | 117,500 | - | 117,500 |
| Investment - equity type instrument at fair value through equity | 33,403 | - | 33,403 | 13,695 | - | 13,695 |
| | 161,174 | - | 161,174 | 131,195 | - | 131,195 |

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

## 33 FINANCIAL RISK MANAGEMENT

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

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

### 33.1 CREDIT RISK

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

### 33.1.1 TYPE OF CREDIT RISK

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

### 33.1.1.1 MURABAHA RECEIVABLE

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

### 33.1.1.2 MUSHARAKA

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

### 33.1.1.3 IJARAH - IJARAH MUNTAHIA BITTAMLEEK

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

### 33.1.1.4 SERVICE IJARAH

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

### 33.1.1.5 CREDIT CARD RECIEVABLES

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

### 33.1.1.6 WAKALA BIL ISTITHMAR

This is an investment in which the Islamic window, in its capacity as the "Muwakil" (principle) appoints the customer as "Wakeel" (Agent) to manage the invested funds in Sharia 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.

### 33.1.2 Credit risk measurement

**(a) Financings (including Loan commitments and guarantees)**

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

**(b) Credit risk grading**

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

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

## 33.1.3 Exposure to credit risk

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

| | 2023 | | | | 2022 |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Total |
| | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 |
| Clearing account with Central Bank of Oman | 71,350 | - | - | 71,350 | 14,421 |
| Due from banks | 38,820 | - | - | 38,820 | 1,148 |
| Financing to customers - Gross | 458,568 | 44,454 | 18,885 | 521,907 | 492,132 |
| Investment securities | 56,770 | - | - | 56,769 | 50,237 |
| Financing Commitments and financial guarantees | 41,842 | 12,387 | - | 54,229 | 21,405 |
| Other assets | | | 142 | 142 | 84 |
| **Gross carrying amount** | 667,349 | 56,841 | 19,027 | 743,217 | 579,427 |
| **Impairment loss allowance** | 1,470 | 2,772 | 12,257 | 16,499 | 14,359 |
| **Carrying amount** | 665,880 | 54,069 | 6,770 | 726,718 | 565,068 |

| | 2023 | | | | 2022 |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total | Total |
| | US$ '000 | US$ '000 | US$ '000 | US$ '000 | US$ '000 |
| Clearing account with Central Bank of Oman | 185,325 | - | - | 185,325 | 37,457 |
| Due from banks | 100,831 | - | - | 100,831 | 2,982 |
| Financing to customers - Gross | 1,191,086 | 115,465 | 49,052 | 1,355,603 | 1,278,265 |
| Investment securities | 147,455 | - | - | 147,452 | 130,486 |
| Financing Commitments and financial guarantees | 108,681 | 32,174 | - | 140,855 | 55,597 |
| Other assets | | | 369 | 369 | 218 |
| **Gross carrying amount** | 1,733,378 | 147,639 | 49,421 | 1,930,435 | 1,505,005 |
| **Impairment loss allowance** | 3,818 | 7,200 | 31,836 | 42,854 | 37,296 |
| **Carrying amount** | 1,729,560 | 140,439 | 17,585 | 1,887,581 | 1,467,709 |

### IMPAIRED FINANCING

The collateral held against impaired financing is RO 30.123 million equivalent to US$ 78.242 million (31 December 2022 RO 27.727 million equivalent to US$ 72.018 million).

### Overview of ECL principles

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

## 33.1.4 Expected credit loss measurement

### Overview of ECL principles

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

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

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

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

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

Stage 3
Financing exposure considered credit impaired. The Islamic Window records an allowance for lifetime ECLs.

**Measurement of ECL**

The key inputs into the measurement of ECL are given in note 4.20

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

**ECL Exposure of financial assets and off-balance sheet**

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

**Movement in Impairment allowance and provision**

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| | RO '000 | RO '000 | RO '000 | RO '000 |
| **Opening balance as at 1 January 2023** | | | | |
| Financings | 1,658 | 4,208 | 7,597 | 13,463 |
| Investment Securities & Due from Banks | 11 | - | - | 11 |
| Financing commitments and financial guarantees | 14 | 787 | - | 801 |
| Other assets | - | - | 84 | 84 |
| **Net transfer between stages** | | | | |
| Financings | (217) | 185 | 32 | - |
| Investment Securities & Due from Banks | - | - | - | - |
| Financing commitments and financial guarantees | - | - | - | - |
| Other assets | - | - | - | - |
| **Charge for the Year (net)** | | | | |
| Financings | (85) | (2,426) | 4,486 | 1,975 |
| Investment Securities & Due from Banks | 56 | - | - | 56 |
| Financing commitments and financial guarantees | 33 | 18 | - | 51 |
| Other assets | - | - | 58 | 58 |
| **Closing balance as at 31 December 2023** | | | | |
| Financings | 1,356 | 1,967 | 12,115 | 15,438 |
| Investment Securities & Due from Banks | 67 | - | - | 67 |
| Financing commitments and financial guarantees | 47 | 805 | - | 852 |
| Other assets | - | - | 142 | 142 |

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

### 33.1.5 Significant increase in credit risk (SICR)

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Islamic Window considers both quantitative and qualitative information and analysis, based on the Islamic Window's historical experience and expert credit assessment and including forward-looking information. Retail facilities use the number of days past due (DPD) to determine significant increase in credit risk. For non-retail facilities, internally derived credit ratings have been identified as representing the best available determinant of credit risk. The Islamic Window assigns each facility a credit rating at initial recognition based on 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.

### 33.1.6 Definition of default

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

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

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

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

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

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

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

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

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

### Impact on SICR

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

### Sensitivity analysis- ECL

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

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

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

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

## 33.2 LIQUIDITY RISK

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

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

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

Adequate liquidity is ensured by Treasury, which receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, placements with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Islamic Window as a whole. In this process due care is taken to ensure that the Islamic Window complies with all the Central Bank of Oman regulations and the liquidity ratios were in compliance with regulatory requirements as of year ended 31 December 2023.

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

| | Upto three months | Above three months to twelve months | Above one year to five years | More than five years | Total |
|---|---|---|---|---|---|
| **31 December 2023** | **RO '000** | **RO '000** | **RO '000** | **RO '000** | **RO '000** |
| **Assets** | | | | | |
| Cash and balances with Central Bank of Oman | 78,440 | - | - | - | 78,440 |
| Due from banks | 646 | 38,115 | - | - | 38,761 |
| Financing assets | 50,904 | 42,657 | 79,696 | 335,885 | 509,142 |
| Investment securities | 43,129 | 18,923 | - | - | 62,052 |
| Property, equipment and Intangibles | - | - | - | 5,575 | 5,575 |
| Other assets | 4,958 | - | - | - | 4,958 |
| **Total assets** | **178,077** | **99,695** | **79,696** | **341,460** | **698,928** |
| **Liabilities, equity of investment account holders and owners' equity** | | | | | |
| Due to banks | 8 | - | - | - | 8 |
| Customers' deposits | 114,486 | 176,030 | 120,448 | 197,358 | 608,322 |
| Other liabilities | 7,899 | - | - | 3,712 | 11,611 |
| Shareholder's fund | - | - | - | 78,987 | 78,987 |
| **Total liabilities, equity of investment account holders and owners' equity** | **122,393** | **176,030** | **120,448** | **280,057** | **698,928** |
| **Net liquidity gap** | **55,684** | **(76,335)** | **(40,752)** | **61,403** | **-** |
| **Cummulative liquidity gap** | **55,684** | **(20,651)** | **(61,403)** | **-** | **-** |

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

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

| | Upto three months | Above three months to twelve months | Above one year to five years | More than five years | Total |
|---|---|---|---|---|---|
| Rentals accrued from ijarah financings is recognised on a time-apportioned basis over the lease term net of depreciation charged are taken to the statement of income, net of suspended profit. | US$ '000 | US$ '000 | US$ '000 | US$ '000 | US$ '000 |
| 31 December 2022 | | | | | |
| *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)* | - | - |

## 33.3 MARKET RISK

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

### 33.3.1 PROFIT RATE RISK

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

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

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

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

### 33.3.2 FOREIGN EXCHANGE RISK

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

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

The Islamic Window takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors set limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The Islamic window also monitors foreign currency risk as per requirements and the same was within regulatory limit as at 31 December 2023.

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

### 33.3.3 EQUITY PRICE RISK

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

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

### 33.4 OPERATIONAL RISK

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

### 33.5 CONCENTRATION RISK

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

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

| | 2023 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Murabaha, gross | Wakala bil Istithmar gross | Musharaka, gross | Ijarah Muntahia Bittamleek | Other financings, gross | Due from banks | Investment securities |
| **Concentration by industry** | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 |
| Sovereign | - | - | - | - | - | - | 62,052 |
| Corporate | 9,851 | 64,067 | 250,453 | 28,547 | 5,050 | - | - |
| Personal | 34,850 | - | 66,011 | 59,248 | 3,830 | - | - |
| Banks | - | - | - | - | - | 38,820 | - |
| | US$ '000 | US$ '000 | US$ '000 | US$ '000 | US$ '000 | US$ '000 | US$ '000 |
| Sovereign | - | - | - | - | - | - | 161,174 |
| Corporate | 25,587 | 166,409 | 650,527 | 74,148 | 13,116 | - | - |
| Personal | 90,519 | - | 171,457 | 153,891 | 9,948 | - | - |
| Banks | - | - | - | - | - | 100,831 | - |

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

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

| | 2023 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Murabaha, gross | Wakala bil Istithmar gross | Musharaka, gross | Ijarah Muntahia Bittamleek | Other financings, gross | Due from banks | Investment securities |
| **Concentration by location** | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 | RO '000 |
| Oman | 44,701 | 64,067 | 316,464 | 87,795 | 8,880 | 38,115 | 62,052 |
| Other GCC countries | - | - | - | - | - | 165 | - |
| Unites States of America | - | - | - | - | - | 479 | - |
| OECD countries | - | - | - | - | - | 61 | - |
| Others | - | - | - | - | - | - | - |
| | US$ '000 | US$ '000 | US$ '000 | US$ '000 | US$ '000 | US$ '000 | US$ '000 |
| Oman | 116,106 | 166,409 | 821,984 | 228,039 | 23,064 | 99,000 | 161,174 |
| Other GCC countries | - | - | - | - | - | 428 | - |
| Unites States of America | - | - | - | - | - | 1,245 | - |
| OECD countries | - | - | - | - | - | 158 | - |
| Others | - | - | - | - | - | - | - |

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

Concentration by location for financings is measured based on the location of the entity holding the asset, which has a high correlation with the location of the customer. Concentration by location for investment securities is measured based on the location of the issuer of the security.

## 34 CAPITAL MANAGEMENT

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

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

The risk asset ratio is calculated in accordance with the capital adequacy guidelines of the Basel Committee on Banking Supervision and CBO Circulars BM 1009 'Guidelines on Basel II' and BM 1114 'Regulatory Capital and Composition of Capital Disclosure requirements under Basel III' effective from 31 December 2013. During the year 2020, as part of the covid 19 relief measures CBO has lowered the Capital Conversion Buffer (CCB) requirement by 50% from 2.5% to 1.25%. In order to smoothen the higher volatility in ECL computation and its impact on regulatory capital of the banks amid covid-19 outbreak, CBO has issued a new requirement to apply a "prudential filter" approach on IFRS 9 expected credit loss (ECL) provisions on calculating the regulatory capital. Any increase in the Stage 2 provisioning compared to December 31, 2019 will be added back to regulatory capital while these provisions will be gradually phased-in during a five-year period ending 31 December 2024. The Capital buffers are maintained at the Bank level in accordance with BM 1140 'Concept paper on capital buffer requirements under Basel III' dated 30 December 2015.

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

Besides, the Islamic Window has also applied in its capital adequacy calculations the "Prudential filter" under interim adjustment arrangement for Stage-1 and Stage-2 ECL, as mentioned above. The impact of above filter on the bank's regulatory capital is 8 bps.

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

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

## 35 SOCIAL RESPONSIBILITY

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

# AHLI ISLAMIC BASEL II PILLAR III AND BASEL III DISCLOSURES

31 December 2023

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

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

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

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

**Responsibility of the Engaging Party**

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

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

**Practitioner's Responsibilities**

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

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

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

**Professional Ethics and Quality Control**

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

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

**Procedures and Findings**

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

We report no findings based on the work performed.

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

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

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

Deloitte & Touche

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

## 1. INTRODUCTION

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

The following report presents the qualitative and quantitative disclosures related to capital adequacy, risk profile and control process of the Islamic window on a standalone basis as per the requirements of CBO. These disclosures are intended to complement the minimum capital requirements and supervisory review process of Basel framework. They should be read in conjunction with the financial statements as of 31st December 2023.

## 2. SCOPE

The scope of application of this report is the Islamic window operations of Ahlibank SAOG only. There are no restrictions on the transfer of funds from the Bank to Islamic window, however, under the Islamic Banking regulatory framework (IBRF), title 9, section 1.10.2, Islamic window cannot place funds with the Bank. The Islamic window does not hold controlling interest in any other entity.

## 3. CAPITAL STRUCTURE

### Qualitative Disclosure

The primary objective of the Bank's Capital management framework is to ensure stability by maintaining adequate amount of high-quality capital to commensurate its risk profile. Healthy levels of capital, support the Bank in attaining strong credit rating and maximizing shareholders value. The framework ensures compliance with regulatory capital requirements set by CBO.

The regulatory capital of the Islamic window is calculated as per the guidelines of CBO and is broadly classified in two categories, Tier I and Tier II capital. Tier 1 capital is composed of core capital and is further classified into Common Equity Tier 1 capital ('CET1') and Additional Tier 1 capital ('AT1'). CET1 includes assigned capital, and retained earnings reduced by cumulative unrealized losses on FVOCI investments and intangibles recognized directly in equity. AT1 capital consists of perpetual capital instruments as specified under Basel III framework, however, Islamic window does not have any such instruments outstanding as of the report date. Tier II capital, which includes stage 1 and stage 2 provision as calculated under IFRS 9 subject to ceilings as per CBO guidelines and investment fair value reserve with regulatory haircut. Equity of unrestricted investment account holders (URIA) is not considered as part of regulatory capital. The Islamic window does not hold any funds from restricted investment account holders (RIA).

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

### Quantitative Disclosure

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

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

## CAPITAL ADEQUACY

**Qualitative disclosures**

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

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

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

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

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

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

## i) Computation of Capital adequacy ratio

(RO '000)

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

## ii) Capital adequacy ratio

(RO '000)

| Particulars | 2023 | 2022 |
|---|---|---|
| Total risk weighted assets | 580,301 | 456,071 |
| Total eligible capital | 77,070 | 60,146 |
| **Capital adequacy ratio** | **13.28%** | **13.19%** |

## iii) Ratio of total capital to total assets

(RO '000)

| Particulars | 2023 | 2022 |
|---|---|---|
| Total capital | 77,070 | 60,146 |
| Total assets | 698,928 | 559,934 |
| **Total capital to total assets** | **11.03%** | **10.74%** |

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

(RO '000)

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

## 4. Risk Management of the Bank

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

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

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

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

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

## 5. Credit Risk

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

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

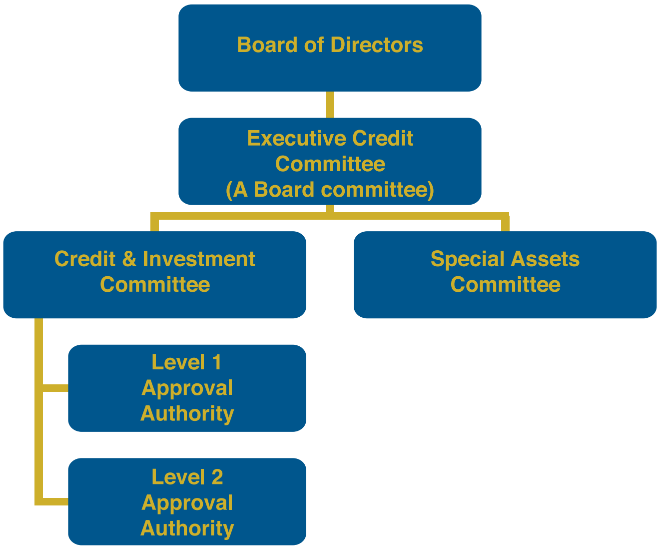
The Islamic window has a comprehensive due diligence system for approving credit facilities, and well- defined policies on controlling credit risk at the counter-party, group, economic sector, and country levels.

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

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

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

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




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

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

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

**Impairment policy**

As a matter of policy, Islamic window creates allowance for impairment of financing contracts promptly and in a consistent manner. The Islamic window has implemented FAS 30 "Impairment credit losses and onerous commitments" accounting norm, based on which impairment is assessed on a forward-looking expected credit loss (ECL) basis, as required by CBO.

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

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

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

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

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

**Stage 3**
Financing exposure considered credit impaired. The Bank records an allowance for lifetime ECLs. The Bank considers a financial asset to be in default when:

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

Quantitative Disclosure:

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

(RO '000)

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

## ii) Credit exposure by risk weighted assets:

(RO '000)

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

| | | 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 receivables | 329,227 | 292,872 |
| Ijarah assets – Ijarah Muntahia Bittamleek | 89,804 | 80,542 |
| Murabaha receivables | 41,778 | 41,424 |
| Credit Card Receivable | 817 | 817 |
| Service Ijarah | 1,506 | 1,505 |
| Wakala Bil Istithmar | 29,000 | - |
| Other Assets & off-balance sheet | 26,106 | 16,562 |
| **Total** | **575,804** | **434,761** |

### iii) Credit exposure by business unit:

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

| | | | **As of 31 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 |
| Musharaka receivables | Corporate | 251,302 | 251,302 |
| | Retail | 52,940 | 22,828 |
| | SME | 1,724 | 1,371 |
| Ijarah assets – Ijarah Muntahia Bittamleek | Corporate | 8,019 | 8,019 |
| | Retail | 32,035 | 32,034 |
| | SME | 5,717 | 4,317 |
| Murabaha receivables | Corporate | 18,671 | 18,671 |
| | Retail | 65,416 | 57,554 |
| Credit Card Receivable | Retail | 817 | 817 |
| Service Ijarah | Retail | 1,506 | 1,505 |
| Wakala Bil Istithmar | Corporate | 29,000 | - |
| Other Assets & off-balance sheet items | | 26,106 | 16,562 |
| **Total** | | **575,804** | **434,761** |

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

(RO '000)

As of 31 December 2023

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

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 |
| Musharaka receivables | 41,778 | - | - | - | - | - | 41,778 |
| Ijarah assets – Ijarah Muntahia Bittamleek | 329,227 | - | - | - | - | - | 329,227 |
| Murabaha receivables | 89,804 | - | - | - | - | - | 89,804 |
| Credit card receivables | 1,506 | - | - | - | - | - | 1,506 |
| Service ijarah | 817 | - | - | - | - | - | 817 |
| Wakala Bil Istithmar | 29,000 | | | | | | 29,000 |
| Other Assets & off-balance sheet items | 26,106 | - | - | - | - | - | 26,106 |
| **Total** | **573,848** | **76** | **1,690** | **-** | **-** | **190** | **575,804** |

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

**(RO '000)**

**As of December 2023**

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

**As of 31 December 2022**

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

## vi) Residual contractual maturity of the financing portfolio, broken down by major types of credit exposure:

**(RO '000)**

**As of 31 December 2023**

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

**As of 31 December 2022**

| Time Band | Musharaka receivables | Ijarah assets – Ijarah Muntahia Bittamleek | Murabaha receivables | Credit card | 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** |

## Total Financing broken down by major industry or counterparty type:

**(RO '000)**

**As of December 2023**

| Economic Sector | Gross financings | Of Which NPLs | ECL stage 1 & 2 | ECL stage 3* | Impairment charge/ (reversed) during the Year | Financings written off during the year |
|---|---|---|---|---|---|---|
| Wholesale & Retail Trade | 8,224 | 7 | 20 | 8 | (4) | - |
| Mining & Quarrying | 2,401 | 137 | 9 | 66 | 68 | |
| Construction | 92,258 | 1,268 | 1,947 | 224 | 466 | - |
| Manufacturing | 32,394 | 9,956 | 54 | 5,691 | 746 | - |
| Transport & Communication | 62,653 | 623 | 131 | 335 | 90 | - |
| Electricity, gas and water | 31,000 | - | 48 | - | 48 | |
| Services | 129,039 | 6,037 | 1,018 | 2,204 | (2,562) | - |
| Personal Financings | 163,938 | 857 | 96 | 307 | (157) | - |
| All others | - | - | | 3,280 | 3,280 | |
| **Total** | **521,907** | **18,885** | **3,323** | **12,115** | **1,975** | **-** |

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

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

(RO '000)

| | | | | | As of 31 December 2022 | |
|---|---|---|---|---|---|---|
| **Economic Sector** | **Gross financings** | **Of Which NPLs** | **ECL stage 1 & 2** | **ECL stage 3*** | **Impairment charge during the Year** | **Financings written off during the year** |
| Wholesale & Retail Trade | 7,072 | 11 | 24 | 8 | (27) | - |
| Mining & Quarrying | 163 | - | 7 | - | (15) | |
| Construction | 92,870 | 132 | 1,595 | 110 | 649 | - |
| Manufacturing | 15,975 | 9,956 | 16 | 4,983 | 1,133 | - |
| Transport & Communication | 57,577 | 296 | 234 | 142 | 229 | - |
| Services | 165,760 | 5,986 | 3,914 | 1,870 | 3,204 | - |
| Personal Financings | 152,715 | 1,023 | 76 | 484 | 20 | - |
| **Total** | **492,132** | **17,404** | **5,866** | **7,597** | **5,193** | **-** |

* Stage 3 ECL include suspended profit of RO 2.231 million
* above ECL includes additional overlays of RO 2.000 million

**vii) Amount of impaired Financing broken down by significant geographical areas including, with the amounts of expected credit loss/specific and general allowances related to each geographical area:**

(RO '000)

| | | | | | As of 31 December 2023 | |
|---|---|---|---|---|---|---|
| **Countries** | **Gross financings** | **Of Which NPLs** | **ECL stage 1 & 2** | **ECL stage 3*** | **Impairment charge during the Year** | **Financings written off during the year** |
| Oman | 521,907 | 18,885 | 3,323 | 12,115 | 1,975 | - |
| Other GCC Countries | - | - | - | - | - | - |
| OECD Countries | - | - | - | - | - | - |
| India | - | - | - | - | - | - |
| Pakistan | - | - | - | - | - | - |
| Others | - | - | - | - | - | - |
| **Total** | **521,907** | **18,885** | **3,323** | **12,115** | **1,975** | **-** |

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

| | | | | | As of 31 December 2022 | |
|---|---|---|---|---|---|---|
| **Countries** | **Gross financings** | **Of Which NPLs** | **ECL stage 1 & 2** | **ECL stage 3*** | **Impairment charge during the Year** | **Financings written off during the year** |
| Oman | 492,132 | 17,404 | 5,866 | 7,597 | 5,193 | - |
| Other GCC Countries | - | - | - | - | - | - |
| OECD Countries | - | - | - | - | - | - |
| India | - | - | - | - | - | - |
| Pakistan | - | - | - | - | - | - |
| Others | - | - | - | - | - | - |
| **Total** | **492,132** | **17,404** | **5,866** | **7,597** | **5,193** | **-** |

* Stage 3 ECL include suspended profit of RO 2.231 million
* above ECL includes additional overlays of 2.000 million

## viii) Movement of gross financing during the year:

(RO '000)

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

| 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** |

## ix) Past due and impaired financing:

(RO '000)

As of 31 December 2023

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

As of 31 December 2022

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

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

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

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

Financing receivables are principally divided into following Islamic products:

| | |
|---|---|
| Murabaha | An agreement whereby the Islamic Window sells to a customer a commodity or a property which the Islamic Window has purchased and acquired based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises of the cost of the commodity and an agreed profit margin. |
| Financing Ijarah | An agreement whereby the Islamic Window (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. |
| Istisna | Istisna receivable is a sale agreement between the Islamic window as a seller and the customer as the ultimate purchaser whereby, the Islamic window undertakes to have manufactured (or Acquire) goods and sell it to the customer for an agreed price on completion at future dates. Istisna receivable are stated at net deferred profit and expected credit loss. |
| Qard Hasan | Qard Hasan is based on Islamic financial principle of profit-free Qard Hasan whereby, the customer is required to repay the financing amount without any profit. Qard Hasan finance is stated at cost net of expected credit loss allowance, if any. |

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

The Islamic window normally accepts the following types of collateral:

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

*i*

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

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

The Simplified approach for collateral recognition under the standardized approach is applied where 0% risk weight is assigned for the exposure covered by Cash collateral. All other financing exposures to corporates and retail are assigned 100% risk weight (except retail mortgage financings, which are assigned 35% risk weight). The Islamic window stands in possession of cash collateral of RO 0.193 Mn; after application of haircut (0%) to the collateral the exposure stands at RO NIL. The Islamic window has not considered any financial guarantee under credit risk mitigation as of 31 December 2023.

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

## Quantitative Disclosures:

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

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

## 6. Market Risk:

**Qualitative disclosure**

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

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

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

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

| | | | | | | As of 31 December 2023; | |
|---|---|---|---|---|---|---|---|
| **Particular**<br>**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 | | - | - | - | - | 78,440 | 78,440 |
| Due from banks | | 646 | 38,115 | - | - | - | 38,761 |
| Financing Assets | 5.82% | 53,620 | 49,704 | 121,608 | 284,210 | - | 509,142 |
| Investments | 4.52% | - | 1,627 | 36,223 | 18,919 | 5,283 | 62,052 |
| Property and equipment | | - | - | - | - | 5,575 | 5,575 |
| Other assets | | - | - | - | - | 4,958 | 4,958 |
| **Total profit bearing assets** | | **54,266** | **89,446** | **157,831** | **303,129** | **94,256** | **698,928** |
| **LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS** | | | | | | | |
| Due to banks | 5.30% | 8 | - | - | - | - | 8 |
| Equity of investment accountholders and other liabilities | 3.19% | 112,948 | 186,799 | 277,115 | | 43,071 | 619,933 |
| Shareholders fund | | - | - | - | - | 78,987 | 78,987 |
| **Total** | | **112,956** | **186,799** | **277,115** | | **122,058** | **698,928** |
| **Net gap** | | **(58,690)** | **(97,353)** | **(119,284)** | **303,129** | **(27,802)** | **-** |
| **Cumulative net gap** | | **(58,690)** | **(156,043)** | **(275,327)** | **27,802** | **-** | **-** |

As of 31 December 2022;

| Particular<br>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 | 68,101 | 487,694 |
| Shareholders fund | | - | - | - | - | 61,370 | 61,370 |
| **Total** | | **95,674** | **101,483** | **233,217** | **90** | **129,471** | **559,934** |
| **Net gap** | | **(50,927)** | **(86,761)** | **(100,002)** | **339,513** | **(101,822)** | **-** |
| **Cumulative net gap** | | **(50,927)** | **(137,688)** | **(237,691)** | **101,822** | **-** | **-** |

### Foreign Exchange Risk

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

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

The Net open position in all foreign currencies stands at OMR 26.539 mn (OMR 25.384 mn position is in effectively pegged currencies) as on 31 December 2023.

### Investment Price Risk

Price risk is the risk of losses from decrease in the market value of individual investments. Each investment is approved after rigorous due diligence and exposures are monitored against prudent exposure limits. The Islamic window does not maintain any trading positions in its portfolio as of 31 December 2023.

The Islamic window's investments in non-trading instruments are monitored within the overall limits and restrictions prescribed by CBO from time to time, and only in Sharia compliant product categories. The fair value of equity investments as of 31 December 2023 is RO 12.860 mn with cost amounts to RO 12.834 mn. The Islamic window also has invested in sukuks carried at fair value through equity. The fair value of investments as of 31 December 2023 is RO 49.191 mn with a cost amount to RO 49.371 mn.

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

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

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

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

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

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

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

**Price Risk**
Impact of 10% change in price

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

# 7. LIQUIDITY RISK

**Qualitative Disclosure**

The Islamic window defines liquidity risk as its ability to meet all present and future financial obligations in a timely manner and without undue effort and cost through unconstrained access to funding at reasonable market rates and without affecting asset growth and business operations.

The following key factors are taken into consideration while assessing and managing the liquidity risk of the Islamic Window:

- The need to have a well-diversified base for funding sources, comprising a portfolio of retail customers, large corporates and institutions, small & medium enterprises, high net worth individuals, without significant concentrations or correlations, thereby diversifying the funding base and mitigating concentration risks.
- Based upon the past behavioral pattern analysis of our main liabilities, management expects large portion of customer deposits to be rolled over at contractual maturity.
- As per the CBO directives, the Bank keeps at least 5% of its demand and time deposits with CBO in the form of clearing balances.
- Commitments for loans and advances are approved after considering the Bank's overall liquidity position.

The Islamic window's projected liquidity needs are analyzed, and optimum alternatives to manage the liquidity risk are discussed and approved in ALCO. The risk management department also independently reviews and evaluates the Bank's ability to access liquidity from different sources.

The Treasury and Risk management departments identify liquidity at risk, which is monitored daily and reported periodically to ALCO. Liquidity and funding policy and a contingency liquidity plan have been established by the Bank, which applies to its Islamic window as well.

**Liquidity and Funding Policy**

The liquidity and funding policy of the Bank, which applies for its Islamic window as well, is intended to ensure that liquidity requirements are prudently and effectively managed such that anticipated and unanticipated funding needs are met on an ongoing basis in a controlled manner at the least possible cost.

The Bank's Asset Liability Committee (ALCO) reviews the Liquidity and funding Policy annually and submits recommendations for changes, if any, to the Bank's Chief Executive Officer (CEO) for review and submission to the Executive Committee and Board as applicable.

There are a number of techniques which the Bank uses to manage its Liquidity position and that of its Islamic Window. The key ones are:

- Placing limits on maturity mismatches
- Maintaining a stock of liquid assets
- Diversification of liabilities
- Access to wholesale markets
- Multi-currency liquidity management

The financing ratio, which is the ratio of the financing to deposits and capital, is monitored on a daily basis in line with the regulatory guidelines. Internally the lending ratio is set at a more conservative basis than required by regulation. The Islamic window also manages its liquidity risk on a monthly basis monitoring the liquid ratio which is a ratio of net liquid assets to total assets.

The Islamic window also maintains significant investments in liquid instruments issued by Governments and banks principally for maintaining liquidity.

The maturity profile of the assets and funding side at the year-end are based on contractual repayment arrangements. The details of the same are provided in note 33.2 of Islamic window financial statements.

The CBO also restricts the limits on lending by the commercial banks. The maximum lending ratio permissible as at 31 December 2023 was 92.5%.

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

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

**Stock of Liquid Assets**

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

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

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

**Diversification of liabilities**

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

The liquidity and funding policy recognize the inherent value of the Bank's term depositors. The Islamic window seeks to establish strong and lasting relationships with depositors and other liability holders so as to foster a stable funding base. Trends in liability balances by category are reviewed by the ALCO on a monthly basis.

The Islamic window also recognizes that an over reliance on short dated inter-bank deposits can lead to difficulties in extreme market conditions. The exposure to such deposits is reviewed by the ALCO on a monthly basis.

**Multi-currency liquidity**

Where positions in specific foreign currencies are significant to its business, the Islamic window addresses the measurement and management of liquidity in these individual currencies. It is considered appropriate to consolidate several (usually minor) currencies and monitor the aggregate exposure expressed in base currency.

When monitoring exposure in aggregate, the Islamic window assesses the convertibility of individual currencies, the timing of access to funds, the impact of potential disruptions to foreign exchange markets, and exchange risks before presuming that surplus liquidity in one currency can be used to meet a shortfall in another currency.

Performance against limits is monitored daily by Treasury with any exceptions being immediately reported to ALCO members. Review of all liquidity positions against limits is performed by Head of Risk Management and Treasury based on figures produced by the Treasury Middle Office / Finance Department.

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

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

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

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

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

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

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

## 8. OPERATIONAL RISK

**Operational Risk Framework**

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

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

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

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

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

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

**Business Continuity Test**

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

**Concentration Risk**

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

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

**Information Security Risk**

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

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

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

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

**Operational risk capital charge and risk weighted amount**

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

| **Item (RO '000)** | **2023** | **2022** | **2021** |
|---|---|---|---|
| Net Income from financing and investing activities | **32,811** | 24,687 | **21,498** |
| Other income – net | **3,101** | 2654 | 1,647 |
| **Gross Income** | **35,912** | **27,341** | **23,145** |
| Return to investment account holders | **(17,848)** | (13,530) | (10,757) |
| **Net Operating Income** | **18,064** | **13,811** | **12,388** |
| Average Income | | | **14,754** |
| Gross Income times of Alpha (15%) | | | **2,213** |
| **Operational risk based on Basic Indicator Approach** | | | **27,663** |

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

## 9. DISPLACED COMMERCIAL RISK

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

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

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

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

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

## 10. INVESTMENT ACCOUNT HOLDERS

The Islamic window receives deposits by Investment Account Holders (IAH) under Mudaraba contract and Wakala bil Istithmar contract. The Islamic window has Unrestricted Account Holders only.

**Equity of investment account holders**

Equity of investment account holders are funds held by the Islamic Window in unrestricted investment accounts, which it can invest at its own discretion. The investment account holder authorizes the Islamic Window to invest the account holders' funds in a manner which the Islamic Window deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. The Islamic Window charges management fee (Mudarib fees) to investment account holders. Of the total income from investment accounts, the income attributable to customers is allocated to investment accounts after setting aside provisions, reserves (Profit equalization reserve and Investment risk reserve, if any) and deducting the Islamic Window's share of income as a Mudarib. The allocation of income is determined by the management of the Islamic Window within the allowed profit-sharing limits as per the terms and conditions of the investment accounts. Administrative expenses incurred in connection with the management of the funds are borne directly by the Islamic Window and are not charged separately to investment accounts. Investment accounts are carried at their book values and include amounts retained towards profit equalization and investment risk reserves, if any. Profit equalization reserve is the amount appropriated by the Islamic Window out of the Mudaraba income, before allocating the Mudarib share, in order to maintain a certain level of return to the deposit holders on the investments. Investment risk reserve is the amount appropriated by the Islamic Window out of the income of investment account holders, after allocating the Mudarib share, in order to cater against future losses for investment account holders. Creation of any of these reserves results in an increase in the liability towards the pool of unrestricted investment accounts.

Only profits earned on pool of assets funded from IAH are allocated between the owners' equity and IAH. All equity of investment 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.

**Profit Distribution Mechanism between Shareholders & Depositors under the Common Pool**

Participation factor, Weights or profit-sharing ratios are pre-decided by the management of the Bank. In case of any change, after approval by the Shariah Supervisory Board these are intimated to the investors before start of the month. Weighted average balance is calculated at the end of the period by multiplying the participation factor with average balance for the period.

The Islamic window has a single pool of comingled assets where the funds of investment accountholders are invested. The Investment Profits are distributed between Mudarib and IAH in the following percentages:

| | 2023 | 2022 |
|---|---|---|
| Unrestricted Investment Accounts Share | **75%** | 75% |
| Mudarib Share | **25%** | 25% |

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

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

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

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

**Transfer to or from (IRR)**
In case the rate of return to the depositors in a certain profit distribution period is substantially higher than the market rates, Bank's management may decide to deduct, after taking permission from the SSB, a portion of depositors' share of profit and transfer the same to the IRR.

In case the rate of return to the depositors in a certain profit distribution period is lower than the market, Banks's management may decide to compensate the depositors by transferring the required amount from the said reserve account to increase depositors' return.

No IRR has been created and no transfer has been made during the year ended December 2023.

**Assignment of a portion of shareholders' profit to depositors**

If required, the Islamic window may decide to allocate some portion from their own profit to a specific deposit category(s). This could be either due to increase in the rate of profit announced by other Islamic Financial Institutions / competitors or to encourage a specific category of depositors.

No assignment of shareholder profit to depositors has been made during the year ended December 2023.

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

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

## II. Equity of Investment Accountholders – Ratios

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

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

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

| Income generated | 2023 | 2022 |
|---|---|---|
| Income from financing | 29,168 | 22,647 |
| Income from placements | 3,643 | 2,011 |
| **Total** | **32,811** | **24,648** |

| Distribution of Income (Mudaraba Deposits) | 2023 | 2022 |
|---|---|---|
| Profit equalization reserve | 102 | 22 |
| Mudarib share | 420 | 355 |
| Investment risk reserve | - | - |
| Distributable Profit | 10,654 | 10,375 |
| **Share of Profit for IAH and shareholders** | **11,176** | **10,752** |

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

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

## 11. CONTRACT SPECIFIC RISK

The Bank closely monitors the total risk exposures in each type of financing asset including the relative risk of carried. Following is the total Risk Weighted Assets classified by type of financing as of 31 December 2023

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

## 12. ZAKAH

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

## 13. EARNINGS PROHIBITED BY SHARIAH

The Islamic window is committed to avoid recognizing any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to the charity account where the Islamic Window uses these funds for charitable purposes. During the year ended 2023, income amounting to RO 0.003 mn has been credited to charity account being prohibited by Sharia. Sources and use of charity by fund has been disclosed in statement of sources and uses of charity fund in Financial Statements. With regard to undistributed funds under charity account as of year ended 2023, Islamic window has taken approval from SSB for deferment of disbursement to next year.

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

In line with the CBO guidelines on remuneration disclosure as part of pillar III, the relevant qualitative and quantitative disclosure are presented in the banks Basel II Pillar III.
Following remuneration of Sharia Board has been approved by the general assembly;
Chairman: RO 10,000 per annum (US$ 25,974 per annum).
Member: RO 8,000 per annum (US$ 20,779 per annum).
Sitting fee: RO 385 (US$ 1,000) per meeting per member, maximum of 5 sitting per year.
Details of Sharia Supervisory Board and meetings attended during the year has been disclosed in corporate governance report.

## 15. GENERAL DISCLOSURES

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

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

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

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

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

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

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

**Complaints**

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

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

**Awareness**

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

**Related Party**

Disclosures related to related party and transactions during 2023 are disclosed in note 30 of Islamic window financial statements.

## 16. SUBSIDIARIES AND SIGNIFICANT INVESTMENTS

The Islamic Window does not have any subsidiary or other significant equity investments as on 31 December 2023.

## 17. BASEL III REGULATORY CAPITAL DISCLOSURES

Below disclosures are prepared using three step reconciliation approach as defined in the CP2-Guidelines on composition of capital disclosure requirements issued along with the CBO Circular BM 1114.

### BASEL III common disclosure template (RO '000)

| | | 2023 | 2022 |
|---|---|---|---|
| | **Common Equity Tier 1 capital: instruments and reserves** | | |
| 1 | Directly issued qualifying common share capital plus related stock surplus | 45,000 | 35,000 |
| 2 | Retained earnings | 30,757 | 22,524 |
| 6 | **Common Equity Tier 1 capital before regulatory adjustments** | **75,757** | **57,524** |
| **Common Equity Tier 1 capital: regulatory adjustments** | | | |
| 7 | Prudential valuation adjustments | (768) | (1,148) |
| 28 | Total regulatory adjustments to Common equity Tier 1 | (768) | (1,148) |
| 29 | **Common Equity Tier 1 capital (CET1)** | **74,989** | **56,376** |
| **Additional Tier 1 capital: instruments** | | | |
| 36 | **Additional Tier 1 capital before regulatory adjustments** | - | - |
| **Additional Tier 1 capital before regulatory adjustments** | | | |
| 43 | **Total regulatory adjustments to Additional Tier 1 capital** | - | - |
| 44 | **Additional Tier 1 capital (AT1)** | - | - |
| 45 | **Tier 1 capital (T1 = CET1 + AT1)** | **74,989** | **56,376** |
| **Tier 2 capital: instruments and provisions** | | | |
| 50 | Provisions (provision and fair value reserve) | 2,081 | 3,771 |
| **51** | **Tier 2 capital before regulatory adjustments** | **2,081** | **3,771** |
| **Tier 2 capital: regulatory adjustments** | | | |
| 57 | **Total regulatory adjustments to Tier 2 capital** | **-** | **-** |
| 58 | **Tier 2 capital (T2)** | **2,081** | **3,771** |
| 59 | **Total capital (TC = T1 + T2)** | **77,070** | **60,147** |
| **60** | **Total risk weighted assets** | **580,301** | **456,071** |
| *60a* | *Of which: Credit risk weighted assets* | 553,564 | 434,761 |
| *60b* | *Of which: Market risk weighted assets* | 4,287 | 2,937 |
| *60c* | *Of which: Operational risk weighted assets* | 22,450 | 18,373 |
| **Capital Ratios** | | | |
| 61 | Common Equity Tier 1 (as a percentage of risk weighted assets) | 12.92% | 12.36% |
| 62 | Tier 1 (as a percentage of risk weighted assets) | 12.92% | 12.36% |
| 63 | Total capital (as a percentage of risk weighted assets) | 13.28% | 13.19% |
| 64 | Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement expressed as a percentage of risk weighted assets) | 7.000% | 7.000% |
| 65 | *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 | 2.28% | 2.19% |
| **National minima (if different from Basel 3)** | | | |
| 69 | National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum) | 7.000% | 7.000% |
| 70 | National Tier 1 minimum ratio (if different from Basel 3 minimum) | 9.000% | 9.000% |
| 71 | National total capital minimum ratio (if different from Basel 3 minimum) | 11.000% | 11.000% |
| **Amounts below the thresholds for deduction (before risk weighting)** | | | |
| 72 | Non-significant investments in the capital of other financials | 154 | 154 |
| **Applicable caps on the inclusion of provisions in Tier 2** | | | |
| 76 | Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap) | 1,926 | 3,690 |
| 77 | Cap on inclusion of provisions in Tier 2 under standardized approach | 7,254 | 5,022 |

## Step 1: Balance sheet under Regulatory scope of consolidation

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

## Step 2: Expansion of Balance sheet under Regulatory scope of consolidation
## Table 2b – Expansion of Balance Sheet Under Regulatory Scope of Consolidation (RO '000)

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

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

## Step 3: Step Reconciliation of Regulatory Capital:

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

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

## 17.1 MAIN FEATURES OF REGULATORY CAPITAL
**Year ended 31 December 2023**

| | | |
|---|---|---|
| 1 | **Ahli Islamic** | **Common Equity Share Capital** |
| 2 | Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement) | NA |
| 3 | Governing law(s) of the instrument Regulatory treatment | The laws of Oman in the form of Royal Decrees, Ministerial Decisions and CMA and CBO Regulations |
| 4 | Transitional Basel III rules | Common Equity Tier 1 |
| 5 | Post-transitional Basel III rules | Common Equity Tier 1 |
| 6 | Eligible at solo/group/group & solo | Solo |
| 7 | Instrument type (types to be specified by each jurisdiction) | Common Equity Share Capital |
| 8 | Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date) | 45 million |
| 9 | Par value of instrument | - |
| 10 | Accounting classification | Shareholders' Equity |
| 11 | Original date of issuance | RO 25 Million allocated in 2013<br>RO 10 Million allocated in 2021<br>and 10 Million allocated in 2023 |
| 12 | Perpetual or dated | Perpetual |
| 13 | Original maturity date | No maturity |
| 14 | Issuer call subject to prior supervisory approval | No |
| 15 | Optional call date, contingent call dates and redemption amount | NA |
| 16 | Subsequent call dates, if applicable | NA |
| | **Coupons / dividends** | |
| 17 | Fixed or floating dividend/coupon | Floating |
| 18 | Coupon rate and any related index | NA |
| 19 | Existence of a dividend stopper | NA |
| 20 | Fully discretionary, partially discretionary or mandatory | Fully discretionary |
| 21 | Existence of step up or other incentive to redeem | No |
| 22 | Noncumulative or cumulative | Noncumulative |
| 23 | Convertible or non-convertible | Non-convertible |
| 24 | If convertible, conversion trigger (s) | NA |
| 25 | If convertible, fully or partially | NA |
| 26 | If convertible, conversion rate | NA |
| 27 | If convertible, mandatory or optional conversion | NA |
| 28 | If convertible, specify instrument type convertible into | NA |
| 29 | If convertible, specify issuer of instrument it converts into | NA |
| 30 | Write-down feature | Yes |
| 31 | If write-down, write-down trigger(s) | Statutory approach |
| 32 | If write-down, full or partial | Write down fully |
| 33 | If write-down, permanent or temporary | Permanent |
| 34 | If temporary write-down, description of write-up mechanism | NA |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | NA |
| 36 | Non-compliant transitioned features | No |
| 37 | If yes, specify non-compliant features | NA |

## 18. BASEL III LIQUIDITY DISCLOSURE

The below liquidity disclosure is prepared in accordance with the requirements of the CBO Circular BM 1127 'Basel III – Framework on Liquidity Coverage Ratio (LCR) and LCR disclosure standard' issued on 24 December 2014. The disclosure is based on average of three-monthly data points.

(RO '000)

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

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

The below Net Stable Funding Ratio (NSFR) disclosure is presented for year ended 31 December 2023 and prepared in accordance with the requirements of the CBO letter vide circular reference 1147 issued on October 26, 2016.

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

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

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

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

For ahli islamic

**Hamdan Ali Nasser Al Hinai**
**Chairman**

Date: 29 January 2024

Your Partner in Excellence