

البنك الأهلي
ahlibank

التقرير السنوي

ANNUAL
REPORT 2014

البنك الأهلي
ahlibank

ahilal
العلال
للخدمات المصرفية الإسلامية





His Majesty Sultan Qaboos Bin Said

CONTENTS

Contents

Board of Directors	10
Chairman's Report	12
Corporate Governance Report	15
Management Discussion & Analysis	23
Contacts	31
Basel II Pillar III & Basel III Report of the Bank	32
Financial Statements of the Bank	54
Financial Statements of Al Hilal Islamic Banking Services	104
Basel II Pillar III & Basel III Report of Al Hilal Islamic Banking Services	130
Executive Management	152



MISSION VISION BELIEF

Belief

...is in our value added approach where knowledge and expertise of individuals from various disciplines and diverse back grounds is shared.

We believe that innovation is the key to progress and in our pursuit of excellence; we constantly upgrade and add newer products and services.

Mission

To create an unrivalled ability to meet customer needs, provide fulfillment and development for our staff and deliver outstanding shareholder value.

Vision

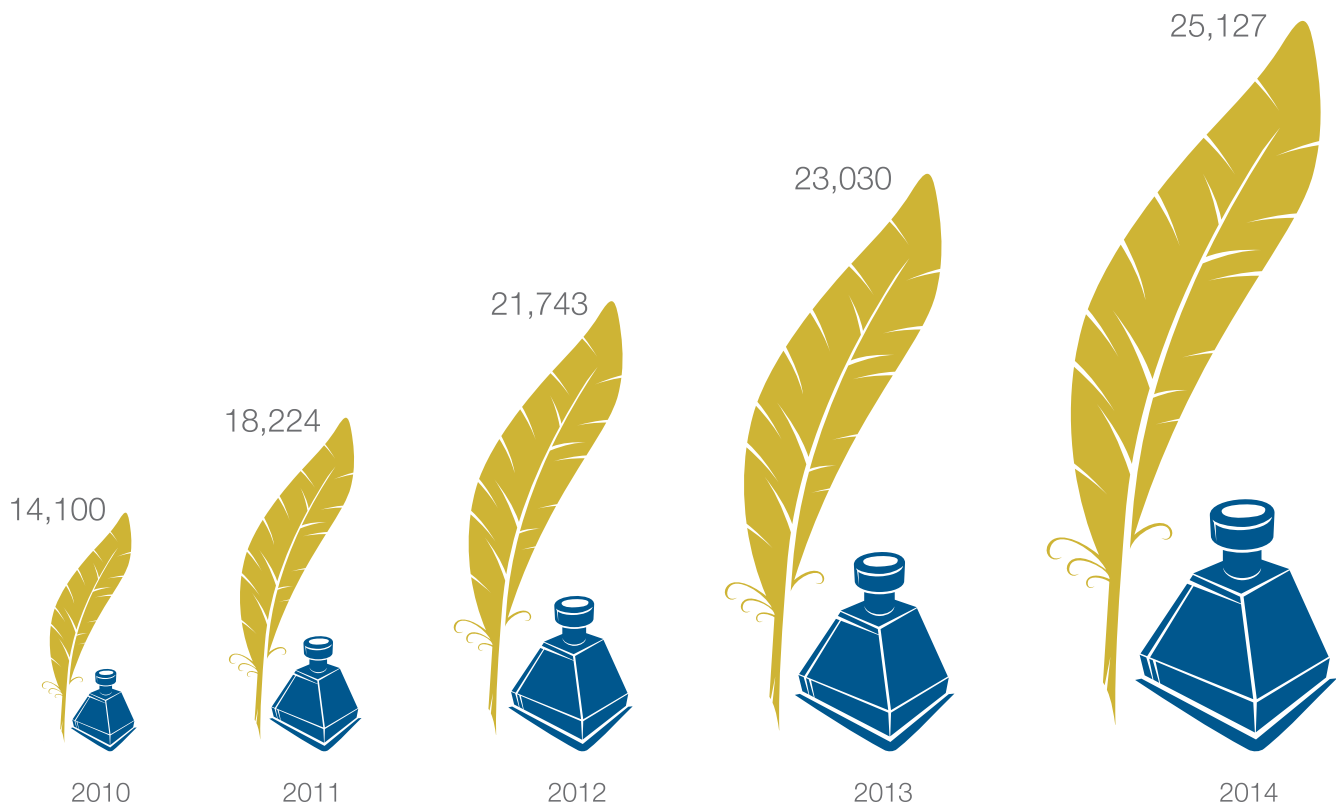
To be a vibrant and innovative centre of banking by developing a cadre of responsive managers and professionals who will be committed to fulfill the needs of our customers.



Evolution of communication

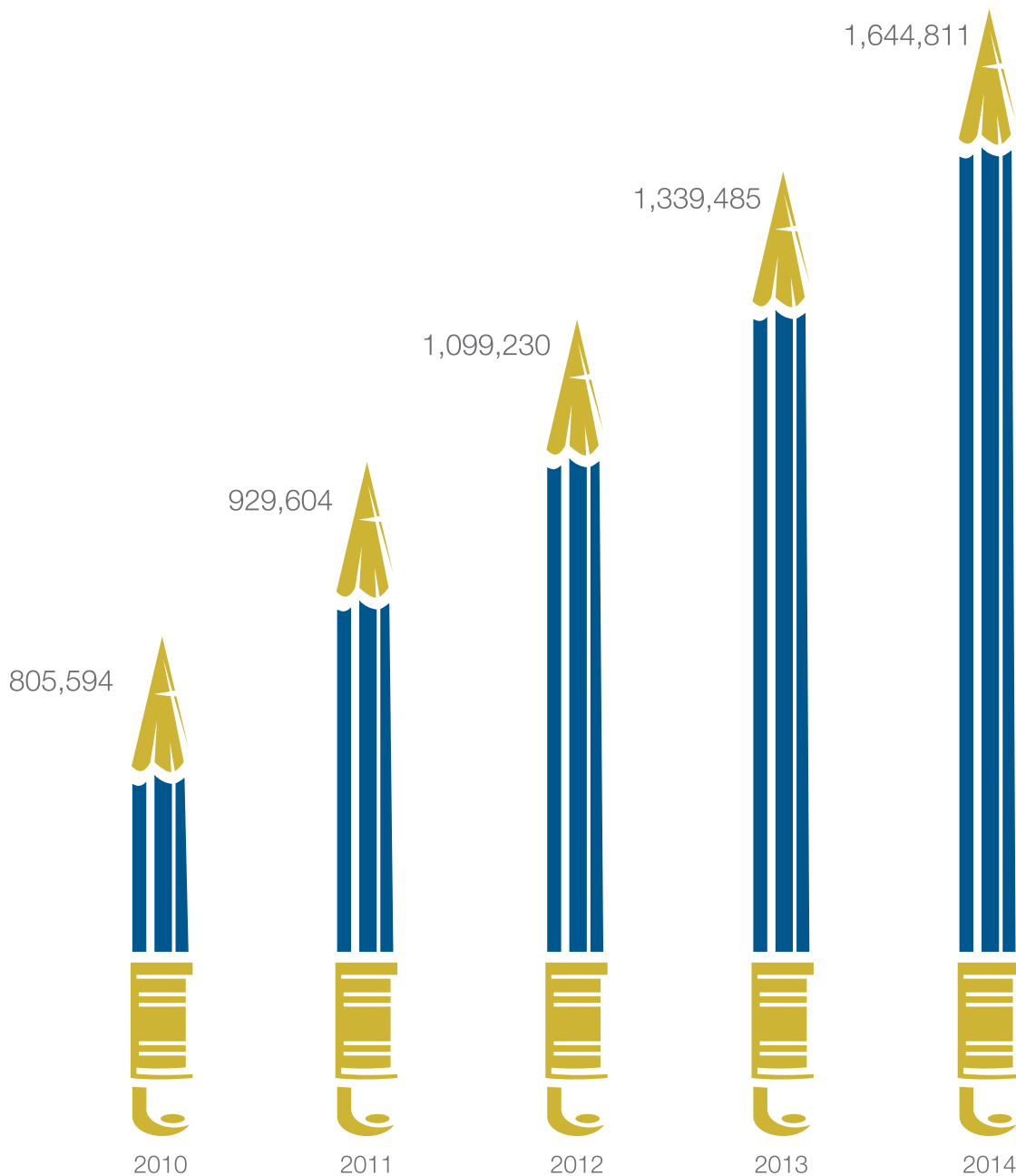
SUSTAINABLE GROWTH

NET PROFIT 'RO in 000'



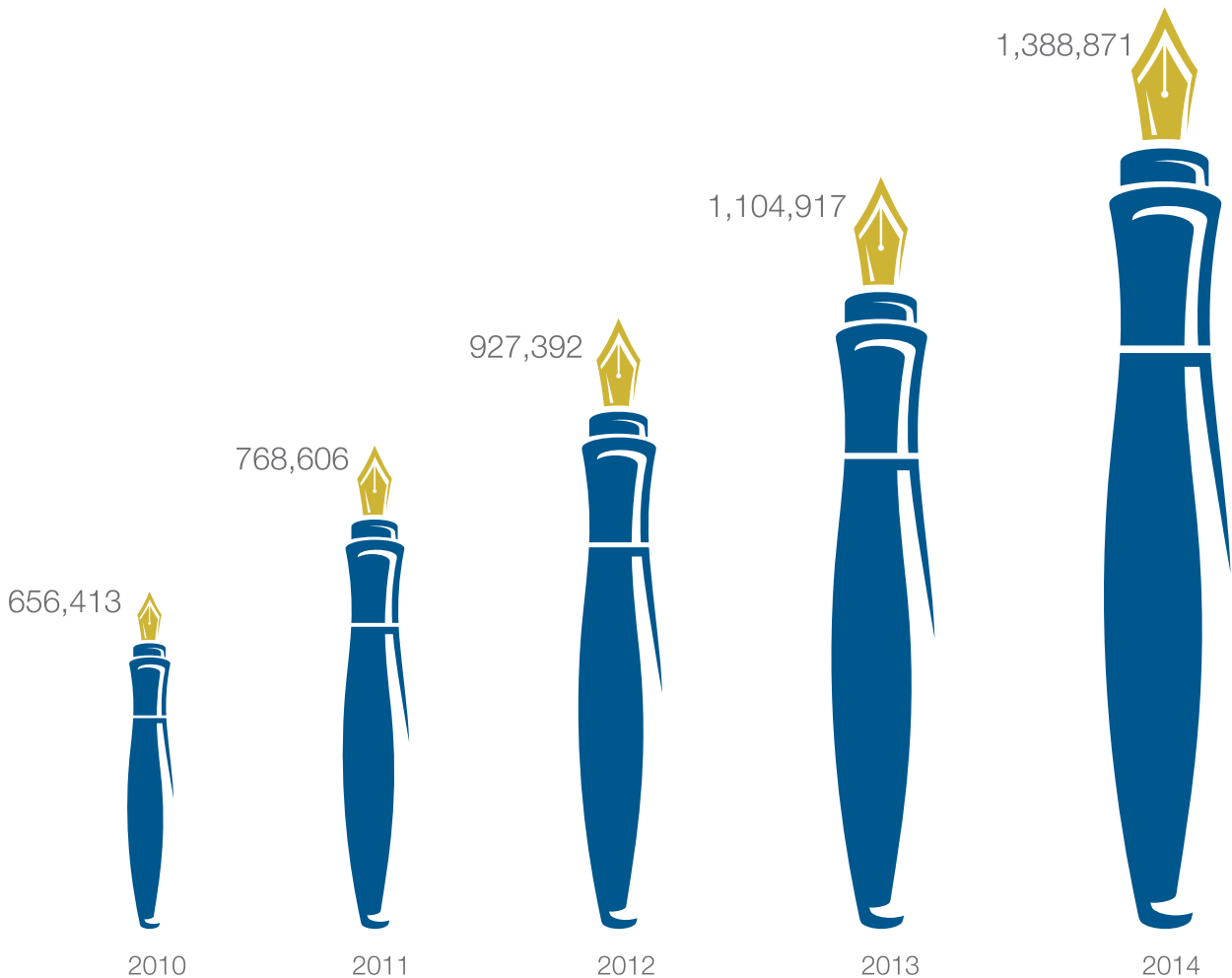
SUSTAINABLE GROWTH

TOTAL ASSETS 'RO in 000'



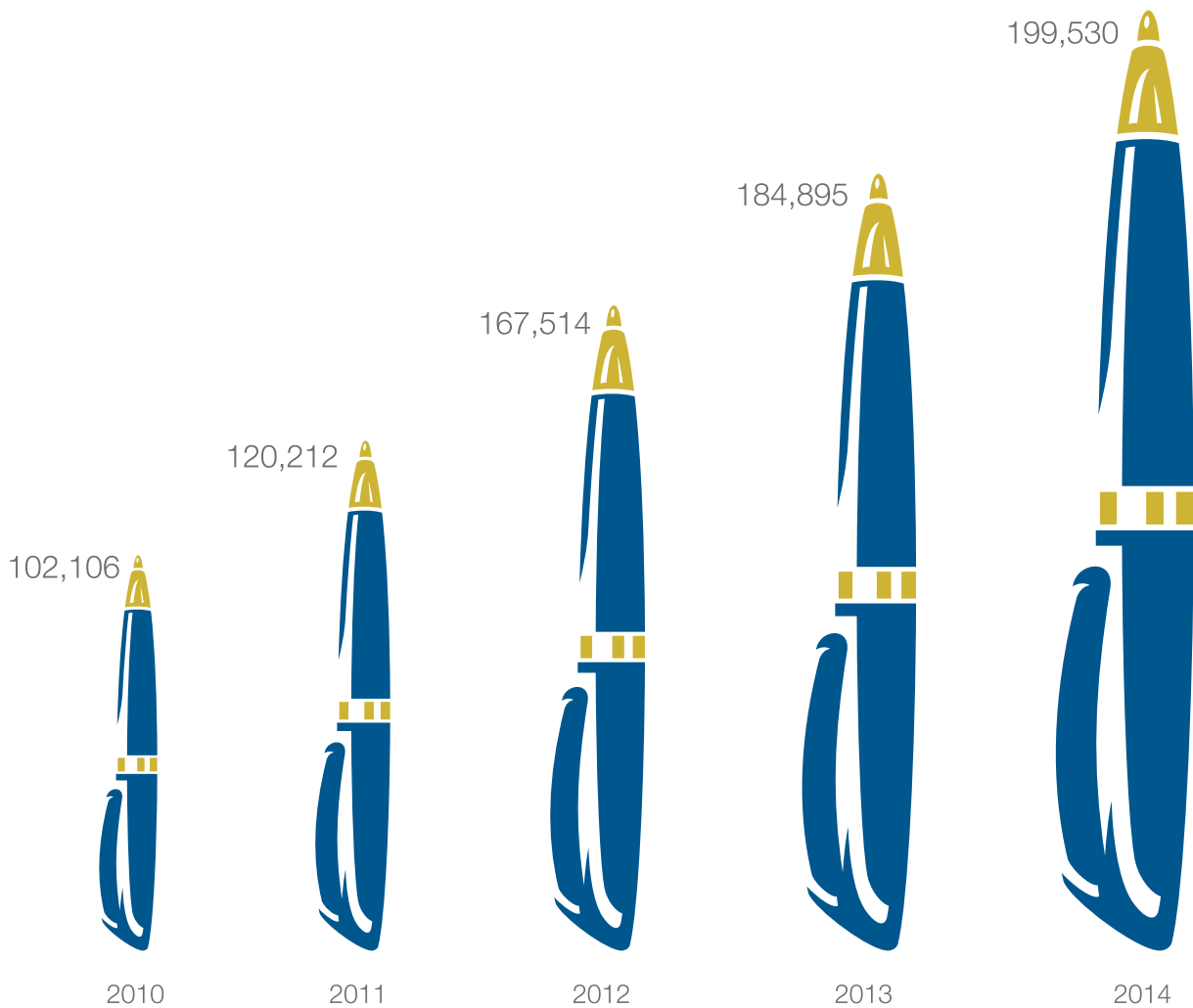
SUSTAINABLE GROWTH

TOTAL LOANS 'RO in 000'



SUSTAINABLE GROWTH

SHAREHOLDERS' EQUITY 'RO in 000'





BOARD OF DIRECTORS



Hamdan Ali Nasser Al Hinai



Adel Mohamed
Abdelshafe El-Labban



Munir Abdulnabi
Yousef Makki



Rashad Khamis
Hamed Al Battashi



Sanjeev Baijal



Mustafa Shafqat Anwar



Keith Henry Gale



BOARD OF DIRECTORS

Hamdan Ali Nasser Al Hinai

Chairman

Holds Masters in Development and Project Management, Bachelors in Business Management & Economics and Diploma in International Development Management. Director General for Purchasing and Contact, Ministry of Defence; Chairman, Oman Power and Water Procurement Company SAOC.

Adel Mohamed Abdelshafe El-Labban, First Deputy Chairman

Holds a Masters in Economics from the American University, Cairo, Bachelors in Economics from American University, Cairo and a General Certificate of Education from London University. Group Chief Executive Officer & Managing Director, Ahli United Bank BSC, Bahrain; Director, Ahli United Bank PLC, UK; Director, Ahli United Bank KSCP Kuwait; Deputy Chairman, Ahli United Bank SAE Egypt; Deputy Chairman, Commercial Bank of Iraq PSC, Iraq; Deputy Chairman, United Bank for Commerce & Investment Libya; Director, Bahrain Association of Banks, Bahrain.

Munir Abdulnabi Yousef Makki Second Deputy Chairman

Holds Bachelors of Arts in Political Science from the American University, USA, Masters of Arts in international relations, USA and DEA University of Sorbonne, Paris, France. Director, Qatar Oman Investment Company; Chairman and Managing Director, Advent United LLC; Chairman and Managing Director, Rami advanced projects and Services LLC; Chairman, Enthraltech LLC; Member of the Chambers of Commerce and Industry of Oman; Member, Omani Indian Businessmen Council and Economic Committee; Former Ambassador of Oman to France, Belgium, Spain, Portugal, European Union, Ivory Coast, Chad and Senegal. Former Managing Director and President, The Financial Corporation SAOG (FINCORP).

Sanjeev Bajjal Director

Chartered Global Management Accountant under Association of International Certified Professional Accountants; Member of the American Institute of Certified Public Accountants (AICPA), and Associate Member of the Institute of Chartered Accountants of India (ACA). Deputy Group CEO: Finance and Strategic Development, Ahli United Bank BSC, Bahrain; Deputy

Chairman Legal and General Gulf BSC (c) & Legal and General Gulf Takaful BSC (c), Bahrain; Director, Ahli United Bank KSCP, Kuwait; Previous experience as Group Head of Finance, Ahli United Bank BSC, Bahrain; Financial Controller, Al-Ahli Commercial Bank, Bahrain; Held various positions at Ernst & Young, Bahrain and Price Waterhouse in India.

Keith Henry Gale Director

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

Mustafa Shafqat Anwar Director

Holds a Masters of Business Administration, a Master of Public Administration and a Bachelors of Social Sciences (BSS) with Honours in Public Administration from the University of Dhaka, Bangladesh. Deputy Group CEO: Operations and Technology, Ahli United Bank BSC, Bahrain; Former Director, Ahli United Finance Company, Egypt; Former Director, Ahli United Bank SAE Egypt; Former Deputy Chief Executive Officer, Finance, Risk and Operations, Ahli United Bank SAE Egypt; Former Group Head Of Operations, Ahli United Bank BSC, Bahrain; Former Chief Operating Officer, Commercial Bank of Bahrain, Bahrain; Former Chief Operating Officer, Grindlays Bahrain Bank, Bahrain; Former Operations Manager Gulf, ANZ Grindlays Bank, UAE. Held various Management positions with ANZ Banking Group in Bangladesh, UK, UAE and Australia.

Rashad Khamis Hamed Al Battashi Director

Hold High Diploma in Advanced Accounting and Bachelors degree in Accounting, having more than 12 years' experience in investment field. Investment Analyst, Civil Services Employees Pension Fund; Director, Oman Chlorine; Director, National Gas; Director, Unigaz Oman.

CHAIRMAN'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014



‘The bank remains optimistic as it is positioned to meet the evolving changes arising out of changing market conditions both in the region and globally and will attempt to sustain its progress and positive performance into 2015.’

CHAIRMAN'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014



On behalf of the Board of Directors of Ahli Bank SAOG; I am pleased to present ahlibank's financial results and accompanying financial statements for the year ended 31 December 2014.

Oman's Economy:

The economy witnessed 4.4% growth in 2014, with Oman's banking sector continuing to show positive results. The Banking sector showed a marked improvement in performance of 10.5% growth in the Credit and 14% increase in deposits during the eleven months period ending November 2014 compared to the same period of 2013. The interest rates on deposits showed a declining trend in line with the global trends and are expected to continue in the short to medium term, which shall contribute the support of Bank credit growth and stimulate investment activity.

The Government's commitment and support towards projects and diversification of the economy to stimulate economic growth is reflected in its affirmative Budgeted expenditure for 2015 at RO 14.1 billion, in spite of the declining oil prices and envisaging a 5% growth in GDP for 2015.

The Sultanate's budget 2015, estimates a significant 19 percent increase in revenue from non-hydrocarbon sectors, highlighting the importance of income diversification amid a sharp decline in global oil prices. Focusing on the growth of non-oil activities, attention will mainly be concentrated on the construction, electricity, water, trade activities and services of public administration, defence and transfer industries.

Performance Overview:

ahlibank marked yet another year of good performance in 2014, demonstrating the success and viability of its core business model based on a diversified risk management, focused client centric marketing and intelligent spend practices.

	31-Dec-14	31-Dec-13	Growth %
	RO in millions		
Equity	200	185	8%
Loans & advances and financing, net	1,389	1,105	26%
Customers' deposits	1,076	955	13%
Total assets	1,645	1,339	23%
Operating income	51.6	46.6	11%
Operating expenses	17.7	15.8	12%
Profit for the year	25.1	23.0	9%

The financial results for the year ended 31 December 2014 reflects growth in key areas in line with the bank's business plan and an increase in core earnings.

- The bank's net profit increased by 9%, and went up to RO 25.1 million, as compared to RO 23.0 million last year.
- Total Assets stood at RO 1,645 million from RO 1,339 million last year, depicting an increase of 23%.
- The bank's Loans and Advances portfolio increased by 26%, to RO 1,389 million from RO 1,105 million. The loan book continues to be of a very high quality as reflected in our NPL ratio of 0.97% in 2014 (2013: 0.97%)
- In line with the bank's strategy to build a stable low cost deposit base, Customers' Deposits grew by 13% from RO 955 million to RO 1,076 million.
- Continued focus on enhanced productivity and business diversification resulted in an improvement in the Operating Income by 11%. (RO 51.6 million in 2014, as compared to RO 46.6 million in 2013).
- Operating Expenses (excluding loans and investments impairment net of recoveries) were controlled at RO 17.7 million, due to prudent cost spends resulting in a cost to income ratio of 34.2%.
- The bank's Equity increased to RO 200 million in 2014, from RO 185 million in 2013 (8% increase).

CHAIRMAN'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014



Recognition:

The many awards and recognition received by ahlibank over the years is a direct consequence of the bank's strong financial performance and its adoption of long-term sustainable business strategies. The Bank has adopted a prudent risk management approach enabling it to remain focused on its asset quality and at the same time continually improving its customers' services and efficiency.

Third year in succession, the Bank is "Ranked Best Bank of the Sultanate" in the OER-Gulf Baader Capital Markets survey of the Best Banks in Oman, 2013. The Bank also received "World's Best Bank Award 2014" from Global Finance Magazine. In the year 2014, yet another prestigious award was conferred on the bank by leading international finance magazine "World Finance's Banking Awards 2014" that declared ahlibank as the 'Best Commercial Bank' and 'Most Sustainable Bank' in Oman. The awards came in appreciation of ahlibank's continuous commitment towards providing excellent services to its clientele, and its vision to implement international best practices to ensure the delivery of trusted and best commercial banking services to its customers.

Strategic Way Forward:

Based on the 2014 results and its business momentum going forward, 2015 is expected to be another promising year for ahlibank; wherein the bank will continue to remain focused in areas of risk and cost control and will continue to leverage its strategic partner strength to service customer needs. The bank remains optimistic as it is positioned to meet the evolving challenges arising out of changing market conditions both in the region and globally and will attempt to sustain its progress and positive performance into 2015.

Furthermore, in line with its efforts to expand its network, the bank has also plans to open or relocate branches and broaden its ATM infrastructure in 2015. In line with the directive of the Central Bank of Oman to encourage SME business, the Bank continues to support the growth of SME business in the country through a separate strategic business unit.

Acknowledgements:

ahlibank remains eternally grateful to His Majesty Sultan Qaboos Bin Said for his vision and guidance, which has helped the country along its path of growth and prosperity during the last 44 years.

On behalf of the Board of Directors and Management, it is once again my pleasure to thank our shareholders to their continuing support and confidence reposed in ahlibank. It is needless to state that our achievements during 2014 were only made possible through the guidance of the Central Bank of Oman and Capital Market Authority, support and trust of our clients, business partners and customers and the dedication, professionalism and resilience of our staff. We also acknowledge the contribution of our strategic partner Ahli United Bank, Bahrain which has been invaluable in terms of ahlibank's development over the years.

Hamdan Ali Nasser Al Hinai

Chairman

Dated: 27th January 2015

CORPORATE
GOVERNANCE
REPORT



Report of Factual Findings on the corporate governance reporting of Ahli Bank SAOG and its application of the corporate governance practices in accordance with the CMA code of corporate governance

TO THE SHAREHOLDERS OF AHLI BANK SAOG

We have performed the procedures prescribed in Capital Market Authority (CMA) circular no 16/2003, dated 29 December 2003 with respect to the accompanying corporate governance report of Ahli Bank SAOG ('the bank') and its application of corporate governance practices in accordance with the CMA code of corporate governance issued under circular no. 11/2002 dated 3 June 2002 and the CMA Rules and Guidelines on disclosure, issued under CMA administrative decision 5, dated 27 June 2007. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the extent of the bank's compliance with the code as issued by the CMA.

We report our findings below:

We found that the bank's corporate governance report fairly reflects the bank's application of the provisions of the code and is free from any material misrepresentation.

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

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. 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 2014 and does not extend to any financial statements of the Ahli Bank SAOG, taken as a whole.



27 January 2015
Muscat

INTRODUCTION

Corporate Governance is about commitment to values and ethical business conduct. It is about how an organization is managed. This includes its corporate and other structures, its culture, policies and the manner in which it deals with various stakeholders. Accordingly, timely and accurate disclosure of information regarding the financial situation, performance, ownership and governance of the bank is an important part of corporate governance. This improves the public understanding of the structure, activities and policies of the bank. The Capital Market Authority (CMA) directives and the Central Bank of Oman (CBO) circular BM 932 on Corporate Governance in Banks are the principal codes and drives of the Corporate Governance practices in Sultanate and Ahli Bank SAOG (the Bank) fully complies with all of their provisions.

Corporate Governance practice embodies the dual goals of protecting the interests of all stakeholders while respecting the duty of the board and senior management to oversee the affairs of a bank, ensure accountability, inculcate integrity and promote long-term growth and profitability. We believe that sound Corporate Governance is critical to enhance and retain investor trust. Accordingly, we always seek to ensure that we attain our performance rules with integrity. Our Board exercises its fiduciary responsibilities in the widest sense of the term. We also endeavor to enhance long-term shareholder value and respect minority rights in all our business decisions.

Our Corporate Governance philosophy is based on the following principles:

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

At the core of Corporate Governance practice is the Board, which oversees how the management serves and protects the long-term interests of all the stakeholders of the Bank. We believe that an active, well-informed and independent board is necessary to ensure the highest standards of corporate governance.

CORPORATE GOVERNANCE IMPLEMENTATION INITIATIVES AT AHLI BANK SAOG

Good corporate governance is vital in supporting the delivery of our strategic objectives. Our Board Committees play an important role in the working with management to ensure our business is financially strong, that it is well-governed and that any risks are identified and mitigated. Over the years, the Board has developed a corporate governance culture to help fulfill our corporate responsibility to various stakeholders. This ensures that the Board will have the necessary authority and practice in place to review and evaluate our operations periodically.

In compliance with the regulatory requirements and as per the best industry practices, four board level sub-committees have been set up to ensure effective functioning of the Board.

The Corporate Governance Structure of the Ahli Bank SAOG is depicted below:



BOARD OF DIRECTORS AND SUB-COMMITTEES OF AHLI BANK SAOG

Board of Directors:

Our principal duty, collectively, is to promote the long term success of the ahlibank by creating and delivering sustainable shareholder value. We do this by setting the strategy and overseeing its implementation by management. While our ultimate focus is long term growth, we also need to deliver on the short term objectives and we seek to ensure that the management strikes the right balance between the two.

Size and terms of the Board

The Board consists of nine non-executive directors who were elected by the Shareholders at the Annual General Meeting which was held on 24 March 2014. The term of office of the Board of Directors is three years which will expire in March 2017.

Profile of Board Members

The profile of the Board members is provided below;

Hamdan Ali Nasser Al Hinai

Chairman

Holds Masters in Development and Project Management, Bachelors in Business Management & Economics and Diploma in International Development Management. Director General for Purchasing and Contract, Ministry of Defence; Chairman, Oman Power and Water Procurement Company SAOC.

Adel Mohamed Abdelshafe El-Labban

First Deputy Chairman

Holds a Masters in Economics from the American University, Cairo, Bachelors in Economics from American University, Cairo and a General Certificate of Education from London University. Group Chief Executive Officer & Managing Director, Ahli United Bank BSC, Bahrain; Director, Ahli United Bank PLC, UK; Director, Ahli United Bank KSCP Kuwait; Deputy Chairman, Ahli United Bank SAE Egypt; Deputy Chairman, Commercial Bank of Iraq PSC, Iraq; Deputy Chairman, United Bank for Commerce & Investment Libya; Director, Bahrain Association of Banks, Bahrain.

Munir Abdulnabi Yousef Makki

Second Deputy Chairman

Holds Bachelors of Arts in Political Science from the American University, USA, Masters of Arts in international relations, USA and DEA University of Sorbonne, Paris, France. Director, Qatar Oman Investment Company; Chairman and Managing Director, Advent United LLC; Chairman and Managing Director, Rami advanced projects and Services LLC; Chairman, Enthraltech LLC; Member of the Chambers of Commerce and Industry of Oman; Member, Omani Indian Businessmen Council and Economic Committee; Former Ambassador of Oman to France, Belgium, Spain, Portugal, European Union, Ivory Coast, Chad and Senegal. Former Managing Director and President, The Financial Corporation SAOG (FINCORP).

Sanjeev Bajjal

Director

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

Keith Henry Gale

Director

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

Mustafa Shafqat Anwar

Director

Holds a Masters of Business Administration, a Master of Public Administration and a Bachelors of Social Sciences (BSS) with Honours in Public Administration from the University of Dhaka, Bangladesh. Deputy Group CEO: Operations and Technology, Ahli United Bank BSC, Bahrain; Former Director, Ahli United Finance Company, Egypt; Former Director, Ahli United Bank SAE Egypt; Former Deputy Chief Executive Officer, Finance, Risk and Operations, Ahli United Bank SAE Egypt; Former Group Head Of Operations, Ahli United Bank BSC, Bahrain; Former Chief Operating Officer, Commercial Bank of Bahrain, Bahrain; Former Chief Operating Officer, Grindlays Bahrain Bank, Bahrain; Former Operations Manager Gulf, ANZ Grindlays Bank, UAE. Held various Management positions with ANZ Banking Group in Bangladesh, UK, UAE and Australia.

Rashad Khamis Hamed Al Battashi

Director

Hold High Diploma in Advanced Accounting and Bachelors degree in Accounting, having more than 12 years' experience in investment field. Investment Analyst, Civil Services Employees Pension Fund; Director, Oman Chlorine; Director, National Gas; Director, Unigaz Oman.

Safana Mohamed Al Barwani

Director (Ex Director)

Holds Bachelors degree in Finance from University of Tulsa, USA. Director, MB Holding Company LLC; Director, MB Petroleum Services LLC; Director, Crest Petroleum LLC; Director, Musstir LLC.

Usama Mohammed Al Barwani

Director (Ex Director)

Holds Masters in Commerce, Finance and Energy, Bachelors of Petroleum Engineering. Chairman, Flexible Industrial Packages Co.

Executive powers of the board are:

1. Power of approving financial objectives, the business and financial policies of the Bank.
2. Power of approving internal regulations as well as specifying the powers, responsibilities and authorities of the executive management.
3. Power of reviewing and monitoring the disclosures and the compliance with regulatory requirements.
4. Power of nominating the members of the Sub-Committees, CEO and the key employees.

Details of number of Board Meetings held during the year 2014

Sl. No.	Board Meeting
1.	20-Jan-2014
2.	24-Mar-2014
3.	22-Apr-2014
4.	22-Jul-2014
5.	22-Oct-2014
6.	09-Dec-2014

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/ Representing MOD Pension Fund	6	CC, ECC	Yes
Adel Mohamed Abdelshafe El-Labban	First Deputy Chairman	Non-Independent/ Representing Ahli United Bank	5	CC, ECC, ERC	Yes
Munir Abdulnabi Yousef Makki	Second Deputy Chairman	Independent	6	AC	Yes
Sayyid Khalid Hamad Hamood Al Busaidi *	Director	Independent	1	ERC	No
Sanjeev Bajjal	Director	Non-Independent	6	AC	Yes
Keith Henry Gale	Director	Non-Independent	6	CC, ECC, ERC	Yes
Mustafa Shafqat Anwar	Director	Non-Independent	5	ERC	Yes
Safana Mohamed Al Barwani **	Director	Non-Independent / Representing MB Holding	4	ERC	Yes
Rashad Khamis Hamed Al Battashi	Director	Independent	5	AC	Yes
Usama Mohammed Al Barwani **	Director	Non-Independent	4	ECC	Yes

Audit and Compliance Committee - AC, Executive and Credit Committee - ECC, Executive Risk Committee - ERC, Compensation Committee - CC.

* Not re-elected in March 2014 election

** Resigned during December 2014

Note 1: All the directors on Board are non-executive directors.

Note 2: Independent directors are as per Article 1 of Code of Corporate Governance of MSM Listed Companies, revised definition issued through circular E/14/2014 dated 24th October 2012.

SUB-COMMITTEES

ahlibank has four board level committees to ensure the smooth functioning of the Bank; these are:

- A. Audit and Compliance Committee
- B. Executive and Credit Committee
- C. Executive Risk Committee
- D. Compensation Committee

A. Audit and Compliance Committee:

The role of the Audit and Compliance Committee includes:

- Reviewing the scope of external and internal audits and over-see of 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.
- Over-see the compliance with Corporate Governance and monitoring of Risk Management activity within the Bank.

Composition of Audit and Compliance Committee and Details of Meetings held and Attendance Record of Members during the year 2014:

Composition of Audit Committee		Meetings Dates			
Director's Name	Position	20-Jan 2014	22-Apr 2014	22-Jul 2014	22-Oct 2014
Munir Abdulnabi Yousef Makki	Chairman	Yes	Yes	Yes	Yes
Sanjeev Bajjal	Member	Yes	Yes	Yes	Yes
Mustafa Shafqat Anwar *	Member	Yes	N/A	N/A	N/A
Rashad Khamis Hamed Al Battashi *	Member	N/A	Yes	Yes	No
Attendance		3	3	3	2

*Sub-Committees reconstituted after election in March 2014

B. Executive and Credit Committee:

The role of the Executive and Credit Committee includes:

- To provide the Board with a mechanism for considering in depth, any issue that the Board considers that requires detailed attention
- To allow management to obtain input for the development of proposals prior to Board submission

B. Executive and Credit Committee (continued):

- To approve matters beyond the management's delegated authority but which do not need full Board approval.
- To focus on strategic reviews and proposals, investments, treasury and liquidity management, business plans and such other matters

Composition of Executive Credit Committee and Details of Meetings held and Attendance Record of Members during the year 2014:

Composition of Executive and Credit Committee		Meetings Dates				
Director's Name	Position	25-Feb 2014	22-Jul 2014	23-Sep 2014	22-Oct 2014	09-Dec 2014
Hamdan Ali Nasser Al Hinai	Chairman	Yes	Yes	Yes	Yes	Yes
Adel Mohamed Abdelshafe El-Labban	Member	Yes	Yes	Yes	Yes	Yes
Keith Henry Gale	Member	Yes	Yes	Yes	Yes	Yes
Usama Mohammed Al Barwani *	Member	Yes	Yes	No	Yes	No
Attendance		4	4	3	4	3

* Resigned during December 2014

C. Executive Risk Committee:

The role of the Executive Risk Committee includes:

- Integrated approach to managing the risks inherent in various aspects of our business.
- Executive Risk Committee is responsible for monitoring risk levels according to various parameters and management is responsible for ensuring mitigation measures.
- To focus on review of all policies governing Bank's risk and funding exposure.
- To ensure 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 held and Attendance Record of Members during the year 2014:

Composition of Executive Risk Committee		Meetings Dates			
Director's Name	Position	25-Feb 2014	22-Jul 2014	22-Oct 2014	09-Dec 2014
Adel Mohamed Abdelshafe El-Labban	Chairman	Yes	Yes	Yes	Yes
Keith Henry Gale	Member	Yes	Yes	Yes	Yes
Safana Mohamed Al Barwani *	Member	Yes	Yes	Yes	No
Rashad Khamis Hamed Al Battashi #	Member	Yes	N/A	N/A	N/A
Mustafa Shafqat Anwar #	Member	N/A	No	Yes	Yes
Attendance		4	3	4	3

* Resigned during December 2014

Sub-Committees reconstituted after election in March 2014

D. Compensation Committee:

The role of the Compensation Committee includes:

- The committee reviews the performance of all executive directors and management.
- The committee believes that compensation and benefits are adequate to motivate and retain the senior members of management of the Bank.
- To advise the Bank's Board and Chairman on the remuneration of Board Members, appointment of senior management personnel and remuneration of senior management personnel.

Composition of Compensation Committee and Details of Meetings held and Attendance Record of Members during the year 2014:

Composition of Compensation Committee		Meetings Dates
Director's Name	Position	20-Jan-14
Hamdan Ali Nasser Al Hinai	Chairman	Yes
Adel Mohamed Abdelshafe El-Labban	Member	Yes
Keith Henry Gale #	Member	N/A
Attendance		2

Sub-Committees reconstituted after election in March 2014

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) not later than 10 days before date fixed for the General Meeting for election of the Board members. The application shall be reviewed by the Board of the Bank to ensure eligibility of the candidate. The Bank shall lodge the application form with the Capital Market Authority at least four days before the date of general meeting.

The director shall be elected by direct secret ballot by the shareholders. Each shareholder shall have number of votes equal to that of the shares held by him.

EXECUTIVE MANAGEMENT OF AHLIBANK

Lloyd Maddock

Chief Executive Officer

Is a Bachelor of Engineering in Civil & Mining Engineering from the University of Exeter, UK. Former Deputy Group CEO Corporate Banking, Ahli United Bank BSC, Bahrain; Former Chief Executive Officer, HSBC Pakistan; Former Chief Executive Officer, HSBC Kuwait; Former Head of Wholesale Credit & Risk, HSBC MENA region subsequent to working in various senior management roles with HSBC covering Corporate Banking, Strategy and Risk Management.

Chandrashekhar Chetty

DCEO – Support Services

Hold Masters in Administrative Management from the Jamnallal Bajaj Institute of Management Studies, Mumbai University; Bachelor in Science from Wilson College, Mumbai University. Former COO, Global Retail & Commercial Bank Barclays Bank PLC, India, Former COO, Calyon Bank India; Former COO, Credit Agricole Indosuez, India; Former COO, Dresdner Bank Group, India; Executive Assistant to Group CEO, Dresdner Bank, Group, Asia-Pacific Region, Singapore.

CB Ganesh

DCEO - Banking Group (responsible for Wholesale Banking, Retail Banking, Treasury and Investment Banking)

Holds Masters in commerce, Masters of Bank Management, Bachelors in commerce and Certified Associate of Indian Institute of Bankers. Former Head of Trade Finance, ICICI Bank Ltd, India; Former Dy. Chief Executive & Head of Wholesale Banking, North Asia, ICICI Bank Ltd; Former Regional Head, Corporate Banking, South India, ICICI Bank.

NON-COMPLIANCE

There has neither been any non-compliance of legal requirements nor have been any penalties or strictures imposed by the regulators on any matters relating to the capital market over the last three years.

REMUNERATION MATTERS

An amount of RO 163,700 is proposed as Board Remuneration in addition to the sitting fees paid to the Board members for year 2014. The details of sitting fees paid are below:

Name of Director	Sitting Fees Paid (RO)
Hamdan Ali Nasser Al Hinaï	6,000
Adel Mohamed Abdelshafe El-Labban	5,800
Munir Abdulnabi Yousef Makki	4,500
Sayyid Khalid Hamad Hamood Al Busaidi *	500
Sanjeev Bajjal	3,700
Keith Henry Gale	5,200
Mustafa Shafqat Anwar	2,900
Safana Mohamed Al Barwani #	2,400
Rashad Khamis Hamed Al Battashi	2,900
Usama Mohammed Al Barwani #	2,400
Total	36,300

* Not re-elected in March 2014 election.

Resigned during December 2014

Total remuneration paid to the top five executives of the bank amounted to RO 981,080 during the year 2014 which included salary, benefits, perquisites, bonuses and gratuities.

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 five executive officers other than compensation for short notice of termination of services.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

Ahli Bank SAOG publishes quarterly accounts and the same are uploaded on the Muscat Securities Market (MSM) 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. Management makes regular presentations to analysts, the press and investors. These briefings outline the Bank's performance, and strategy on future prospects.

The Management report is part of the Annual Report.

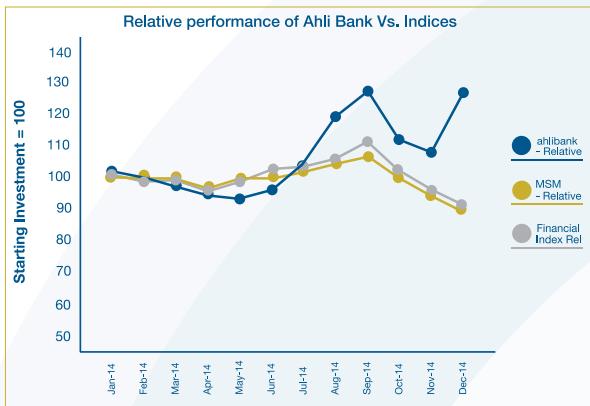
MARKET PRICE DATA:

High / Low share prices in 2014

Table below shows the high / low prices of the Bank's shares in Rial Omani during the months in the year 2014.

Month	High	Low
Jan-14	0.202	0.186
Feb-14	0.197	0.190
Mar-14	0.192	0.182
Apr-14	0.185	0.179
May-14	0.182	0.173
Jun-14	0.185	0.173
Jul-14	0.200	0.183
Aug-14	0.233	0.197
Sep-14	0.260	0.233
Oct-14	0.248	0.206
Nov-14	0.223	0.198
Dec-14	0.255	0.175

Performance of Ahli Bank SAOG Vs MSM and Banking Indices



Distribution of share ownership among shareholders as of 31 December 2014:

Name	Country of incorporation	Number of shares	%
Ahli United Bank	Bahrain	453,420,584	35.00
International Finance Corporation	USA	128,314,941	9.91
Oman Investment Fund Holding LLC and Oman Investment Fund	Oman	123,123,559	9.50
Ministry of Civil Services – Pension Fund	Oman	109,095,169	8.42
Ministry of Defense – Pension Fund	Oman	91,785,868	7.09
Oman International Development and Investment Company SAOG	Oman	83,898,163	6.48
Others	-	305,849,120	23.60

Hamdan Ali Nasser Al Hinai
Chairman Board of Directors

Munir Abdunabi Yousef Makki
Chairman Audit and Compliance Committee

DONATIONS

The Bank paid a donation of RO 48,000 to various charitable organizations and RO 25,000 towards MyHassad Special Ramadhan Charity offer to various organizations.

EXTERNAL AUDITOR'S PROFILE – Ernst & Young

Ernst & Young (EY) are the statutory auditors of the Bank. EY have been operating in the Sultanate of Oman since 1974 and are the largest professional services firm in the country. EY Oman, forms part of EY's EMEIA practice, with 4,015 partners and over 90,500 professionals in 462 offices throughout the EMEIA geographical area. Globally EY operates in more than 150 countries and employs 190,000 professionals.

EY in Oman is accredited by the Capital Market Authority (CMA) to audit joint stock companies (SAOG's). For the year 2014, total remuneration of RO 49,000 is approved for EY towards professional services rendered to the Bank (RO 39,500 audit, RO 7,000 Sharia Audit and RO 1,000 for tax return and RO 1,500 other professional services).

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.

MANAGEMENT
DISCUSSION &
ANALYSIS



Economic Overview

In 2014, the economy witnessed overall GDP growth of 4.4% to RO 24.5 billion, within which the hydrocarbon sector contributed 45% of GDP (+1.4% growth) and the non hydrocarbon sector 55% of GDP (+8.2% growth). The overall GDP growth achievement compares favourably within the region, however the hydrocarbon sector continues to contribute 80% of government revenues.

The Sultanate's 2015 budget comes amidst the fall in global oil prices, but forecasts only a marginal 0.9% overall decline in revenues to RO 11.6 billion, supported by a significant overall increase in non-hydrocarbon revenues of 19%, including a 28.5% increase in taxes and fees. Overall expenditure is forecasted to increase by 4.4% to RO 14.1 billion, with notable increases in expenditure towards education (+27%), healthcare (+16.6%) and social services (+16.8%). The expansionary nature of the budget, and the continued investment focus upon building diversified revenue streams, provides positive sentiment notwithstanding concerns about the uncertain outlook for global oil prices.

Financial sector

For the 11 months ended November 2014, the Banking sector achieved a consistent performance, with Total Assets increasing by 10.5% to RO 24.7 billion, within which Credit increased by 10.4% to RO 16.8 billion and

Total Deposits by 14% to RO 17.3 billion. Capitalisation and Liquidity remained comfortable.

In early December 2014, the Muscat Securities Market witnessed a sharp decline as oil prices fell. However, local investors quickly saw value, and invested into the market, reversing declines prior to the year end.

Opportunities

The Government's commitment and support towards development projects and economic diversification was clearly demonstrated by the budget statement, and GDP is consequently expected to record consistent growth of 5% in 2015.

The major government-led projects include the first railway link between Sohar and Buraimi, continued development at Duqm, the Liwa Plastics plant and residential township, a sewage network project in Muscat governorate, wastewater treatment plants in various wilayats, the development of infrastructure for aquaculture ventures, the National Convention Centre plus three hotels through Omran, and the Muscat-Sohar pipeline project of ORPIC.

Financial Review

The year 2014 was another good year for ahlibank. The Bank's performance has improved over the previous year registering a net profit of RO 25.1 million for the financial year ended December 2014 compared to RO 23.0 million for the previous year, a year-on-year increase of 9.1%.

Five year summary

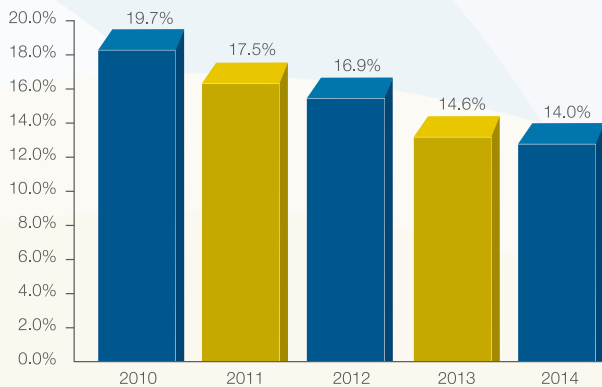
RO ' Million	Dec 14	Dec 13	Dec 12	Dec 11	Dec 10
Net profit	25.1	23.0	21.7	18.2	14.1
Total assets	1,644.8	1,339.5	1,099.2	929.6	805.6
Loans & advances and financings, net	1,388.9	1,104.9	927.4	768.6	656.4
Total Deposits	1,076.2	955.1	738.4	668.9	632.2
Total liabilities	1,445.3	1,154.6	931.7	809.4	703.5
Shareholders' equity	199.5	184.9	167.5	120.2	102.1
Return on average assets (ROAA)	1.7%	1.9%	2.1%	2.1%	2.0%
Return on average equity (ROAE)	13.1%	13.1%	15.1%	16.4%	14.5%
Cost to income ratio	34.3%	33.9%	31.4%	30.1%	35.9%
Capital adequacy ratio	14.0%	14.6%	16.9%	17.5%	19.7%
Net interest margin	2.5%	2.7%	2.7%	2.4%	2.6%
Earnings per share (baizas)	19.4	17.8	18.3	16.7	12.9
Total Number of Branches	19	19	12	12	12
- Conventional	12	12	12	12	12
- Islamic	7	7	Nil	Nil	Nil
ATM's	25	25	18	17	17
Number of staff	445	427	340	288	243

The asset base of the Bank has doubled over the last 5 years growing from RO 805.6 million as at 31 December 2010 to RO 1,644.8 million at the end of year 2014, at compounded annual growth of 15.3% in the last five years. The Bank continues to adopt a prudent risk management approach to deliver maximum return to its stakeholders.

Capital and Reserves

Capital and Reserves of the Bank as of 31 December 2014 stood at RO 199.5 million as compared to RO 102.1 million as at 31 December 2010 having annual compound growth of over 14.3%. The Capital adequacy ratio of the Bank was at 13.96% well above the minimum of 12.0% required by Central Bank of Oman.

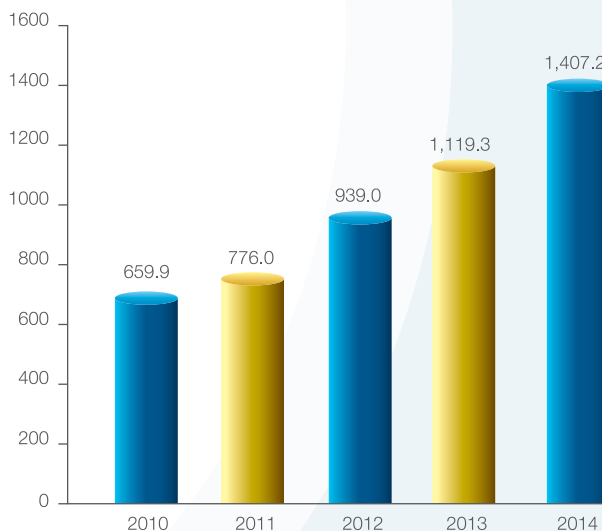
Capital Adequacy Ratio



Loans and financings

The gross loans and financings grew annually at the compound growth rate of 16.3% to reach at RO 1,407.2 million as at 31 December 2014 from RO 659.9 million as at 31 December 2010. The Bank continues to adopt a prudent risk management approach while endeavoring to meet the requirements of its growing clientele.

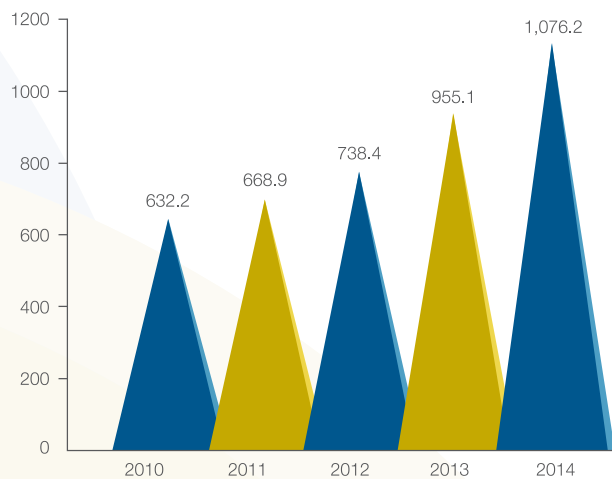
Gross Loans & Advances and Financing - RO' Million



Customer Deposits

The customer deposits increased to RO 1,076.2 million in 2014, an increase of over 11.2% compounded annually from the year ended 2010. The growth in deposit is in line with the Bank's strategy to create a diversified stable low cost funding base.

Customer's Deposits - RO' Million

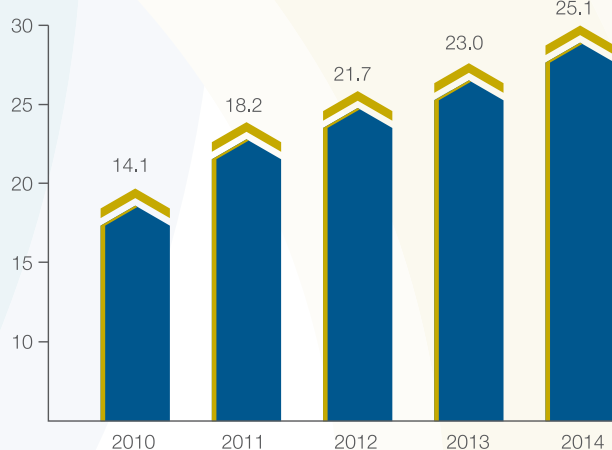


Profitability

The Bank has been able to post strong profit growth over the period of last five years as corroborated by good EPS and return on equity. Profit after tax has grown from RO 14.1 million for the year 2010 to RO 25.1 million for the year 2014.

The profitability ratios have been in line with strategic growth plan and are reflective of the continued focus on enhanced productivity and business diversification.

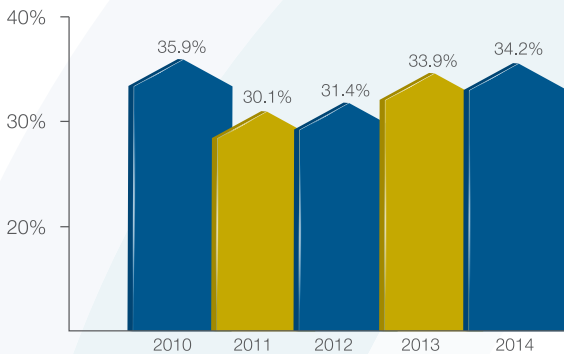
Profit after Tax - RO' Million



Cost to Income ratio

The operating costs year over year has been controlled due to prudent cost spends as the management has been able to introduce cost effective techniques / methods to exercise control over expenses. The cost to income ratio of the Bank is one of the lowest in the industry at 34.2%.

Cost-to-Income Ratio



ahlibank Business Units

At ahlibank we strive to provide our valued customers with the best banking propositions, through convenient channels, in a timely manner and with the highest levels of accuracy and reliability. This aim is supported by consistent investment in our systems and in our people, to best orchestrate the delivery of our products and services.

Corporate

ahlibank's corporate banking brand continues to grow in stature. Our industry specific teams have a deep understanding of their respective local and regional markets, and this ensures fast turnaround times across all competitively priced banking services.

The industry specific divisions comprise of : food and general trading, manufacturing, energy and utilities, real estate, contracting, financial services, travel and tourism, Al Hilal Islamic Banking Services, and SME; supported by the Treasury, Trade Finance and Electronic Banking teams. ahlibank Corporate Banking caters to the needs of large, medium and small customers providing the entire range of financial products / services in the form of:

- Term loans to fund commercial real estate or capital expenditure, project and structured finance, contracting & construction finance, leasing and heavy equipment finance, local and international debt syndication, foreign exchange, trade finance and payments & cash management.
- Working capital finance in the form of guarantees, fund-based limits, non-fund based limits.

Retail

ahlibank continues to focus on innovative products and services, both for its conventional and Islamic customers, in order to increase its foothold and market presence.

During 2014, the Bank further expanded the distribution network through new branches, offsite banking kiosks, new offsite ATMs and multifunctional cash deposit machines to enhance customer experience and give a wider access to their banking requirements. In addition, the Bank launched Ahlibank's mobile platform with access to multiple services, as well as introduced utility payments through SMS and Internet banking.

In order to promote service levels, all staff members attended various client centric workshops and product knowledge seminars, which help them in understanding the needs of customers in a better way and at the same time, address the requirements effectively and efficiently as well.

Cards

ahlibank offers a comprehensive range of cards, suited across various customer segments including Classic, Gold, Platinum and Signature. With the recent launch of Islamic Credit Cards, ahlibank has become the first Bank to offer a Visa Signature Islamic Credit Card in the Sultanate, based on the true principles of Sharia. Islamic credit cards, which come in two variants of Signature and Platinum, are Oman's first socially responsible credit cards, whereby every time a customer uses the card, the Bank contributes a fixed percentage to charity.

Card spend "Pearl" points can be redeemed for air miles with major regional airlines. When purchasing air tickets with an ahlibank card, worldwide travel and medical insurance is provided. The Cards proposition is underpinned by the Al Ma'ida dining program, which offers up to 25% discounts at various restaurants across the Sultanate.

Personal Loans

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

Home Loan

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

MySmart

MySmart from ahlibank is a unique savings proposition that offers a high interest bearing savings account, along with the flexibility of a transactional account. The account

calculates interest on average balances and pays out on monthly basis; this is coupled with the use of a cheque book to transact freely! Customers are free to use their funds anytime without any notice period, while enjoying high interest rates on the balance available in their account.

MyGlobal

ahlibank gives its customers the freedom of using their bank across borders! With MyGlobal, ahlibank in Oman, Egypt, Bahrain, Kuwait and UK, provides a single consolidated relationship statement covering accounts in all countries, with greater ease and convenience. The product offering includes transaction accounts in any of the specified geographies. MyGlobal customers can simultaneously initiate a relationship with the strategic partners and avail the privileges of banking with ahlibank in Oman and across the network.

Instant Car Loan

ahlibank's all-new Instant Car Loan was launched in 2014. It guarantees fast approvals, offering financing for all new car purchases, at competitive interest rates, up to 7 years repayment option and high loan amount.

SME

In Oman, SMEs represent 90% of commercial registrations, and account for 16% of GDP, serving as an important source of employment. With the Oman economy in rapid growth mode, the trade between Oman, rest of the Gulf and the world has led to more entrepreneurs in Oman setting up new businesses as well as expanding existing ones. The opportunities for small and medium sized companies have increased substantially.

ahlibank, recognizes the contribution of SMEs in the nation's economy and understands their needs for innovative and effective banking solutions. The SME Banking division has a team of experienced customer-focused relationship managers with wide sector experience who can offer a wide range of products suitably structured to the needs and profile of each SME. The SME team's key objectives are to help each businesses reach their fullest potential and support them with customized product packages, responsive services and access to expert advice.

Treasury and Financial Institutions

As one of Oman's leading banks, ahlibank professional and experienced Treasury team, provides a comprehensive package of services in both treasury and investment products to the corporate, commercial and government

institutions. The Treasury prides itself on being one of the most proficient dealing rooms in Oman, providing corporate and individual clients with a wide selection of foreign exchange (FX) & interest rate products ranging from the traditional to the customized. Our expert team provides solutions that meet the demands of liquidity, cash flow management, interest rate fluctuations and FX volatility.

Along with our strategic partner Ahli United Bank (AUB) Bahrain, which has been awarded the Best FX bank of the Middle East, we offer state of the art Treasury Solutions to our clients. Our Treasury division is poised to offer best in class service to our clients by providing them with unparalleled access to the local market and access to markets in which our strategic partner AUB operates as well. Delivering everyday banking needs effectively and efficiently, is critical to our success. With a Treasury team that understands business needs and ambitions, and our award-winning service and solutions we are committed to helping clients succeed.

Trade Finance

The Trade Finance Department is a full-fledged specialized department of the Bank handling specific trade requirements of the Bank's corporate and retail customers. The Department liaises closely with the Bank's Corporate Banking, Retail Banking and Treasury in providing various fund based credit facilities such as Export Bills, Discounting and Import Financing and non-fund based credit facilities such as Letters of Credit, Guarantees, Export and Import Bill Collection and Risk participation for local and overseas transactions. The Bank's Trade Finance team is well trained and updated with the latest developments in the local and international markets.

Asset Management

ahlibank Asset Management Division (AMD) witnessed impressive growth in assets under management (AUM) for the year 2014, both within the discretionary portfolio management (DPM) services and mutual fund verticals.

Growth was facilitated via securing mandates from local pension funds, corporate and high-net worth individuals. The growth of the business has enabled the Bank to add streams of fee income, ranging from management fees, performance fees and administrative fees.

AMD also facilitated the growth of our Brokerage and Advisory services business within AMD. With volatility witnessed both within the equity, debt and sukuk market place, our focus has steadfastly remained to preserve principle and enhance long-term return potential across diverse mandates.

Al Hilal Islamic Banking Services

The Bank launched its Islamic Banking window under the brand name "Al Hilal Islamic Banking Services" in 2013. Al Hilal offers a bouquet of Sharia compliant products and services which cater to institutional, corporate and retail clientele through seven dedicated branches located in Wattaya, Bahla, Rustaq, Saham, Salalah, Samail and CBD. With the most recent launch of Islamic Credit Cards, Al Hilal has become the first Bank in Oman to offer Islamic Visa Signature Credit Card with a unique value proposition revolving around social responsibility. Every time the cardholder uses his/her Al Hilal Credit Card, 0.50% of every transaction's profit is donated to a charity organization. Al Hilal Islamic Banking also launched one of its kind, savings account, called Al Namaa Saving Account, which is a unique transactional savings account giving high Shari'a compliant returns based on balance tiers along with cheque book and Visa debit card, making it accessible across the world for customers. In addition to the launch of new products and services, Al Hilal Islamic Banking Services also launched service center offering sales and service facilities to potential and existing customers till late hours. More of such service center, along with E Banking, Mobile Banking and SMS Banking will be offered to Islamic Banking customers in 2015, which are currently in process.

Other Shari'a compliant products offered by Al Hilal Islamic Banking are as follows:

Deposit Products

1. Current Account - Non profit paying, transactional account for individuals, corporates and institutions
2. Savings Account - Profit paying account for regular savers who want to get the benefit of receiving halal profit on their savings
3. Al Namaa Islamic Savings Account - High profit paying, transactional account for individuals who want high profit earning based on their balances, without binding the funds for any tenor
4. Term Investment Account - Fixed deposits under Mudaraba and Wakala modes for customers who want to earn high halal profit, at easy terms of 12 months, 24 months, 36 months etc.

Our deposit products are bundled with free cheque book (current and Al Namaa savings account), free debit card, free account statements, free cash withdrawals through branches and ATMs and a host of other features for our esteemed customers

Financing Products

1. Personal Finance - High financing amount with long repayment period of 10 years at a very competitive profit rate, in order to meet financing requirements of Islamic Banking customers

2. Auto Finance - With approval within 1 hour, high financing limits and easy repayment tenors at very affordable profit rate for new and used car buyers, with the option of salary and non-salary transfers, Al Hilal's Auto Financing is the most attractive product in the market.
3. Home Finance - Up to 80% of the property value for both, ready property buying and for construction for period of up to 25 years for people who are looking to buy or construct their houses.
4. Credit Cards - Visa Platinum and Signature Islamic credit cards with the benefits of global airport lounge access, no annual fee, insurance protection, travel and lifestyle deals etc.

Al Hilal Islamic Banking Services also offers a range of customized products for corporate and SME entities; in addition to the following

1. Term and fixed asset financing
2. Project financing
3. Trade services - import murabaha
4. Vehicle and machinery leasing

In addition to the above, with thorough expertise in Islamic Banking, Al Hilal Islamic Banking Services can design specific products for entities, based on their requirements.

Risk Management

The Risk Management closely monitors Bank's core risk areas and reports to the senior management. 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, nor concentrated, relative to the Bank's capital and financial standing.

The Bank manages the risks effectively and efficiently by monitoring and approval of retail and commercial credit applications. This emphasizes a clear understanding of business requirements in terms of products, clients, delivery capabilities, competition, regulatory environment, shareholder values and the global economic environment leading to identifying the various associated risks.

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

The key to this approach is a robust and responsive organizational structure around each of the risk categories with appropriate delegated authorities from the Board of Directors.

To ensure its independence, the Bank's risk management department reports directly to the Executive Risk Committee.

The Bank's Risk Management includes the following four elements:

- Risk Identification
- Risk Measurement
- Risk Monitoring
- 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. Risks covered include credit, market, operational, interest rate and liquidity risk. 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 timely basis.

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

- Board of Directors
- Audit and Compliance Committee
- Executive and Credit Committee
- Executive Risk Committee
- Compensation Committee
- Credit and Investment Committee
- Executive Management Committee
- Special Assets Committee
- Assets and Liabilities Committee
- Operational Risk Committee
- IT Steering Committee

Policies and Procedures

The Board of Directors under its terms of reference controls and directs the Bank on behalf of the shareholders, its conduct of business, setting objectives and strategy by establishing policies under which the Bank operates. The Board of Directors approve the Bank's risk appetite, risk management strategies, policies and their 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:

- Business Continuity Management
- Dividend Policy
- Disclosure Policy
- Capital Management Policy
- Corporate Governance Policy
- Liquidity and Funding Policy

- Anti-Money Laundering Policy
- Credit and Investment Policy
- Asset Management Policy
- Personal Account Dealing Policy
- Compliance Policy
- Corporate Social Responsibility Policy
- Expenses Policy
- Human Resources Policy
- Brokerage Policy
- FATCA Policy
- Customer Complaints Redressal Policy
- New Product Committee and Procedures
- Voice Recording Policy
- Communications Policy
- Board Remuneration Policy
- Financial Institutions Policy
- Outsourcing Policy
- Code of Business Conduct
- Information Security Management Policy
- Security and Safety Policy and Plan
- Operational Risk Policy & Procedure
- Anti-Fraud Policy & Procedure
- Trading Book Policy
- Risk Management-Approach & Framework
- Social and Environment Management System
- Social Media Policy
- Zakah Policy
- Profit Distribution Policy
- Segregation of Funds Policy
- Cost Sharing Policy
- Charity Policy
- Shari'a Governance Manual

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

Information Technology

ahlibank's strategy has been to leverage Information Technology to provide convenient and efficient services to customers. IT has transformed the banking operations and made customer experience more convenient through 'Anytime, Anywhere' Banking via a range of delivery channels such as ATMs, CDMs, e-Banking, Mobile and SMS banking.

During 2014, the division implemented initiatives to prioritize IT projects in line with the Bank's strategic objectives. The division also invested in its human capital through extensive training to all staff.

The IT department successfully led several projects that positively improved customer service: Today with instant issuance, customers can open an account and receive their ATM card during the same transaction, allowing the customer to start banking from day one with no delays. Automation has streamlined the loan application processes and reduced turnaround times to best in class levels. The launch of Mobile Banking solutions at ahlibank are highly convenient, user friendly and provide a suite of comprehensive and value added services. Customers can perform fund transfers, utility bill payments, and enquire upon a host of other banking services at their fingertips.

Human Resources

The Human Resource Department of ahlibank believes in synergizing human potential through the alignment of corporate and personal goals, moving corporate culture from process to performance outcomes, developing a talent pool for success, managing people and perceptions; and always ensuring that each day is made better. This, in turn, serves as a major catalyst for creating a lasting performance culture and concentrating more on best practices to enhance the levels of Employee Engagement.

In line with the Bank's vision, retention and motivation of the workforce remains an imperative task for the HR function. The Department has taken several critical steps in this direction to ensure that we continue to remain efficient and productive in our operations, given the challenging business environment.

We exceed the Omanisation regulatory targets, which reflects our commitment and dedication to His Majesty's vision of developing young Omanis. One of the key challenges for the year 2015 will be to retain the Omani national workforce through structured development initiatives aimed at harnessing their potential and providing a platform for faster growth. The Bank adopted a need-based and focused approach to address priority value-added training requirements that were met through specially planned training and development programs throughout the year.

Corporate Social Responsibility

Support of Oman's first Public Transport Conference:
ahlibank sponsored as an SME partner Oman's first Public Transport Conference, which hosted International companies and experts representing several countries. The conference was organized by the Oman Road Transport Association in partnership with Al Nimr Conferences and was supported by the Ministry of Transport and Communications and the Ministry of Social Development.

Annual Ramadan charity drive:

As part of its Responsible Banking Charity Drive during Ramadan, an annual campaign now in its sixth year, the bank 'gave back' to various orphanages, schools, women's associations, associations for the differently-able and NGOs. The Bank's donations went to charities such as Omani Bahjah Orphan Society, Al Noor Association for the Blind Salalah, Al Hayat Association, Association for Early Intervention for Children with Special Needs, Dar Al Atta Association, Al Amal Association, Social Development Committee Sur, Omani Women Association in Bahla, Samail, Saham, Salalah, Mirbat, Ibri, Yangul, Sur, Barka & Nizwa, Association for The Welfare of the Handicapped, National Association for Cancer Awareness Ibra, Omani Association Elderly Friends Ibra, Oman Association for Disabled, Al Noor Association for the Blind Sohar, Social Development Committee Bahla, Omar Bin Al Khattab Institute for the Blind, Al Noor Association For the Blind Nizwa, Local Charity Fund Nizwa, Child Care Center, National Association for Cancer Awareness, Association for Early Intervention for Children with Special Needs (Down Syndrome Group) and The Association of the Welfare of the Handicapped.

Blood Donation drives:

Committed to supporting the Government's efforts to ensure the constant availability of blood in Oman's Blood Banks, the bank organized several blood donation drives at its head office and branches throughout the year.

Going forward

Moving forward, the Bank's internal operations and Human Resources will be an area of major focus. Through people and process together with a customer centric view, ahlibank aims to distinguish itself as the leading provider of conventional and Islamic financial services.

To serve our customers, the bank will continue to expand prudently, to invest in products and all delivery channels, and to constantly strive to exceed customer expectations. We will maintain our focus upon the key return metrics upon which we challenge ourselves, such as Return on Equity, Return on Assets, Cost Efficiency, and Non Performing Loans ratio.

Simultaneously, we are investing in the development of our professional bankers and creating career opportunities for the Omani youth. Our commitment to the community remains firm, and we will endeavor to meet the aspirations of all stakeholders to the best of our ability.

Head Office

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P.O Box 545, PC 116, Mina Al Fahal

Telephone:

(+968) 24577000 Fax: (+968) 24568168

Call Centre:

(+968) 24577177

Website:

www.ahlibank.om

E-mail:

info@ahlibank.om

Conventional Branches

Wattayah	P.O Box 545, PC 116, Mina Al Fahal	Tel: (+968) 24577000 Fax: (+968) 24568168
Seeb	P.O Box 270, PC 121, Seeb	Tel: (+968) 24427627 Fax: (+968) 24423500
Sohar	P.O Box 454, PC 321, Tarif	Tel: (+968) 26843843 Fax: (+968) 26844936
Nizwa	P.O Box 1212, PC 611, Nizwa	Tel: (+968) 25412370 Fax: (+968) 25412373
Sur	P.O Box 806, PC 411, Sur	Tel: (+968) 25542244 Fax: (+968) 25542277
Ibri	P.O Box 300, PC 516, Ibri	Tel: (+968) 25690005 Fax: (+968) 25690330
Salalah	P.O Box 636, PC 211, Salalah	Tel: (+968) 23298288 Fax: (+968) 23298857
Al Ghubra	P.O Box 545, PC 116, Mina Al Fahal	Tel: (+968) 24498270 Fax: (+968) 24498275
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Al Hilal Islamic Banking Services Branches

CBD	P.O Box 545, PC 116, Mina Al Fahal	Tel: (+968) 24577834 Fax: (+968) 24707148
Bahla	P.O Box 545, PC 116, Mina Al Fahal	Tel: (+968) 24577862 Fax: (+968) 25419933
Rustaq	P.O Box 545, PC 116, Mina Al Fahal	Tel: (+968) 24577859 Fax: (+968) 26772700
Samail	P.O Box 545, PC 116, Mina Al Fahal	Tel: (+968) 24577854 Fax: (+968) 25350425
Salalah	P.O Box 545, PC 116, Mina Al Fahal	Tel: (+968) 24577894 Fax: (+968) 23203260
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Basel II Pillar III & Basel III
Report of the Bank
FOR THE YEAR ENDED 31 DECEMBER 2014

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

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman (CBO) circular No. BM 1027 dated 4 December 2007 with respect to the Basel II – Pillar III Disclosures and Basel III related Disclosures (the disclosures) of Ahli Bank SAOG (the bank) set out on pages 34 to 53 as at and for the year ended 31 December 2014. The disclosures were prepared by the management in accordance with the CBO's Circular No. BM 1009 dated 13 September 2006, Circular No. BM 1027 dated 4 December 2007 and Circular number 1114 dated 17 November 2013. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures, as set out in Circular No. BM 1027, were performed solely to assist you in evaluating the bank's compliance with the related disclosure requirements set out in CBO Circular No. BM 1009 dated 13 September 2006 and BM 1114 dated 17 November 2013.

We report our findings as follows:

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

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

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying disclosures to be included in the bank's annual report for the year ended 31 December 2014 and does not extend to any financial statements of the bank taken as a whole or to any other reports of the bank



26 February 2015
Muscat



Basel II Pillar III & Basel III Report of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

1. INTRODUCTION

The Basel Committee on Banking Supervision recommended revised international capital adequacy standards in 2004, referred as the Basel II capital framework or the revised capital framework. The framework consists of three pillars.

- Pillar 1 makes recommendations for calculation of minimum capital requirements.
- Pillar 2 discusses the key principles of supervisory review and risk management guidance.
- Pillar 3 complements the first two pillars of Basel II by requiring a range of disclosures on capital and risk assessment processes, aimed at encouraging and reinforcing market discipline.

2. SCOPE

Ahli Bank SAOG (The Bank) prepares this report in accordance with the Basel II Accord in conjunction with and as per the directive of the Central Bank of Oman (CBO). The major highlights of the regulations are:

- Banks are required to maintain a minimum capital adequacy ratio of 12% on a consolidated basis and Capital Conversation Buffer (CCB) of 0.625% at Common Equity Tier 1 (CET1) level.
- In January 2013, the Bank received license from the Central Bank of Oman to operate its Islamic Banking Window under Al Hilal Islamic Banking Services (Al Hilal) and commenced operations through a network of dedicated Islamic branches. Al Hilal is also required to maintain a capital adequacy ratio of 12% for its operations and CCB of 0.625% at CET1 level.
- There are three core risk disciplines under the Basel II Banking Accord for which capital is reserved for:
 - **Market Risk:** Market risks defined as the risk of losses in, on and off balance sheet positions arising from movements in market prices. Main factors contributing to market risk are equity, interest rate, foreign exchange and commodity risk.
 - **Credit Risk:** Credit risk is defined as the risk that a counter party will not settle an obligation for full value, either when due or at any time thereafter.
 - **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 is new to the Basel Accord.
- Under the Framework of Capital Adequacy, the Bank is required to provide timely, accurate, relevant and adequate disclosures of qualitative and quantitative information that enables users to assess its activities and risk profile. The capital adequacy returns are required to be submitted to the CBO on a quarterly basis, not later than 21 days from the end of each quarter.

- The Bank has a formal policy on “**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. Ahli Bank SAOG makes information publicly available in accordance with its policy on disclosure of information and applicable regulations.

3. CAPITAL MANAGEMENT

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

The Bank has following credit ratings at present:

Capital Intelligence	Long Term Rating:	BBB+
	Short Term Rating:	A2
	Outlook:	Stable
Fitch	Long Term Rating:	BBB+
	Short Term Rating:	F2
	Outlook:	Stable

The process of assessing the capital requirements of the Bank commences with the compilation of the annual business plan by individual business units which are then consolidated into the annual budget plan of the Bank. The annual budget plan provides an estimate of the overall growth in assets, its impact on capital and targeted profitability.

Strategic business objectives and future capital needs are assessed within this framework. Normally, the Bank employs capital rationing techniques to allocate capital for each of the Bank’s business risk departments in order to optimize returns.

Sources of future capital are identified and plans put in place to raise and retain capital, under the terms of the framework. The Bank also manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders or issue return 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.



Basel II Pillar III & Basel III Report of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

The Bank's capital structure consists of Tier I capital (paid-up equity capital and reserves) and Tier II capital, which includes unsecured, non-convertible subordinated bonds and loans and collective provisions and reserves for credit risk. There is no innovative or complex capital instrument in the capital structure of the Bank.

	RO '000s
Tier I capital	192,486
Tier II capital	27,421

Capital adequacy

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 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 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, market, liquidity and interest rate risks. The Bank follows the standardized approach for implementing Basel II and adopts rating from CBO's recognized four External Credit Assessment Institutions (ECAI), namely Moody's, Standard & Poors, Fitch and Capital Intelligence, for calculating the risk on its sovereign and bank exposures.

Tier II Capital

In 2010 The Bank came out with its maiden Tier II capital issue of OMR 40 million comprising of a Private Placement (December 2010) of RO 35 million subordinated, non-convertible and unsecured Bonds ("Bonds") at an Issue Price of RO 1.005 per Bond (RO 0.005 for issue expenses) and RO 5 million of Subordinated Loan (October 2010).

The Bonds were issued at a coupon of 5.50% p.a. for a tenor of 7 years with a call option to redeem the bonds at the end of 5 years from the date of allotment. The Subordinated loan of OMR 5 Million was accepted at 5.75% for a tenor of 7 years.

The Bonds and the loan constitute direct, unconditional, subordinated and unsecured obligations of the Issuer, ranking pari-passu without any preference among themselves and equally with all other existing and future unsecured and subordinated obligations of the Issuer save for such obligations that may be preferred by provisions of law that are mandatory and of general application.

Internal Capital Adequacy Assessment Process (ICAAP)

In addition to Pillar I under the Base Case, the Bank also calculates the internal capital requirements for Pillar II risks (i.e. liquidity risk, interest rate risk, concentration risk and other risks including strategic, reputational, legal risks, etc.), and has completed the ICAAP exercise for years 2013-2017.

Liquidity Risk

The Bank measures capital requirement based on three different liquidity measures:

- Liquid assets to total assets ratio - The Bank calculates additional capital charges if the ratio falls below some pre-determined thresholds.
- Asset liability maturity profile - In order to calculate liquidity risk capital requirement under this approach, the Bank classifies its assets and liabilities into different time bands and additional capital for this approach is calculated as the interest cost required to raise funds to address the largest net cumulative gap.
- Total Loans to Deposit ratio - The Bank sets predefined limits and thresholds for acceptable ratio, and accordingly allocate a capital charge based on the breach that occur to any of those limits. Currently, the Bank has defined three limits for LTD and respective capital charges (in term of percentage of total assets).

Interest Rate Risk in the Banking Book

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.



Basel II Pillar III & Basel III Report of the Bank FOR THE YEAR ENDED 31 DECEMBER 2014

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).

Other Risks

The Bank is also exposed to other risks such as reputational risk, strategic risk, business cycle risk, legal risk, residual risk, settlement risk etc. However, currently these risks are not significant to the Bank, therefore, to ensure adequate capital buffer for the above risks, additional capital of 1% of the Pillar 1 risk-weighted exposures is set aside under the ICAAP process.

Stress Testing

ICAAP process is divided into a base case and stressed scenarios. The Bank has assumed three different kinds of stress scenarios, namely Mild, Medium and Severe. These stress scenarios differ in terms of stress event impact level (Mild being the lowest and Severe being the highest).

The following stress scenarios are applied:

- Rise in NPL by % of direct credit facilities
- Portion of SME sector performing loans become NPLs
- Decline in prices of the Bank's portfolio of investments
- Appreciation / depreciation of local currency against all other currencies
- Withdrawal of customer deposits
- Decline in liquid assets
- Shift in LIBOR yield curve
- Increase in cost of funding due to reputational risk
- Branch generated less than expected profitability

4. Risk management of the Bank

Risk Management Principles

The Bank has a separate Risk Management Department which was established in the year 2007 to support the new business model of commercial banking. The Risk Management Department closely monitors the Bank's core risk areas and reports to the Executive Risk Committee (a Board level committee).

The primary goal of risk management is to ensure that the Bank's asset and liability profile, its trading positions, and its credit and operational activities 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 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 us to identifying the various associated risks.

Having identified the risks, our next steps would be to 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.

The key to this approach is the creation of a responsive organization structure around each of these risk categories with appropriate delegated authority to deliver in line with the business objectives approved by the Board of Directors.

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:





Basel II Pillar III & Basel III Report of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

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. Risks covered include credit, market, operational, interest rate and liquidity risk. 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 of Directors
- Audit and Compliance Committee
- Executive and Credit Committee
- Executive Risk Committee
- Compensation Committee
- Credit and Investment Committee
- Management Committee
- Special Assets Committee
- Assets and Liabilities Committee
- Operational Risk Committee
- IT Steering Committee
- New Product Committee

Policies and Procedures:

The Board of Directors under its terms of reference, controls and directs the Bank on behalf of the shareholders, its conduct of business, setting objectives and strategy by establishing policies under which the Bank operates. The Board of Directors approve the Bank's risk appetite, risk management strategies, policies and the framework for their effective implementation and control, including delegated authorities to the Executive Committee and Management to approve all risk exposures. In this context, the Board of Directors has approved the following policies:

1. Anti-Money Laundering Manual
2. Personal Account Dealing Policy
3. New Product Committee and Procedures
4. Voice Recording Policy
5. Compliance Policy
6. Communications Policy
7. Corporate Governance Policy
8. Corporate Social Responsibility Policy

9. Dividend Policy
10. Expenses Policy
11. Capital Management Policy
12. Disclosure Policy
13. Board Remuneration Policy
14. Financial Institutions Policy
15. Human Resources Policy
16. Outsourcing Policy
17. Code of Business Conduct
18. Information Security Management Policy
19. Business Continuity Management
20. Credit and Investment Policy
21. Operational Risk Policy & Procedure
22. Anti-Fraud Policy & Procedure
23. Liquidity Policy
24. Trading Book Policy
25. Risk Management-Approach & Framework
26. Social and Environment Management System
27. Security and Safety Policy and Plan
28. Asset Management Policy
29. Brokerage Policy
30. FATCA Policy
31. Customer Complaints Redressal Policy
32. Social Media Policy
33. Profit Distribution Policy
34. Charity Policy
35. Zakah Policy
36. Cost Sharing Policy
37. Segregation of Funds Policy
38. Shari'a Governance Manual

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).

5. CREDIT RISK

Credit Risk Principles

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.



Basel II Pillar III & Basel III Report of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

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 Credit & Investment Committee. Wherever group exposure exceeds a certain limit, it requires Executive and Credit Committee approval. Any Board of Directors' related credit is approved strictly in accordance with Central Bank of Oman requirements. Retail credit exposure in excess of a stipulated limit is approved by Risk Management Department.

Risk Management quantifies the Bank's credit risk appetite in line with the Bank's strategic direction. A well-established process exists to ensure 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.

Credit Risk Management

Credit risk management maximizes the Bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Credit risk makes up the largest part of the Bank's risk exposure. The Bank has set clear and well defined limits to address different dimensions of credit risk including concentration risk. Credit risk is addressed by the Bank by performing the following procedures:

- Establishing a sound credit granting process
- Maintaining an appropriate credit administration, monitoring and reporting process
- Ensuring monitoring of the adequacy of controls over credit risk.
- Lending limits

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.

Credit facility risk is a part of portfolio credit risk management. Portfolio risk arises because of high positive correlation between individual credit facilities. This may include:

- Concentration of exposure in geographies, sectors, groups, counter-parties or rating categories;
- Interaction with other risk such as interest rate, FX rate and economy;
- Trends in portfolio quality (borrowers' risk migration, weighted average portfolio risk, non-performing loan).

Past due credit exposures

The Bank defines past due and impaired exposure and provides specific and collective provisions in line with the Circular 977 "Master Circular on Risk Classification and Provisioning" issued by the Central Bank of Oman dated 25 September 2004 and as amended dated 21 May 2014.

Specific provisions are required to cover non-performing loans. To ensure that the credit risk is effectively managed, the Bank has a well-established and comprehensive credit risk management policy framework covering the entire credit spectrum, to ensure the incidence of non-performing loans is minimized.

Structure for credit risk approval



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 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 the case of a 'split rating' from approved external rating agencies such as S&P, Fitch or Moody's the lower rating normally applies.



Basel II Pillar III & Basel III Report of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

The Credit & Investment Policy sets limit criteria for individual exposure, group exposure, internal limits for aggregate exposure to different risk ratings, country limits and economic sector limits. Business with any counterparty does not commence until a credit line has been approved. A strict credit approval process also exists with authority levels delegated to ensure the efficient conduct of business. Country limit proposals cover an assessment of the country's political and economic risks and its credit ratings and outlook. Specific transaction needs shall be through credit application on a case by case basis.

In case of annual reviews, limits are to be renewed at one level down if there is no material change or increase in the exposure.

Credit risk mitigation:

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 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 2014 towards loan and advances not impaired amounted to RO 888.306 million.

6. 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. Moreover, an Operational Risk Framework and unit were established during 2009. 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:

- Process Risk
- Legal Risk
- People Risk
- Compliance Risk
- IT Risk
- Physical Security Risk



Basel II Pillar III & Basel III Report of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

Control and Mitigation of Operational Risk

The Bank has established policies, processes and procedures to control and mitigate material operational risks. It periodically reviews risk limitation and control strategies and adjusts the operational risk profile accordingly, using appropriate strategies in light of its overall risk appetite and profile.

Towards this, the Bank has implemented Operation Risk Self Assessment (ORSA) procedure for each of its business segments, where operating risk related to each business area is identified; documented and corresponding control processes are defined and documented. The action points arising from ORSA are reviewed and reported at the Operational Risk Committee on a regular basis. The Bank also has Key Risk Indicators (KRIs) in place and monitors these on a regular basis.

The Bank ensures that there is appropriate segregation of duties and personnel are not assigned responsibilities that may create a conflict of interest or enable them to conceal losses, errors or inappropriate actions.

The Bank ensures adequate internal audit coverage to verify that operating policies and procedures have been implemented effectively.

The Bank takes insurance cover to mitigate operational risk, wherever applicable.

It also ensures that internal practices exist to control operational risk such as:

- Maintaining safeguards for access to, and use of, the Bank's assets and records;
- Ensuring staff have appropriate expertise and training;
- Regularly verifying and reconciling transactions and accounts.

Reputation risk

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

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

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

Business Continuity

The Bank has documented the Business Continuity 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

During the year 2014, the bank has carried out a comprehensive BCP test and the test results were submitted to the Board.

7. MARKET RISK

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 Management Framework

The Bank uses a combination of risk sensitivities, stress testing, etc. to manage market risks and establish limits.

Shares and investments

The Bank has direct investment in shares to generate sustainable dividend income by identifying high dividend yield shares. The Bank has investments in 28 companies listed on the Muscat Securities Market and the balance as of 31 December 2014 stood at RO 5,725,486 which generating a dividend income of RO 287,802. In addition, the Bank had generated a realized profit of RO 742,988. The Bank also has investments in other GCC listed companies and the balance as of 31 December 2014 is RO 777,724.

In its Islamic Window Al Hilal, the Bank has no direct investment in shares but has invested in the Al Hilal MENA Fund (an Islamic Fund managed by the Asset Management Division of Ahli Bank SAOG). The investments as of 31 December 2014 stood at RO 185,525.

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-



Basel II Pillar III & Basel III Report of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

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 Banking Book (IRRBB)

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 limited for 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.

Interest Rate Risk in Trading Book

Interest rate risk in the trading book 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.

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.

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 proposal 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 and 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 AFS 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



Basel II Pillar III & Basel III Report of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

- g. Banking and Financial Services
- h. Conglomerates or Holding Companies investing in any of the above business lines

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.

Investment Exits / Stop Loss (does not cover Asset Management Division operations)

Exit strategies must be clearly outlined in all investment proposals. In case of a change in the exit strategy, approval from the same approving body must be obtained. Sale of AFS investments to book profit should be approved / ratified by the ALCO.

Unless stated otherwise in the investment application the tolerance level of a decrease in the value of a liquid investment is a maximum of 15%. Any holding with loss equivalent or greater than 10% should be notified to ALCO members. In case the investment is witnessing a material change (downgrading or expected downgrade etc.), the Business Unit must also notify the Credit and Investment Committee outlining the action / remedial plan. Approval for any loss in excess of 15% on liquid investment (unless already specifically allowed as per original investment strategy), will need to be obtained from CIC and ALCO.

8. LIQUIDITY RISK

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 Central Bank of Oman (CBO) directives, the Bank keeps at least 5% of its 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 management policies and a contingency liquidity plan have been established by the Bank.

Liquidity Management Policy

The liquidity management 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 Asset Liability Committee (ALCO) reviews the Liquidity Policy bi-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

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.

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



Basel II Pillar III & Basel III Report of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

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.

Limit breaches

All liquidity limit 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.

9. MATURITY PROFILE OF ASSETS AND LIABILITIES

The maturity profile of the assets and liabilities at the year end are based on contractual repayment arrangements. The details of the same are provided in note 31.2.2 of financial statements.

10. SENSITIVITY ANALYSIS OF INTEREST RATE RISK

The Bank computes interest rate sensitivity, based on the contractual re-pricing or maturity dates, whichever dates are earlier. The details of the same are provided in note 31.3.2 of financial statements.

11. SUBSIDIARIES AND SIGNIFICANT INVESTMENTS

The Bank does not have any subsidiary or other significant equity investments as on 31 December 2014 (except the listed equity investments as mentioned in 7 above).

12. DISCLOSURE TABLES

1. Capital Adequacy Disclosures (RO '000)

As on 31 December 2014				
Sl. No.	Details	Gross balances (book value)	Net balances (book value)	Risk weighted assets
1	On-balance sheet items	1,663,103	1,663,103	1,348,687
2	Off-balance sheet items	116,395	116,395	76,217
3	Derivatives (Banking Book)	583	583	309
4	Total	1,780,081	1,781,081	1,425,213
5	Tier 1 Capital			192,486
6	Tier 2 Capital			27,421
7	Tier 3 Capital			-
8	Total Regulatory Capital			219,907
8.1	Capital requirement for credit risk (including CCB)			179,933
8.2	Capital requirement for market risk (including CCB)			9,123
8.3	Capital requirement for operational risk (including CCB)			9,886
9	Total required capital (including CCB)			198,942
10	Tier 1 Ratio			12.22%
11	Total Capital Ratio			13.96%

2. Capital Breakup (RO '000)

As on 31 December 2014		
Sl. No.	Elements of capital	Amount
Tier I Capital		
1	Paid-up capital	129,549
2	Share premium	-
3	Legal reserves	17,256
4	General reserves	-
5	Subordinated loan reserve	30,492



Basel II Pillar III & Basel III Report of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

Sl. No.	Elements of capital	Amount
6	Stock dividend *	12,955
7	Retained earnings *	2,708
8	Non-cumulative perpetual preferred stock	-
9	Other non-distributable Reserve	-
	Total Gross Tier I Capital	<u>192,960</u>
	Deductions	
10	Goodwill	-
11	Deferred Tax Asset	-
12	Intangible Assets including losses, cumulative unrealised losses recognised directly in equity	(474)
13	Reciprocal crossholding of bank capital, artificially designed to inflate the capital position of banks	-
	sub-total	<u>(474)</u>
14	Tier I capital after the above deductions	<u>192,486</u>
15	50% of investments in the capital of banks and other financial entities, other than reciprocal cross holdings of bank capital	-
16	50% of Significant minority and majority investments in commercial entities, which exceed 5% of the bank's net worth for individual significant investments and 20% of the banks' net worth for aggregate of such investments	-
17	50% of shortfall in the regulatory capital requirements in the un-consolidated entities	-
18	50% of investments in unconsolidated banking and financial subsidiary companies associates or affiliates, etc	-
	sub-total	-
19	Tier I capital after all deductions	<u>192,486</u>
	Tier II Capital	
20	Undisclosed reserves	-
21	Revaluation reserves / cumulative fair value gains or losses on available for sale instruments	164
22	General loan loss provisions / Collective provision	17,749
23	Subordinated debt	9,508
24	Hybrid debt capital instruments	-
25	Total Tier II capital	<u>27,421</u>
	Deductions	
26	50% of investments in the capital of banks and other financial entities, other than reciprocal cross holdings of bank capital	-
27	50% of significant minority and majority investments in commercial entities, which exceed 5% of the bank's net worth for individual significant investments and 20% of the banks' net worth for aggregate of such investments	-

Sl. No.	Elements of capital	Amount
28	50% of shortfall in the regulatory capital requirements in the un-consolidated entities	-
29	50% of investments in unconsolidated banking and financial subsidiary companies associates or affiliates, etc	-
	Total deductions from Tier II	-
	Tier II Capital (Net)	<u>27,421</u>
30	Tier III Capital (eligible)	-
31	Total Regulatory Capital	<u>219,907</u>

* The Board of Directors has proposed stock dividend of 10%. The stock dividend has been reduced from retained earnings and shown separately.

3. Computation of Capital Adequacy Ratio (RO '000)

As on 31 December 2014

Sl. No.	Details	Simple Approach
1	Tier I Capital (after supervisory deductions)	192,486
2	Tier II capital (after supervisory deductions and up to eligible limits)	27,421
3	Tier III Capital (up to a limit where Tier II and Tier III does not exceed Tier I)	-
4	Of which, total eligible tier III capital	-
5	Risk weighted assets – banking book	1,425,213
6	Risk weighted assets – operational risk	<u>78,304</u>
7	Total Risk Weighted Assets – Banking Book + Operational Risk	<u>1,503,517</u>
8	Minimum required capital to support RWAs of banking book and operational risk (including CCB)	189,819
	i) Minimum required Tier I Capital for banking book and operational risk (including CCB)	162,398
	ii) Tier II Capital required for banking book and operational risk	27,421
9	Tier I capital available for supporting trading book	30,088
10	Tier II capital available for supporting trading book	-
11	Risk Weighted Assets – trading book	72,262
12	Total capital required to support trading book	9,123
13	Minimum Tier I capital required for supporting trading book	2,600
14	Used Eligible Tier III Capital	-
15	Total Regulatory Capital	219,907
16	Total Risk Weighted Assets – Whole bank	1,575,779
17	BIS Capital Adequacy Ratio	13.96%
18	Unused but eligible Tier III Capital	-



Basel II Pillar III & Basel III Report of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

4. Gross and average credit risk exposure (RO '000)

Sl. No.	Type of credit exposure	Average Gross Exposure		Total Gross Exposure	
		31-Dec-14	31-Dec-13	31-Dec-14	31-Dec-13
1	Overdrafts	19,643	15,117	20,845	17,880
2	Personal loans	530,537	450,511	593,864	471,610
3	Other loans	680,601	559,938	792,454	629,834
	Total	<u>1,230,781</u>	<u>1,025,566</u>	<u>1,407,163</u>	<u>1,119,324</u>

5. Credit risk exposure: Industry-wise (RO '000)

Sl. No.	Economic sector	Overdraft	Loans	As on 31 December 2014	
				Total	Off-balance sheet exposures *
1	Wholesale and retail trade	5,068	160,559	165,627	25,383
2	Mining and quarrying	1,191	37,840	39,031	3,697
3	Construction	6,638	213,377	220,015	74,208
4	Manufacturing	1,720	94,772	96,492	19,457
5	Financial Institutions	3	78,352	78,355	4
6	Services	4,351	111,941	116,292	2,912
7	Transport and Communication	91	59,430	59,521	3,218
8	Personal loans	824	593,864	594,688	-
9	Non-resident lending	-	24,669	24,669	-
10	Others	959	11,514	12,473	69,291
	Total	<u>20,845</u>	<u>1,386,318</u>	<u>1,407,163</u>	<u>198,170</u>

* Off balance sheet exposures pertain to letters of credit and financial guarantees.

6. Credit risk maturity exposure (RO '000)

Sl. No.	Time Band	Overdraft	Loans	As on 31 December 2014	
				Total	Off-balance sheet exposures
1	Up to 1 month	1,043	150,725	151,768	85,297
2	1 - 3 months	1,043	259,866	260,909	39,618
3	3 - 6 months	1,043	47,130	48,173	16,666
4	6 - 9 months	1,043	40,484	41,527	6,746
5	9 - 12 months	1,043	22,814	23,857	11,490
6	1 - 3 years	5,210	123,380	128,590	37,587
7	3 - 5 years	5,210	75,546	80,756	766
8	Over 5 years	5,210	666,373	671,583	-
	Total	<u>20,845</u>	<u>1,386,318</u>	<u>1,407,163</u>	<u>198,170</u>



Basel II Pillar III & Basel III Report of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

Gross exposure: Provisioning distribution (RO '000)

Sl. No.	Economic sector	Gross loans	Of which, NPLs	Portfolio - based provision / reserves*	Specific provision held	Reserve interest	As on 31 December 2014	
							Provision / reserve made during the year	Advances written off, net during the year
1	Wholesale and retail trade	165,627	3,317	1,623	1,161	155	1,536	-
2	Mining and quarrying	39,031	-	390	-	-	233	-
3	Construction	220,015	2,896	2,171	716	259	638	-
4	Manufacturing	96,492	-	965	-	-	219	-
5	Financial institution	78,355	-	753	-	-	(108)	-
6	Services	116,292	-	1,193	-	-	598	-
7	Transport & Communication	59,521	-	595	-	-	(682)	-
8	Personal Loans*	594,688	7,498	9,687	4,380	415	2,478	1,205
9	Non-Resident Lending	24,669	-	247	-	-	60	-
10	Others	12,473	-	125	-	-	(82)	-
	Total	1,407,163	13,711	17,749	6,257	829	4,890	1,205

* The bank has set aside an amount of RO 6.543 million as a non-distributable loan loss reserve towards the CBO non-specific position requirements at 31 December 2014.

Loans and Advances: Geographical Impairment Distribution (RO '000)

Sl. No.	Countries	Gross loans	Of which, NPLs	Portfolio - based provision / reserves*	Specific provision held	Reserve interest	As on 31 December 2014	
							Provisions made during the year	Advances written off, net during 2014
1	Oman	1,382,493	13,711	17,502	6,257	829	4,879	1,205
2	Other Countries	24,670	-	247	-	-	11	-
	Total	1,407,163	13,711	17,749	6,257	829	4,890	1,205

Movements in gross loans during the year (RO '000)

Sl. No.	Details	As on 31 December 2014				
		Performing loans	Sub- Standard	Doubtful	Loss	Total
1	Opening balance	1,108,480	871	4,713	5,260	1,119,324
2	Migration / changes (+/-)	(4,242)	1,915	(1,880)	4,207	-
3	New loans	403,145	-	-	535	403,680
4	Recovery of loans	(113,931)	(2)	(262)	(1,646)	(115,841)
5	Loans written off	-	-	-	-	-
6	Closing balance	1,393,452	2,784	2,571	8,356	1,407,163
7	Provisions / reserves	17,749	687	1,114	4,456	24,006
8	Reserve interest	-	28	64	737	829

13. BASEL III CAPITAL DISCLOSURE

The below capital disclosures are prepared in accordance with the requirements of the CBO Circular BM 1114 'Regulatory Capital and Composition of Capital Disclosure Requirements under Basel III' issued on 17 November 2013.

13.1 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. In step 1, the accounting consolidation is identical to regulatory consolidation therefore the capital reconciliation is started from step 2 onwards.



Basel II Pillar III & Basel III Report of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

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

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

Year ended 31 December 2014	Published financial statements	Under Regulatory scope of consolidation	Reference
Assets			
Cash and balances with CBO	54,445	54,445	
Balance with banks and money at call & short notice	34,735	34,735	
Investments, of which:	138,225	138,225	
Available for Sale	107,237	107,237	
Held for Trading	30,988	30,988	
Loans and advances – Net, of which:	1,388,871	1,388,871	
- Loans and advances to domestic banks	-	12,222	
- Loans and advances to non-resident banks	-	9,279	
- Loans and advances to domestic customers	-	1,176,358	
- Loans and advances to non-resident for operations abroad	-	15,391	
- Loans and advances to SMEs	-	32,146	
- Financing from Islamic banking window	-	161,767	
- Provision against Loans and Advances, of which:	-	(18,292)	
- Specific provision and Reserve interest & profit	-	(7,086)	
- General provision, amount eligible for T2	-	(11,206)	a
Fixed assets	17,457	17,457	
Other assets	11,078	11,078	
Total Assets	1,644,811	1,644,811	
Capital & Liabilities			
Paid-up Capital, of which:	129,549	129,549	
- Amount eligible for CET1	-	129,549	b
Reserves & Surplus; of which	69,981	69,981	
- Amount eligible for CET1 (Legal reserve)	17,256	17,256	c
- Amount eligible for CET1 (Subordinated debt reserve)	30,492	30,492	d
- Amount eligible for CET1 (Retained earnings)	15,663	15,663	e
- Amount eligible for T2 (General loan loss reserve)	6,543	6,543	f
- Amount eligible for T2 (Investments Fair value gains)	27	164	g
- AFS investments fair value loss (CET1 adjustment)	-	(474)	h
- AFS investments fair value gain unutilized	-	337	
Total Capital	199,530	199,530	
Deposits from banks	236,362	236,362	
Customer deposits, of which	1,076,190	1,076,190	
- Deposits for customers	-	1,006,200	
- Deposits of Islamic Banking window	-	69,990	
Borrowings, of which:	57,500	57,500	
- From banks	38,500	38,500	
- From others	19,000	19,000	
Borrowings in form of bonds, Debentures & sukuks, of which	40,000	40,000	
- Amount eligible for T2	-	9,508	i
- Amount ineligible for T2	-	30,492	
Other liabilities & provisions	35,229	35,229	
TOTAL	1,644,811	1,644,811	



Basel II Pillar III & Basel III Report of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

Step 3: Step Reconciliation of Regulatory Capital:

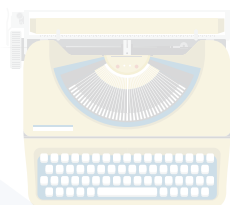
Common Equity Tier 1 capital: instruments and reserves (RO' 000)

	Component of regulatory capital reported by Bank	Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2	
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	129,549	b
2	Retained earnings	15,663	e
3	Accumulated other comprehensive income (and other reserves)	47,748	c+d
4	Common Equity Tier 1 capital before regulatory adjustments	192,960	
5	Prudential valuation adjustments	(474)	h
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	(474)	
8	Common Equity Tier 1 capital (CET1)	192,486	
Additional Tier 1 capital: instruments			
9	Additional Tier 1 capital (AT1)	-	-
	Tier 1 capital (T1 = CET1 + AT1)	192,486	
Tier 2 capital: instruments and provisions			
10	Directly issued qualifying Tier 2 instruments plus related stock surplus	9,508	i
11	Provisions	17,749	a+f
12	Fair value reserve of AFS investments	164	g
	Tier 2 capital before regulatory adjustments	27,421	
	Tier 2 capital: regulatory adjustments	-	
	Tier 2 capital (T2)	27,421	
	Total capital (TC = T1 + T2)	219,907	

13.2 MAIN FEATURES OF REGULATORY CAPITAL

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

	Common Equity Share Capital	Subordinated Bonds	Subordinated debt
1	Ahli Bank SAOG		
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA
3	Governing law(s) of the instrument	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
	Regulatory treatment		
4	Transitional Basel III rules	Common Equity Tier 1	Tier II
5	Post-transitional Basel III rules	Common Equity Tier 1	Ineligible
6	Eligible at solo / group / group & solo	Solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Common Equity Share Capital	Private Placement of Subordinated Bonds
		Private Placement of Subordinated Bonds	Private Placement of Subordinated debt



Basel II Pillar III & Basel III Report of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

13.2 MAIN FEATURES OF REGULATORY CAPITAL (continued)

	Common Equity Share Capital	Subordinated Bonds	Subordinated debt
8 Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	129.549 million	RO 6.689 million	RO 2.819 million
9 Par value of instrument	129.549 million	RO 35.000 million	RO 5.000 million
10 Accounting classification	Shareholders' Equity	Liability amortised cost	Liability amortised cost
11 Original date of issuance	Bank started operations in 1997	16-Dec-10	26-Oct-10
12 Perpetual or dated	Perpetual	Dated	Dated
13 Original maturity date	No maturity	15-Dec-17	26-Oct-17
14 Issuer call subject to prior supervisory approval	No	Yes	No
15 Optional call date, contingent call dates and redemption amount	NA	16-Dec-15	NA
16 Subsequent call dates, if applicable	NA	NA	NA
Coupons / dividends			
17 Fixed or floating dividend / coupon	Floating	Fixed	Fixed
18 Coupon rate and any related index	NA	5.50%	5.75%
19 Existence of a dividend stopper	NA	No	No
20 Fully discretionary, partially discretionary or mandatory	Fully discretionary	Partially discretionary	Partially discretionary
21 Existence of step up or other incentive to redeem	No	No	No
22 Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative
23 Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24 If convertible, conversion trigger (s)	NA	NA	NA
25 If convertible, fully or partially	NA	NA	NA
26 If convertible, conversion rate	NA	NA	NA
27 If convertible, mandatory or optional conversion	NA	NA	NA
28 If convertible, specify instrument type convertible into	NA	NA	NA
29 If convertible, specify issuer of instrument it converts into	NA	NA	NA
30 Write-down feature	Yes	No	No
31 If write-down, write-down trigger(s)	Statutory approach	Contractual approach	Contractual approach
32 If write-down, full or partial	Write down fully	May be written down partially	May be written down partially
33 If write-down, permanent or temporary	Permanent	Permanent	Permanent
34 If temporary write-down, description of write-up mechanism	NA	NA	NA
35 Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA	Common Equity Share Capital	Common Equity Share Capital
36 Non-compliant transitioned features	No	No	No
37 If yes, specify non-compliant features	NA	NA	NA



Basel II Pillar III & Basel III Report of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

13.3 DISCLOSURE TEMPLATE DURING THE TRANSITION PHASE

Table below is prepared using the disclosure template to be used during transition of regulatory adjustments;

Basel III common disclosure template to be used during the transition of regulatory adjustments (i.e. from 1 January 2013 to 31 December 2018)	AMOUNTS SUBJECT TO PRE- BASEL III TREATMENT (RO'000)	AMOUNTS SUBJECT TO PRE- BASEL III TREATMENT
Common Equity Tier 1 capital: instruments and reserves		
1 Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	129,549	-
2 Retained earnings	17,256	-
3 Accumulated other comprehensive income (and other reserves)	47,748	-
4 <i>Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)</i>	-	-
<i>Public sector capital injections grandfathered until 1 January 2018</i>	-	-
5 Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	-
6 Common Equity Tier 1 capital before regulatory adjustments	192,960	-
7 Prudential valuation adjustments	(474)	-
8 Goodwill (net of related tax liability)	-	-
9 Other intangibles other than mortgage-servicing rights (net of related tax liability)	-	-
10 Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-
11 Cash-flow hedge reserve	-	-
12 Shortfall of provisions to expected losses	-	-
13 Securitisation gain on sale (as set out in paragraph 14.9 of CP-1)	-	-
14 Gains and losses due to changes in own credit risk on fair valued liabilities.	-	-
15 Defined-benefit pension fund net assets	-	-
16 Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-	-
17 Reciprocal cross-holdings in common equity	-	-
18 Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-
19 Significant investments in the common stock of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	-
20 Mortgage Servicing rights (amount above 10% threshold)	-	-
21 Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-
22 Amount exceeding the 15% threshold	-	-
23 of which: significant investments in the common stock of financials	-	-
24 of which: mortgage servicing rights	-	-
25 of which: deferred tax assets arising from temporary differences	-	-
26 National specific regulatory adjustments	-	-
REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE BASEL III TREATMENT	-	-
Of which: [INSERT NAME OF ADJUSTMENT]	-	-
Of which: [INSERT NAME OF ADJUSTMENT]	-	-
OF WHICH: [INSERT NAME OF ADJUSTMENT]	-	-
27 Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	-



Basel II Pillar III & Basel III Report of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

13.3 DISCLOSURE TEMPLATE DURING THE TRANSITION PHASE (continued)

Basel III common disclosure template to be used during the transition of regulatory adjustments (i.e. from 1 January 2013 to 31 December 2018)	(RO'000)	AMOUNTS SUBJECT TO PRE- BASEL III TREATMENT
28 Total regulatory adjustments to Common equity Tier 1	(474)	-
29 Common Equity Tier 1 capital (CET1)	<u>192,486</u>	-
Additional Tier 1 capital: instruments		-
30 Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	-
31 of which: classified as equity under applicable accounting standards	-	-
32 of which: classified as liabilities under applicable accounting standards	-	-
33 <i>Directly issued capital instruments subject to phase out from Additional Tier 1</i>	-	-
34 Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-	-
35 <i>of which: instruments issued by subsidiaries subject to phase out</i>	-	-
36 Additional Tier 1 capital before regulatory adjustments	-	-
37 Investments in own Additional Tier 1 instruments	-	-
38 Reciprocal cross-holdings in Additional Tier 1 instruments	-	-
39 Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	-
40 Significant investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-
41 National specific regulatory adjustments	-	-
REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	-	-
OF WHICH: [INSERT NAME OF ADJUSTMENT]	-	-
OF WHICH: [INSERT NAME OF ADJUSTMENT]	-	-
OF WHICH: [INSERT NAME OF ADJUSTMENT]	-	-
42 Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-
43 Total regulatory adjustments to Additional Tier 1 capital	<u>-</u>	-
44 Additional Tier 1 capital (AT1)	<u>-</u>	-
45 Tier 1 capital (T1 = CET1 + AT1)	<u>192,486</u>	-
Tier 2 capital: instruments and provisions		
46 Directly issued qualifying Tier 2 instruments plus related stock surplus	-	-
47 <i>Directly issued capital instruments subject to phase out from Tier 2</i>	*9,508	-
48 Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	-
49 <i>of which: instruments issued by subsidiaries subject to phase out</i>	-	-
50 Provisions	17,913	-
51 Tier 2 capital before regulatory adjustments	<u>27,421</u>	-
Tier 2 capital: regulatory adjustments		
52 Investments in own Tier 2 instruments	-	-
53 Reciprocal cross-holdings in Tier 2 instruments	-	-

* Subordinated Bonds of RO 35 million, issued in 2010; recognized in T2 RO 6.689 million; 100% phase out by end of 2015
Subordinated debt of RO 5 million, issued in 2010; recognized in T2 RO 2.819 million; 100% phase out by end of 2017



Basel II Pillar III & Basel III Report of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

13.3 DISCLOSURE TEMPLATE DURING THE TRANSITION PHASE (continued)

Basel III common disclosure template to be used during the transition of regulatory adjustments (i.e. from 1 January 2013 to 31 December 2018)		AMOUNTS SUBJECT TO PRE- BASEL III TREATMENT	
		(RO'000)	
54	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	-
55	Significant investments in the capital banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-
56	National specific regulatory adjustments	-	-
	REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	-	-
	OF WHICH: [INSERT NAME OF ADJUSTMENT]		
	OF WHICH: [INSERT NAME OF ADJUSTMENT]		
	OF WHICH: [INSERT NAME OF ADJUSTMENT]		
57	Total regulatory adjustments to Tier 2 capital	-	-
58	Tier 2 capital (T2)	<u>27,421</u>	-
59	Total capital (TC = T1 + T2)	<u>219,907</u>	-
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	1,575,779	-
	OF WHICH: [INSERT NAME OF ADJUSTMENT]		
	OF WHICH: ...		
60	Total risk weighted assets (60a+60b+60c)	1,575,779	
60a	<i>Of which: Credit risk weighted assets</i>	1,425,213	-
60b	<i>Of which: Market risk weighted assets</i>	72,262	-
60c	<i>Of which: Operational risk weighted assets</i>	78,304	-
Capital Ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	12.22%	
62	Tier 1 (as a percentage of risk weighted assets)	12.22%	
63	Total capital (as a percentage of risk weighted assets)	13.96%	
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)	7.625%	-
65	<i>of which: capital conservation buffer requirement</i>	0.625%	-
66	<i>of which: bank specific countercyclical buffer requirement</i>	-	-
67	<i>of which: D-SIB / G-SIB buffer requirement</i>	-	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	1.96%	
National minima (if different from Basel III)			
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	7.625%	-
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	9.625%	-
71	National total capital minimum ratio (if different from Basel 3 minimum)	12.625%	
Amounts below the thresholds for deduction (before risk weighting)			
72	Non-significant investments in the capital of other financials	5,184	-
73	Significant investments in the common stock of financials	-	-



Basel II Pillar III & Basel III Report of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

13.3 DISCLOSURE TEMPLATE DURING THE TRANSITION PHASE (continued)

Basel III common disclosure template to be used during the transition of regulatory adjustments (i.e. from 1 January 2013 to 31 December 2018)	(RO'000)	AMOUNTS SUBJECT TO PRE- BASEL III TREATMENT
74 Mortgage servicing rights (net of related tax liability)	-	-
75 Deferred tax assets arising from temporary differences (net of related tax liability)	-	-
Applicable caps on the inclusion of provisions in Tier 2		
76 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	17,749	-
77 Cap on inclusion of provisions in Tier 2 under standardised approach	17,816	-
78 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	-
79 Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80 Current cap on CET1 instruments subject to phase out arrangements	-	-
81 Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	-
82 Current cap on AT1 instruments subject to phase out arrangements	-	-
83 Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	-
84 Current cap on T2 instruments subject to phase out arrangements	-	-
85 Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	-

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

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

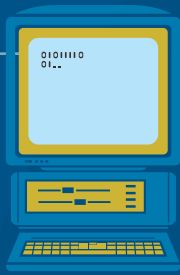
Basel III capital disclosures are prepared in accordance with CBO Circular BM 1114 'Regulatory Capital and Composition of Capital Disclosure Requirements under Basel III' issued on 17 November 2013.

For Ahli Bank SAOG

Hamdan Ali Nasser Al Hinai

Chairman

Date: 27th January 2015



Financial Statements of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

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

Report on the financial statements

We have audited the accompanying financial statements of Ahli Bank SAOG (the Bank), which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended, and the Rules and Guidelines on disclosures issued by the Capital Market Authority, 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

In our opinion the financial statements comply, in all material respects, with the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended and the Rules and Guidelines on disclosure issued by the Capital Market Authority.



26 February 2015
Muscat



A member firm of Ernst & Young Global Limited



Financial Statements of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

2013 US\$ '000	2014 US\$ '000		Note	2014 RO '000	2013 RO '000
ASSETS					
112,922	141,416	Cash and balances with Central Bank of Oman	5	54,445	43,475
211,644	90,221	Due from banks	6	34,735	81,483
2,869,914	3,607,457	Loans & advances and financing, net	7	1,388,871	1,104,917
209,371	359,026	Investment securities	8	138,225	80,608
43,055	45,343	Property and equipment	9	17,457	16,576
270	-	Deferred tax asset	10	-	104
32,005	28,774	Other assets	11	11,078	12,322
<u>3,479,181</u>	<u>4,272,237</u>	TOTAL ASSETS		<u>1,644,811</u>	<u>1,339,485</u>
LIABILITIES AND EQUITY					
LIABILITIES					
250,392	613,927	Due to banks	12	236,362	96,401
2,480,662	2,795,298	Customers' deposits	13	1,076,190	955,055
75,000	149,351	Borrowed funds	14	57,500	28,875
9,657	10,023	Taxation	10	3,859	3,718
79,327	81,482	Other liabilities	15	31,370	30,541
103,896	103,896	Subordinated liabilities	16	40,000	40,000
<u>2,998,934</u>	<u>3,753,977</u>	TOTAL LIABILITIES		<u>1,445,281</u>	<u>1,154,590</u>
EQUITY					
328,283	336,491	Share capital	17	129,549	126,389
38,294	44,821	Legal reserve	18	17,256	14,743
16,995	16,995	General loan loss reserve	7	6,543	6,543
58,434	79,200	Subordinated debt reserve	16	30,492	22,497
2,701	70	Fair value reserve		27	1,040
35,540	40,683	Retained earnings		15,663	13,683
<u>480,247</u>	<u>518,260</u>	TOTAL EQUITY		<u>199,530</u>	<u>184,895</u>
<u>3,479,181</u>	<u>4,272,237</u>	TOTAL LIABILITIES AND EQUITY		<u>1,644,811</u>	<u>1,339,485</u>
<u>38.0</u>	<u>40.0</u>	Net assets value per share (US cents / baizas)	20	<u>154.0</u>	<u>146.3</u>
<u>455,418</u>	<u>544,932</u>	Contingent liabilities and commitments	21	<u>209,799</u>	<u>175,336</u>

The financial statements on pages 56 to 103 were approved by the Board of Directors on 27 January 2015 and signed on their behalf by:

Hamdan Ali Nasser Al Hinai
Chairman

Lloyd Maddock
Chief Executive Officer

Report of the Auditors - page 55.



Financial Statements of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

2013 US\$ '000	2014 US\$ '000		Note	2014 RO '000	2013 RO '000
142,699	146,598	Interest income	22	56,440	54,939
(47,125)	(51,240)	Interest expense	23	(19,727)	(18,143)
<u>95,574</u>	<u>95,358</u>	NET INTEREST INCOME		<u>36,713</u>	<u>36,796</u>
4,138	14,587	Income from Islamic financing and investment		5,616	1,593
(197)	(2,600)	Unrestricted investment account holders' share of profit and profit expense		(1,001)	(76)
<u>3,941</u>	<u>11,987</u>	NET INCOME FROM ISLAMIC FINANCING AND INVESTMENTS		<u>4,615</u>	<u>1,517</u>
99,515	107,345	NET INTEREST INCOME AND INCOME FROM ISLAMIC FINANCING AND INVESTMENTS		41,328	38,313
<u>21,525</u>	<u>26,763</u>	Other operating income	24	<u>10,304</u>	<u>8,287</u>
121,040	134,108	OPERATING INCOME		51,632	46,600
(11,855)	(12,722)	Loans and financing impairment, net of recoveries	7	(4,898)	(4,564)
-	(899)	Impairment on available for sale investments	8	(346)	-
<u>109,185</u>	<u>120,487</u>	NET OPERATING INCOME		<u>46,388</u>	<u>42,036</u>
(23,525)	(27,503)	Staff expenses	25	(10,589)	(9,057)
(2,169)	(3,018)	Depreciation	9	(1,162)	(835)
(15,286)	(15,410)	Other operating expenses	26	(5,933)	(5,885)
(40,980)	(45,931)	OPERATING EXPENSES		(17,684)	(15,777)
68,205	74,556	PROFIT BEFORE TAXATION		28,704	26,259
(8,387)	(9,291)	Tax expense	10	(3,577)	(3,229)
<u>59,818</u>	<u>65,265</u>	PROFIT FOR THE YEAR		<u>25,127</u>	<u>23,030</u>
		OTHER COMPREHENSIVE (EXPENSE) / INCOME - NET OF TAX			
		Fair value reserve (available for sale investments) to be reclassified to profit or loss in subsequent periods			
(1,717)	(2,036)	- Net amount transferred to profit or loss		(784)	(661)
<u>2,675</u>	<u>(595)</u>	- Net changes in fair values		<u>(229)</u>	<u>1,030</u>
<u>958</u>	<u>(2,631)</u>	OTHER COMPREHENSIVE (EXPENSE) / INCOME FOR THE YEAR		<u>(1,013)</u>	<u>369</u>
<u>60,776</u>	<u>62,634</u>	TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>24,114</u>	<u>23,399</u>
<u>4.6</u>	<u>5.0</u>	Basic and diluted earnings per share (US cents / baizas)	27	<u>19.4</u>	<u>17.8</u>

The notes and other explanatory information on pages 60 to 103 form an integral part of these financial statements.

Report of the Auditors - page 55.



Financial Statements of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	Share capital RO '000	Legal reserve RO '000	General loan loss reserve RO '000	Subordinated debt reserve RO '000	Fair value reserve RO '000	Retained earnings RO '000	Total RO '000
At 1 January 2014		126,389	14,743	6,543	22,497	1,040	13,683	184,895
Comprehensive income for the year:								
Profit for the year		-	-	-	-	-	25,127	25,127
Other comprehensive expense, net of tax		-	-	-	-	(1,013)	-	(1,013)
Total comprehensive income		-	-	-	-	(1,013)	25,127	24,114
Transfer to legal reserve	18	-	2,513	-	-	-	(2,513)	-
Transfer to subordinated debt reserve	16	-	2,513	-	7,995	-	(7,995)	-
		-	-	-	7,995	-	(10,508)	-
Transactions with owners recognised directly in equity								
Cash dividends paid	19	-	-	-	-	-	(9,479)	(9,479)
Issue of bonus shares	17	3,160	-	-	-	-	(3,160)	-
Total transactions with owners		3,160	-	-	-	-	(12,639)	(9,479)
At 31 December 2014		129,549	17,256	6,543	30,492	27	15,663	199,530
At 31 December 2014 (US\$ '000)		336,491	44,821	16,995	79,200	70	40,683	518,260
At 1 January 2013		120,370	12,440	6,543	14,502	671	12,988	167,514
Comprehensive income for the year:								
Profit for the year		-	-	-	-	-	23,030	23,030
Other comprehensive income, net of tax		-	-	-	-	369	-	369
Total comprehensive income		-	-	-	-	369	23,030	23,399
Transfer to legal reserve	18	-	2,303	-	-	-	(2,303)	-
Transfer to subordinated debt reserve	16	-	-	-	7,995	-	(7,995)	-
		-	-	-	7,995	-	(10,298)	-
Transactions with owners recognised directly in equity								
Cash dividends paid	19	-	-	-	-	-	(6,018)	(6,018)
Issue of bonus shares	17	6,019	-	-	-	-	(6,019)	-
Total transactions with owners		6,019	-	-	-	-	(12,037)	(6,018)
At 31 December 2013		126,389	14,743	6,543	22,497	1,040	13,683	184,895
At 31 December 2013 (US\$ '000)		328,283	38,294	16,995	58,434	2,701	35,540	480,247

The notes and other explanatory information on pages 60 to 103 form an integral part of these financial statements.

Report of the Auditors - page 55.



Financial Statements of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014

2013 US\$ '000	2014 US\$ '000		Note	2014 RO '000	2013 RO '000
CASH FLOWS FROM OPERATING ACTIVITIES					
68,205	74,556	Profit for the year before taxation		28,704	26,259
Adjustments for:					
2,169	3,018	Depreciation	9	1,162	835
11,855	12,722	Loans and financing impairment, net of recoveries	7	4,898	4,564
-	899	Impairment on available for sale investments	8	346	-
216	309	End of service benefits provision	15	119	83
(16)	75	Loss / (gain) on sale of property and equipment	24	29	(6)
(2,197)	(2,283)	Gain on sale of investment	24	(879)	(846)
34	-	Unrealised loss on revaluation of investment		-	13
80,266	89,296	Operating profit before working capital changes		34,379	30,902
-	(40,444)	Increase in due from banks		(15,571)	-
(83)	(94)	End of service benefits paid	15	(36)	(32)
(472,959)	(750,265)	Increase in loans & advances and financing		(288,852)	(182,089)
828	(5,530)	Net investment in held for trading investments		(2,130)	319
-	193,556	Increase in due to banks		74,519	-
(524)	3,231	Decrease / (increase) in other assets		1,244	(202)
562,722	314,636	Increase in customers' deposits		121,135	216,648
18,924	1,938	Increase in other liabilities		746	7,286
189,174	(193,676)	Cash (used in) / from operations		(74,566)	72,832
(8,649)	(8,655)	Tax paid		(3,332)	(3,330)
180,525	(202,331)	Net cash (used in) / from operating activities		(77,898)	69,502
CASH FLOWS FROM INVESTING ACTIVITIES					
(14,468)	17,987	Decrease / (increase) in investment, net (excluding held for trading investments)		6,925	(5,570)
(13,873)	(5,390)	Purchase of property and equipment	9	(2,075)	(5,341)
29	8	Proceeds from sale of property and equipment		3	11
(28,312)	12,605	Net cash from / (used in) investing activities		4,853	(10,900)
CASH FLOWS FROM FINANCING ACTIVITIES					
45,000	74,351	Increase in borrowed funds	14	28,625	17,325
(15,631)	(24,621)	Dividends paid	17	(9,479)	(6,018)
29,369	49,730	Net cash from financing activities		19,146	11,307
181,582	(139,996)	NET CHANGE IN CASH AND CASH EQUIVALENTS		(53,899)	69,909
(22,128)	159,454	Cash and cash equivalents at 1 January		61,390	(8,519)
159,454	19,458	CASH AND CASH EQUIVALENTS AT 31 DECEMBER (Refer below)		7,491	61,390

CASH AND CASH EQUIVALENTS COMPRISE OF THE FOLLOWING:

2013 US\$ '000	2014 US\$ '000		Note	2014 RO '000	2013 RO '000
111,558	140,052	Cash and balances with Central Bank of Oman		53,920	42,950
211,644	49,777	Due from banks	6	19,164	81,483
86,644	250,000	Treasury bills with three months maturity	8	96,250	33,358
(250,392)	(420,371)	Due to banks		(161,843)	(96,401)
159,454	19,458	Cash and cash equivalents		7,491	61,390

The notes and other explanatory information on pages 60 to 103 form an integral part of these financial statements.

Report of the Auditors - page 55.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Ahli Bank SAOG (the 'Bank') is a general joint stock company incorporated in the Sultanate of Oman and is engaged in commercial banking activities through a network of nineteen branches as at year end (twelve conventional and seven Islamic branches). The registered address of the Bank is PO Box 545, Mina Al Fahal, PC 116, Sultanate of Oman.

The Bank employed 445 employees as at 31 December 2014 compared to 427 as at 31 December 2013.

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 1974, as amended and disclosure requirements of the Capital Market Authority (CMA) of the Sultanate of Oman and the applicable regulations of the Central Bank of Oman (CBO).

The Bank prepares a separate set of financial statements for its Islamic Banking Window (IBW) in accordance with the requirements of Section 1.2 of Title 3 of the Islamic Banking Regulatory Framework ("IBRF") issued by Central Bank of Oman (CBO). The separate set of financial statements of its IBW are prepared in accordance with Financial Accounting Standards ("FAS") issued by Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Sharia Rules and Principles as determined by the Sharia Supervisory Board of the Islamic Window (the "SSB") and other applicable requirements of CBO. The IBWs financial statements are then converted into International Financial Reporting Standards (IFRS) compliant financial statements and included in these financial statements. All inter branch balances and transactions have been eliminated.

2.2 Basis of measurement

The financial statements have been prepared under the historical cost convention except for derivative financial instruments, financial instruments at fair value through profit or loss and available for sale instruments 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 for these financial statements. 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. 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 2014 and relevant for the Bank's operations

For the year ended 31 December 2014, the Bank has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2014.

The adoption of those standards and interpretations has not resulted in changes to the Bank's accounting policies and has not affected the amounts reported for the current and prior periods.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

2 BASIS OF PREPARATION (continued)

2.6 Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank and relevant to the Bank's operations:

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 2014:

IAS 15, Revenue from Contracts with Customers: effective for annual periods commencing 1 January 2017;

IFRS 9, Financial Instruments - Hedge accounting: effective for annual periods commencing 1 January 2018;

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by the Bank to all periods presented in these financial statements.

3.1 Foreign currency translation

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

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

The non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date the fair value is determined. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income, except for non-monetary financial assets, such as securities classified as available for sale, which are included in other comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

3.2 Revenue and expense recognition

3.2.1 Interest income and expense

Interest income and expense is recognised in the statement of comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

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

Interest on financial assets and liabilities at amortised cost on an effective interest rate basis;

Interest on available for sale investment securities on an effective interest basis;

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

3.2.2 Fees and commission

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

Other fees and commission income include account servicing fees, credit related fees, administration fees and other management fees, sales commission, placement fees and syndication fees. These are recognised as the related services are rendered.

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 obligation arising from a past event and the costs to settle the obligation are both probable and can be reliably estimated.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Financial assets and liabilities

3.3.1 Classification

The Bank classifies its financial assets in the categories: at fair value through profit or loss, loans and receivables, held to maturity and available for sale. The classification depends on the purpose for which the financial assets are acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Financial assets at fair value through profit or loss are initially recognised at fair value, which is the cash consideration paid, and measured subsequently at fair value. All the realised and unrealised gains and losses are recognised in the statement of comprehensive income. Interest earned or dividends received are recognised in the statement of comprehensive income under 'interest income' and 'other operating income' respectively.

(b) Loans and financings receivables

Loans and financing receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans 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 specifically identified and collective allowance for impairment and recognised in the statement of comprehensive income as 'loans and financing impairment'. Specific provisions are made against the carrying amount of loans and financings receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce the impaired loans and receivables to their recoverable amounts. Loans and financings receivables are reported in the statement of financial position as loans & advances and financing, net. Interest on loans is included in the statement of comprehensive income and is reported as 'interest income' subject to note 3.2.1.

(c) Held to maturity financial assets

Held to maturity financial assets are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold till maturity.

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate.

Interest on held to maturity investments is included in the statement of comprehensive income and reported as 'interest income'. In the case of impairment, the impairment loss is been reported as a deduction from the carrying value of the investment and recognised in the statement of comprehensive income as 'impairment on investments'. Held to maturity investments includes debt securities.

(d) Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

Available for sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

Available for sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in the statement of other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. If an available for sale financial asset is determined to be impaired/derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified in the profit or loss. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the profit or loss. Dividends on available for sale equity instruments are recognised in profit or loss as 'other operating income' when the Bank's right to receive is established.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Financial assets and liabilities (continued)

3.3.2 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date derivative contracts are entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Bank designates certain derivatives as either:

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

On initial designation of the derivative as hedging instrument, the Bank formally documents the relationship between the hedging instrument and hedged item, including risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the method to assess the effectiveness of the hedging relationship. The Bank makes an assessment, both at the inception of the hedging relationship as well as ongoing basis, of whether the hedging instrument are expected to be highly effective in offsetting the changes in fair value or cash flows of the respective hedged items attributable to the hedge risk.

In relation to cash flow hedges, the gain or loss on hedging instruments is recognised initially in other comprehensive income to the extent that the hedge is effective and is transferred to the profit or loss in the period in which the hedged transaction impacts the profit or loss. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to profit or loss.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised or no longer qualifies for hedge accounting.

3.3.3 Recognition

The Bank initially recognises loans & advances and financing, deposits, debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

3.3.4 Derecognition

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

- the rights to receive cash flows from the asset have expired;
- 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
- 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.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

3.3.5 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.

3.3.6 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 principal repayments, plus or minus the cumulative amortisation using effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Financial assets and liabilities (continued)

3.3.7 Fair value measurement

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.

For investments where there is no quoted market price, 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.

The fair value of loans and financings receivables is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date.

The fair value of forward exchange contracts is based on their quoted price, if available. If a quoted price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds). The fair value of interest rate swaps is based on broker quotes. These quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and counterparty when appropriate.

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.

3.4 Identification and measurement of impairment of financial assets

(a) Assets carried at amortised cost

An assessment is made at each reporting date to determine whether there is any objective evidence that a specific financial asset or a group of financial assets may be impaired. If such evidence exists,

the estimated recoverable amount of that asset or a group of financial assets is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised in the statement of comprehensive income and credited to a loan and financing impairment account.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loans & advances and financing by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The present value of the estimated future cash flows for loans and financings receivables and other interest bearing financial assets is discounted at the financial asset's original effective interest rate. If a loan and financing has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

In addition to specific provisions against individually significant financial assets, the Bank also makes portfolio impairment provisions on groups of financial assets, which although not identified as requiring a specific provision, have a greater risk of default than the risk at initial recognition. Financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms and the collective impairment provision is estimated for any such group where credit risk characteristics of the group of financial assets has deteriorated. Factors such as any deterioration in country risk, industry, technological obsolescence as well as identified structural weaknesses or deterioration in cash flows are taken into consideration and the amount of the provision is based on the historical loss pattern within each group, adjusted to reflect current economic changes.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Identification and measurement of impairment of financial assets (continued)

Loans and financing receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. 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 comprehensive income.

(b) Assets classified as available for sale

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Bank uses the criteria referred to in (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the equity investment is impaired. If any such evidence exists for available for sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is reclassified from equity and recognised in the profit or loss. Impairment losses recognised in the profit or loss on equity instruments are not reversed through the statement of comprehensive income.

(c) Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to individual or collective impairment assessment, calculated using the loan's original effective interest rate.

3.5 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 up to 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.

3.6 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.

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.

3.7 Due from banks

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

3.8 Borrowed funds

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

3.9 Deposits and subordinated liabilities

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

3.10 Capitalisation of interest

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



Financial Statements of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Property and equipment

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

	Years
Building	25
Vehicles	4
Furniture	5
Computer and other equipment	5
Leasehold improvements	5

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

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

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

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

3.12 Collateral pending sale

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

3.13 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.

3.14 Taxation

Taxation is provided in accordance with Omani fiscal regulations. Income tax comprises current and deferred tax. Tax expense is recognised in the 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.

3.15 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 of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

3.16 Acceptances

Acceptances are disclosed on 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.

3.17 Leases

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18 Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit and guarantees.

Financial guarantees are initially recognised in the financial statements at fair value, being the commission received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised commission and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

3.19 Employee terminal benefits

3.19.1 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 Labour Law 2003, as amended.

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

3.19.2 Short term benefits

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

3.20 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.

3.21 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.

3.22 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, as amended.

3.23 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 dealt with as an event after the reporting date and disclosed in the financial statements.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT

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 Impairment losses on loans & advances and financing

Estimates are made regarding the amount and timing of future cash flows when measuring the level of provisions required for non-performing loans, portfolios of performing loans with similar risk characteristics where the risk of default has increased, as well as provisions for non-trading investments and other assets. These are more fully described in note 3.4.



Financial Statements of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT (continued)

4.2 Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined by 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 available for sale financial assets that are not traded in active markets.

4.3 Impairment of available for sale equity investments

The Bank determines that available for sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost or objective evidence of impairment exists. This determination of what is considered to be significant or prolonged requires judgement. In applying judgement, the Bank evaluates among other factors, the volatility in share price. Objective evidence of impairment may be due to deterioration in the financial condition of the investee, industry and sector performance.

5 CASH AND BALANCES WITH CENTRAL BANK OF OMAN

2013 US\$ '000	2014 US\$ '000		2014 RO '000	2013 RO '000
13,480	11,899	Cash	4,581	5,190
1,299	1,299	Capital deposit with Central Bank of Oman	500	500
65	65	ATM deposit with Central Bank of Oman	25	25
<u>98,078</u>	<u>128,153</u>	Clearing account with Central Bank of Oman	<u>49,339</u>	<u>37,760</u>
<u>112,922</u>	<u>141,416</u>		<u>54,445</u>	<u>43,475</u>

The Capital and ATM deposits with the Central Bank of Oman 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.

6 DUE FROM BANKS

2013 US\$ '000	2014 US\$ '000		2014 RO '000	2013 RO '000
201,509	77,444	Placements	29,816	77,581
<u>10,135</u>	<u>12,777</u>	Nostro account balances	<u>4,919</u>	<u>3,902</u>
<u>211,644</u>	<u>90,221</u>		<u>34,735</u>	<u>81,483</u>

7 LOANS & ADVANCES AND FINANCING, NET

2013 US\$ '000	2014 US\$ '000		2014 RO '000	2013 RO '000
1,589,540	1,909,787	Conventional Banking		
1,165,779	1,325,007	Corporate lending	735,268	611,973
<u>2,755,319</u>	<u>3,234,794</u>	Retail lending	<u>510,128</u>	<u>448,825</u>
		Loans & advances, gross	<u>1,245,396</u>	<u>1,060,798</u>
92,834	200,538	Islamic Banking		
<u>59,182</u>	<u>219,636</u>	Corporate financing	77,207	35,741
<u>152,016</u>	<u>420,174</u>	Retail financing	<u>84,560</u>	<u>22,785</u>
		Financing, gross	<u>161,767</u>	<u>58,526</u>
<u>2,907,335</u>	<u>3,654,968</u>	Loans & advances and financing, gross	<u>1,407,163</u>	<u>1,119,324</u>
(22,200)	(29,106)	Loan and financing impairment on portfolio basis	(11,206)	(8,547)
<u>(15,221)</u>	<u>(18,405)</u>	Loan and financing impairment on specific basis (including reserve interest and profit)	<u>(7,086)</u>	<u>(5,860)</u>
<u>2,869,914</u>	<u>3,607,457</u>	Total loans & advances and financing, net	<u>1,388,871</u>	<u>1,104,917</u>



Financial Statements of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

7 LOANS & ADVANCES AND FINANCING, NET (continued)

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

2013	2014		2014	2013
US\$ '000	US\$ '000		RO '000	RO '000
1,224,961	1,544,643	Personal loans	594,688	471,610
495,031	571,468	Construction	220,015	190,587
319,086	430,200	Wholesale and retail trade	165,627	122,848
193,764	250,629	Manufacturing	96,492	74,599
156,901	207,119	Services	79,741	60,407
154,971	203,519	Financial institutions	78,355	59,664
154,418	154,600	Transport and communication	59,521	59,451
65,104	101,379	Mining and quarrying	39,031	25,065
48,527	94,938	Electricity, gas and water	36,551	18,683
40,696	64,075	Non-resident lending	24,669	15,668
53,876	32,398	Other	12,473	20,742
<u>2,907,335</u>	<u>3,654,968</u>		<u>1,407,163</u>	<u>1,119,324</u>

As per the CBO requirements, the movement in the loan & financing impairment provision is analysed as below:

2013	2014		2014	2013
US\$ '000	US\$ '000		RO '000	RO '000
Impairment provision on portfolio basis				
16,990	22,200	Balance at beginning of the year	8,547	6,541
<u>5,210</u>	<u>6,906</u>	Provided during the period	<u>2,659</u>	<u>2,006</u>
<u>22,200</u>	<u>29,106</u>	Balance at the end of the year	<u>11,206</u>	<u>8,547</u>
Impairment provision on specific basis				
Impairment provision				
11,735	13,567	Balance at beginning of the year	5,223	4,518
8,532	9,013	Provided during the year	3,470	3,285
(1,887)	(3,218)	Recoveries during the year	(1,239)	(727)
<u>(4,813)</u>	<u>(3,109)</u>	Write offs during the year	<u>(1,197)</u>	<u>(1,853)</u>
<u>13,567</u>	<u>16,253</u>	Balance at the end of the year	<u>6,257</u>	<u>5,223</u>
Reserve interest and profit				
1,387	1,654	Balance at beginning of the year	637	534
1,552	1,690	Reserved during the year	651	598
(506)	(618)	Released during the year	(238)	(195)
<u>(779)</u>	<u>(574)</u>	Write offs during the year	<u>(221)</u>	<u>(300)</u>
<u>1,654</u>	<u>2,152</u>	Balance at the end of the year	<u>829</u>	<u>637</u>
<u>15,221</u>	<u>18,405</u>		<u>7,086</u>	<u>5,860</u>



Financial Statements of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

7 LOANS & ADVANCES AND FINANCING, NET (continued)

During the year, an amount of RO 0.008 million equivalent to US\$ 0.021 million (31 December 2013: Nil) of loans & advances and financing is directly written off in the statement of comprehensive income.

Total loan & financing impairment provision above includes impairment provision for off-balance sheet exposures as well. Interest and profit is reserved for all non-performing loans & advances and financing where recovery is considered doubtful. As at 31 December 2014, the total balance of loans & advances and financing on which interest and profit is not accrued, or where interest and profit is suspended, amounted to RO 13.711 million equivalent to US\$ 35.613 million (31 December 2013: RO 10.844 million equivalent to US\$ 28.167 million). The fair value of collateral that the Bank holds relating to loans & advances and financing individually determined to be impaired as at 31 December 2014 amounts to RO 8.247 million equivalent to US\$ 21.421 million (31 December 2013: RO 4.907 million equivalent to US\$ 12.745 million). The collateral consists of cash, securities and properties and the amount disclosed is limited to the lower of the outstanding balance and the fair value of collateral for each loan.

In accordance with the requirements of the CBO's circular referenced BM 977, the Bank is required to create a portfolio-based provision (general loan loss provision) by debiting the statement of comprehensive income. On 29 December 2007, the CBO had permitted the Bank to create a general loan loss reserve in lieu of such general loan loss provisions, for a temporary period of three years from 1 January 2008 to 31 December 2010. Accordingly, the Bank set aside an amount of RO 6.543 million equivalent to US\$ 16.995 million as a non-distributable loan loss reserve in its statement of changes in equity till 31 December 2010.

8 INVESTMENT SECURITIES

2013	2014		2014	2013
US\$ '000	US\$ '000		RO '000	RO '000
74,956	80,488	Held for trading investments	30,988	28,858
134,415	278,538	Available for sale investments	107,237	51,750
<u>209,371</u>	<u>359,026</u>		<u>138,225</u>	<u>80,608</u>

a) Held for trading investments comprise:

	Carrying value	Cost	Carrying value	Cost
	2014	2014	2013	2013
	RO '000	RO '000	RO '000	RO '000
Government Development Bonds - Oman	<u>30,988</u>	<u>30,988</u>	<u>28,858</u>	<u>28,858</u>

	Carrying value	Cost	Carrying value	Cost
	2014	2014	2014	2014
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Government Development Bonds - Oman	<u>80,488</u>	<u>80,488</u>	<u>74,956</u>	<u>74,956</u>



Financial Statements of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

8 INVESTMENT SECURITIES (continued)

b) Available for sale investments comprise:

	Carrying value 2014 RO '000	Cost 2014 RO '000	Carrying value 2013 RO '000	Cost 2013 RO '000
Unquoted securities	-	-	86	86
Quoted securities	10,987	11,306	18,306	17,279
Treasury bills	<u>96,250</u>	<u>96,250</u>	<u>33,358</u>	<u>33,358</u>
	107,237	107,556	51,750	50,723
Impairment - quoted securities	-	(346)	-	-
	<u>107,237</u>	<u>107,210</u>	<u>51,750</u>	<u>50,723</u>

	Carrying value 2014 US\$ '000	Cost 2014 US\$ '000	Carrying value 2013 US\$ '000	Cost 2013 US\$ '000
Unquoted securities	-	-	223	223
Quoted securities	28,538	29,367	47,548	44,881
Treasury bills	<u>250,000</u>	<u>250,000</u>	<u>86,644</u>	<u>86,644</u>
	278,538	279,367	134,415	131,748
Impairment - quoted securities	-	(899)	-	-
	<u>278,538</u>	<u>278,468</u>	<u>134,415</u>	<u>131,748</u>



Financial Statements of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

9 PROPERTY AND EQUIPMENT

	Freehold land RO '000	Building RO '000	Leasehold improvements RO '000	Computer and other equipment RO '000	Vehicles RO '000	Furniture RO '000	Capital work in progress RO '000	Total RO '000
Cost:								
At 1 January 2014	7,091	5,884	2,300	5,350	168	867	1,156	22,816
Additions	-	-	197	488	-	63	1,327	2,075
Transferred	-	-	201	1,701	-	-	(1,902)	-
Disposals / scrapped	-	-	(673)	(100)	-	(153)	-	(926)
At 31 December 2014	7,091	5,884	2,025	7,439	168	777	581	23,965
Accumulated depreciation:								
At 1 January 2014	-	20	1,831	3,939	89	361	-	6,240
Depreciation	-	236	154	611	31	130	-	1,162
Disposals / scrapped	-	-	(652)	(95)	-	(147)	-	(894)
At 31 December 2014	-	256	1,333	4,455	120	344	-	6,508
Net book value as at 31 December 2014	7,091	5,628	692	2,984	48	433	581	17,457
RO '000	7,091	5,628	692	2,984	48	433	581	17,457
US\$ '000	18,418	14,618	1,797	7,751	125	1,125	1,509	45,343

	Freehold land RO '000	Building RO '000	Leasehold improvements RO '000	Computer and other equipment RO '000	Vehicles RO '000	Furniture RO '000	Capital work in progress RO '000	Total RO '000
Cost:								
At 1 January 2013	5,935	-	1,809	4,339	127	377	4,959	17,546
Additions	-	269	-	249	64	111	4,657	5,350
Transferred	1,156	5,615	491	802	-	387	(8,451)	-
Expensed out	-	-	-	-	-	-	(9)	(9)
Disposals / scrapped	-	-	-	(40)	(23)	(8)	-	(71)
At 31 December 2013	7,091	5,884	2,300	5,350	168	867	1,156	22,816
Accumulated depreciation:								
At 1 January 2013	-	-	1,717	3,365	87	302	-	5,471
Depreciation	-	20	114	613	22	66	-	835
Disposals / scrapped	-	-	-	(39)	(20)	(7)	-	(66)
At 31 December 2013	-	20	1,831	3,939	89	361	-	6,240
Net book value as at 31 December 2013	7,091	5,864	469	1,411	79	506	1,156	16,576
RO '000	7,091	5,864	469	1,411	79	506	1,156	16,576
US\$ '000	18,418	15,232	1,218	3,665	205	1,314	3,003	43,055



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

10 TAXATION

a) Recognised in the statement of comprehensive income

2013	2014		2014	2013
US\$ '000	US\$ '000		RO '000	RO '000
8,387	8,878	Current tax	3,418	3,229
-	413	Deferred tax	159	-
<u>8,387</u>	<u>9,291</u>		<u>3,577</u>	<u>3,229</u>

b) Tax liability

2013	2014		2014	2013
US\$ '000	US\$ '000		RO '000	RO '000
Current tax				
8,387	8,878	- Current year	3,418	3,229
1,270	1,002	- Prior years	386	489
9,657	9,880		3,804	3,718
Deferred tax				
-	143	- Current year	55	-
<u>9,657</u>	<u>10,023</u>		<u>3,859</u>	<u>3,718</u>

c) Deferred tax (liability) / asset

2013	2014		2014	2013
US\$ '000	US\$ '000		RO '000	RO '000
270	270	At 1 January	104	104
-	(413)	Movement during the year	(159)	-
<u>270</u>	<u>(143)</u>	At 31 December	<u>(55)</u>	<u>104</u>

d) Relationship between tax expense and accounting profit

The Bank is liable to income tax for the year 2014 in accordance with the income tax laws of the Sultanate of Oman at the rate of 12% (31 December 2013: 12%) on taxable profits in excess of RO 30,000 equivalent to US\$ 78,000 (31 December 2013: RO 30,000 equivalent to US\$ 78,000).

2013	2014		2014	2013
US\$ '000	US\$ '000		RO '000	RO '000
68,205	74,556	Accounting profit for the year	28,704	26,259
8,175	8,937	Tax charge @ 12% on accounting profit	3,441	3,148
Add / (less) tax effects of:				
(202)	(348)	Income not taxable	(134)	(78)
(3)	(88)	Non deductible expenses	(34)	(1)
-	226	Temporary difference arised due to accelerated depreciation	87	-
417	564	Others	217	160
<u>8,387</u>	<u>9,291</u>	Tax expense	<u>3,577</u>	<u>3,229</u>
<u>12.3%</u>	<u>12.5%</u>	Effective tax rate	<u>12.5%</u>	<u>12.3%</u>

The Bank's tax assessment have been completed by the Tax Authorities upto the year 2010. During assessment for the year 2011, Tax Authorities have made certain disallowances including general loan loss provisions and donations made by the Bank. Appeal against the aforesaid assessments is pending before the Tax Authorities and management is confident that the eventual outcome of the appeal will be in favour of the Bank.



Financial Statements of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

11 OTHER ASSETS

2013 US\$ '000	2014 US\$ '000		2014 RO '000	2013 RO '000
27,743	19,117	Acceptances	7,360	10,681
1,047	1,727	Prepayments	665	403
519	379	Interest and profit receivable	146	200
2,696	7,551	Others	2,907	1,038
<u>32,005</u>	<u>28,774</u>		<u>11,078</u>	<u>12,322</u>

12 DUE TO BANKS

2013 US\$ '000	2014 US\$ '000		2014 RO '000	2013 RO '000
248,558	365,042	Inter-bank deposits	140,541	95,695
1,834	3,901	Vostro account balances	1,502	706
-	244,984	Borrowings under repurchase agreements	94,319	-
<u>250,392</u>	<u>613,927</u>		<u>236,362</u>	<u>96,401</u>

Borrowings from financial institutions under repurchase agreements are secured by collateralisation of US treasury bills. Market value of collateralized treasury bills as of 31 December 2014 amounted to RO 96.250 million equivalent to US\$ 250 million (31 December 2013: Nil).

13 CUSTOMERS' DEPOSITS

2013 US\$ '000	2014 US\$ '000		2014 RO '000	2013 RO '000
Conventional Banking				
1,858,475	1,844,644	Time deposits	710,188	715,513
593,585	768,862	Demand and savings deposits	296,012	228,530
<u>2,452,060</u>	<u>2,613,506</u>		<u>1,006,200</u>	<u>944,043</u>
Islamic Banking				
14,400	26,779	Current deposits	10,310	5,544
Unrestricted investment accounts				
10,423	13,530	- under mudaraba agreement	5,209	4,013
3,779	141,483	- under wakala agreement	54,471	1,455
<u>28,602</u>	<u>181,792</u>		<u>69,990</u>	<u>11,012</u>
<u>2,480,662</u>	<u>2,795,298</u>	Total customers' deposits	<u>1,076,190</u>	<u>955,055</u>

14 BORROWED FUNDS

2013 US\$ '000	2014 US\$ '000		2014 RO '000	2013 RO '000
75,000	100,000	Financial institutions	38,500	28,875
-	49,351	Others	19,000	-
<u>75,000</u>	<u>149,351</u>		<u>57,500</u>	<u>28,875</u>



Financial Statements of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

15 OTHER LIABILITIES

2013	2014		2014	2013
US\$ '000	US\$ '000		RO '000	RO '000
27,743	19,117	Acceptances	7,360	10,681
24,758	26,382	Interest and profit payable	10,157	9,532
7,922	7,865	Accrued expenses	3,028	3,050
3,919	4,042	Staff related liabilities	1,556	1,509
14,985	24,076	Others	9,269	5,769
<u>79,327</u>	<u>81,482</u>		<u>31,370</u>	<u>30,541</u>

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

2013	2014		2014	2013
US\$ '000	US\$ '000		RO '000	RO '000
434	567	At 1 January	218	167
216	309	Provided during the year	119	83
(83)	(94)	Payments made during the year	(36)	(32)
<u>567</u>	<u>782</u>	At 31 December	<u>301</u>	<u>218</u>

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 16,565 equivalent to US\$ 43,026 was transferred to the "Investors' Trust Fund" (31 December 2013: RO 9,739 equivalent to US\$ 25,296).

16 SUBORDINATED LIABILITIES

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

2013	2014		2014	2013
US\$ '000	US\$ '000		RO '000	RO '000
90,909	90,909	Subordinated bonds	35,000	35,000
12,987	12,987	Subordinated loans	5,000	5,000
<u>103,896</u>	<u>103,896</u>		<u>40,000</u>	<u>40,000</u>

Subordinated bonds are listed in the Muscat Securities Market. The Bank has an option to redeem the bonds at the end of 5 years from the allotment date. For each of the last 5 years of the tenor of the subordinated liabilities, the Bank is required to transfer 20% of the liability to subordinated reserve. All Subordinated liabilities are repayable at par on maturity. The maturity profile and interest rate of these liabilities are disclosed in note 31.2.2 and 31.3.2.

17 SHARE CAPITAL

The authorised share capital of the Bank is 1,500,000,000 shares of 100 baizas each (31 December 2013: 1,500,000,000 shares of 100 baizas each) out of which 1,295,487,404 (31 December 2013: 1,263,890,150 shares) are issued and fully paid up. During the year ended 31 December 2014, 31,597,254 shares (31 December 2013: 60,018,525 shares) were issued as bonus shares.

Shareholders of the Bank who own 10% or more of the Bank's shares, whether in their name, or through a nominee account, and the number of shares they hold are as follows:

	Number of shares		% Holding	
	2014	2013	2014	2013
Ahli United Bank B.S.C, Bahrain	453,420,584	442,361,546	35.0%	35.0%
MB Holding and its subsidiaries	-	192,260,242	-	15.2%



Financial Statements of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

18 LEGAL RESERVE

As required by the Commercial Companies Law of 1974, as amended, 10% of the net profit for the year has been transferred to legal reserve. The Bank may resolve to discontinue such annual transfers when the reserve totals one third of the paid up share capital. The reserve is not available for distribution to the shareholders. During the year, RO 2.513 million equivalent to US\$ 6.527 million (31 December 2013: RO 2.303 million equivalent to US\$ 5.982 million) was transferred to legal reserve.

19 DIVIDEND PAID AND PROPOSED

The Board of Directors has recommended stock dividend of 10% (10 shares for every 100 shares) which is subject to approval of the shareholders at the Annual General Meeting and the regulatory authorities (31 December 2013: 2.5% stock dividend, 2.5 shares for every 100 shares and cash dividend 7.5%).

20 NET ASSETS VALUE PER SHARE

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

2013	2014		2014	2013
US\$ '000	US\$ '000		RO '000	RO '000
480,247	<u>518,260</u>	Net assets	<u>199,530</u>	184,895
1,263,890	<u>1,295,487</u>	Issued and paid up shares (in 000's) at 31 December	<u>1,295,487</u>	<u>1,263,890</u>
<u>38.0</u>	<u>40.0</u>	Net asset value per share (cents / baizas)	<u>154.0</u>	<u>146.3</u>

21 CONTINGENT LIABILITIES AND COMMITMENTS

2013	2014		2014	2013
US\$ '000	US\$ '000		RO '000	RO '000
368,400	<u>428,332</u>	Financial guarantees	<u>164,908</u>	141,834
35,327	<u>86,395</u>	Letters of credit	<u>33,262</u>	13,601
48,842	<u>22,761</u>	Loan commitments	<u>8,763</u>	18,804
1,683	<u>5,364</u>	Capital commitments	<u>2,065</u>	648
		Lease commitments		
278	<u>592</u>	- not later than one year	<u>228</u>	107
888	<u>1,488</u>	- more that one year and upto five years	<u>573</u>	<u>342</u>
<u>455,418</u>	<u>544,932</u>		<u>209,799</u>	<u>175,336</u>

22 INTEREST INCOME

2013	2014		2014	2013
US\$ '000	US\$ '000		RO '000	RO '000
139,117	<u>143,634</u>	Loans and advances	<u>55,299</u>	53,560
3,236	<u>2,691</u>	Investments	<u>1,036</u>	1,246
346	<u>273</u>	Due from banks	<u>105</u>	133
<u>142,699</u>	<u>146,598</u>		<u>56,440</u>	<u>54,939</u>



Financial Statements of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

23 INTEREST EXPENSE

2013	2014		2014	2013
US\$ '000	US\$ '000		RO '000	RO '000
32,634	31,865	Time deposits	12,268	12,564
8,917	10,564	Demand and saving deposits	4,067	3,433
4,226	7,577	Borrowings	2,917	1,627
1,348	1,234	Inter-bank deposits	475	519
<u>47,125</u>	<u>51,240</u>		<u>19,727</u>	<u>18,143</u>

24 OTHER OPERATING INCOME

2013	2014		2014	2013
US\$ '000	US\$ '000		RO '000	RO '000
15,148	20,514	Fees and commission, net	7,898	5,832
2,197	2,283	Gain on sale of investments	879	846
1,935	3,075	Foreign exchange gain, net	1,184	745
795	961	Dividend income	370	306
16	(75)	(Loss) / gain on sale of property and equipment	(29)	6
1,434	5	Others	2	552
<u>21,525</u>	<u>26,763</u>		<u>10,304</u>	<u>8,287</u>

The fee and commission income shown above is net of fees and commission paid of RO 0.540 million equivalent to US\$ 1.403 million (31 December 2013: RO 0.315 million equivalent to US\$ 0.818 million).

25 STAFF EXPENSES

2013	2014		2014	2013
US\$ '000	US\$ '000		RO '000	RO '000
14,961	16,823	Salaries and wages	6,477	5,760
5,642	7,153	Allowances	2,754	2,172
2,922	3,527	Others	1,358	1,125
<u>23,525</u>	<u>27,503</u>		<u>10,589</u>	<u>9,057</u>

26 OTHER OPERATING EXPENSES

2013	2014		2014	2013
US\$ '000	US\$ '000		RO '000	RO '000
11,800	12,303	Operating and administration costs	4,737	4,543
2,966	2,587	Occupancy costs	996	1,142
520	520	Board related expenses	200	200
<u>15,286</u>	<u>15,410</u>		<u>5,933</u>	<u>5,885</u>



Financial Statements of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

27 BASIC AND DILUTED EARNINGS PER SHARE

2013	2014		2014	2013
US\$ '000	US\$ '000		RO '000	RO '000
59,818	<u>65,265</u>	Profit for the year	<u>25,127</u>	<u>23,030</u>
1,295,487	<u>1,295,487</u>	Weighted average number of outstanding shares during the year (in 000's)	<u>1,295,487</u>	<u>1,295,487</u>
<u>4.6</u>	<u>5.0</u>	Earnings per share (cents / baizas)	<u>19.4</u>	<u>17.8</u>

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

The weighted average number of shares outstanding before the event is adjusted for the change in the number of shares due to bonus issue as if the event had occurred at the beginning of the earliest year presented.

28 RELATED PARTY TRANSACTIONS

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

2013	2014		2014	2013
US\$ 000	US\$ 000		RO '000	RO '000
		Directors and senior management		
1,314	1,312	Loans & advances and financing, net	505	506
847	2,000	Customers' deposits	770	326
		Major shareholders and others		
45,330	2,052	Loans & advances and financing, net	790	17,452
19,332	2,779	Due from banks	1,070	7,443
6,114	1,203	Investments securities	463	2,354
		Other assets		
138	309	- Fair value of forward contracts	119	53
108,522	448,351	Due to banks	172,615	41,781
35,023	68	Customers' deposits	26	13,484
		Other liabilities		
304	348	- Fair value of foreign exchange forward contracts	134	117
538	-	- Fair value of swaps	-	207
1,971	1,696	- Accrued expenses	653	759
45,961	47,205	Contingent liabilities and commitments	18,174	17,695

The related maturity profile and interest rate risk is given in note 31.2.2 and 31.3.2 respectively.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

28 RELATED PARTY TRANSACTIONS (continued)

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

2013 US\$ '000	2014 US\$ '000		2014 RO '000	2013 RO '000
		Directors and senior management		
34	31	Interest income	12	13
18	23	Interest expense	9	7
377	426	Board remuneration proposed	164	145
143	94	Board sitting fees	36	55
		Major shareholders and others		
3,795	1,418	Interest income	546	1,461
644	1,112	Interest expense	428	248
29	-	Fees and commission, net	-	11
114	361	Loss on fair value of interest rate swaps	139	44
304	348	Loss on foreign exchange forward contracts	134	117
1,971	2,244	Other operating expenses	864	759

The Bank has a technical and support agreement (TMSA) with a major shareholder. In accordance with the agreement, an amount of RO 0.653 million equivalent to US\$ 1.696 million is included in other operating expenses during 2014 (31 December 2013: RO 0.597 million equivalent to US\$ 1.551 million).

The Bank has a committed line of loans from one of the related parties of RO 40 million equivalent to US\$ 103.896 million (31 December 2013: RO 25 million equivalent to US\$ 64.9 million).

Compensation of the key management personnel is as follows;

2013 US\$ '000	2014 US\$ '000		2014 RO '000	2013 RO '000
2,182	2,047	Salaries and allowances	788	840
68	109	End of service benefits	42	26
<u>2,250</u>	<u>2,156</u>	Total compensation paid during the year	<u>830</u>	<u>866</u>



Financial Statements of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

29 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Bank considers that the fair value of financial instruments is not significantly different to their carrying value at each of reporting dates. The Bank's accounting policy on fair value is disclosed in note 3. The table below sets out the classification of each class of financial assets and liabilities, and their fair values as at 31 December 2014:

Financial assets as per statement of financial position At 31 December 2014	Loans and receivables RO '000	Held for trading RO '000	Available for sale RO '000	carrying amount RO '000	Fair value RO '000
Cash and balances with Central Bank of Oman	54,445	-	-	54,445	54,445
Due from banks	34,735	-	-	34,735	34,735
Loans & advances and financings, net	1,388,871	-	-	1,388,871	1,388,871
Investment securities	-	30,988	107,237	138,225	138,225
Other assets (excluding prepayments)	10,413	-	-	10,413	10,413
Total	1,488,464	30,988	107,237	1,626,689	1,626,689

Financial liabilities as per statement of financial position At 31 December 2014	Total carrying amount RO '000	Fair value RO '000
Due to banks	236,362	236,362
Customers' deposits	1,076,190	1,076,190
Borrowed funds	57,500	57,500
Other liabilities (excluding deferred income)	28,363	28,363
Subordinated liabilities	40,000	40,000
Total	1,438,415	1,438,415

Financial assets as per statement of financial position At 31 December 2014	Loans and receivables US\$ '000	Held for trading US\$ '000	Available for sale US\$ '000	Total carrying amount US\$ '000	Fair value US\$ '000
Cash and balances with Central Bank of Oman	141,416	-	-	141,416	141,416
Due from banks	90,221	-	-	90,221	90,221
Loans & advances and financings, net	3,607,457	-	-	3,607,457	3,607,457
Investment securities	-	80,488	278,538	359,026	359,026
Other assets (excluding prepayments)	27,047	-	-	27,047	27,047
Total	3,866,141	80,488	278,538	4,225,167	4,225,167

Financial liabilities as per statement of financial position At 31 December 2014	Total carrying amount US\$ '000	Fair value US\$ '000
Due to banks	613,927	613,927
Customers' deposits	2,795,298	2,795,298
Borrowed funds	149,351	149,351
Other liabilities (excluding deferred income)	73,670	73,670
Subordinated liabilities	103,896	103,896
Total	3,736,142	3,736,142



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

29 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

<i>Financial assets as per statement of financial position</i>	Loans and receivables	Held for trading	Available for sale	Total carrying amount	Fair value
<i>At 31 December 2013</i>	RO '000	RO '000	RO '000	RO '000	RO '000
Cash and balances with Central Bank of Oman	43,475	-	-	43,475	43,475
Due from banks	81,483	-	-	81,483	81,483
Loans & advances and financings, net	1,104,917	-	-	1,104,917	1,104,917
Investment securities	-	28,858	51,750	80,608	80,608
Other assets (excluding prepayments)	11,919	-	-	11,919	11,919
Total	1,241,794	28,858	51,750	1,322,402	1,322,402
<i>Financial liabilities as per statement of financial position</i>				Total carrying amount	Fair value
<i>At 31 December 2013</i>				RO '000	RO '000
Due to banks				96,401	96,401
Customers' deposits				955,055	955,055
Borrowed funds				28,875	28,875
Other liabilities (excluding deferred fee income)				28,356	28,356
Subordinated liabilities				40,000	40,000
Total				1,148,687	1,148,687
<i>Financial assets as per statement of financial position</i>	Loans and receivables	Held for trading	Available for sale	Total carrying amount	Fair value
<i>At 31 December 2013</i>	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Cash and balances with Central Bank of Oman	112,922	-	-	112,922	112,922
Due from banks	211,644	-	-	211,644	211,644
Loans & advances and financings, net	2,869,914	-	-	2,869,914	2,869,914
Investment securities	-	74,956	134,415	209,371	209,371
Other assets (excluding prepayments)	30,958	-	-	30,958	30,958
Total	3,225,438	74,956	134,415	3,434,809	3,434,809
<i>Financial liabilities as per statement of financial position</i>				Total carrying amount	Fair value
<i>At 31 December 2013</i>				US\$ '000	US\$ '000
Due to banks				250,392	250,392
Customers' deposits				2,480,662	2,480,662
Borrowed funds				75,000	75,000
Other liabilities (excluding deferred fee income)				73,652	73,652
Subordinated liabilities				103,896	103,896
Total				2,983,602	2,983,602

Valuation of financial instruments:

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

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).



Financial Statements of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

29 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	31 December 2014			31 December 2013		
	Level 1 RO '000	Level 2 RO '000	Total RO '000	Level 1 RO '000	Level 2 RO '000	Total RO '000
Financial assets:						
Held for trading investments	30,988	-	30,988	28,858	-	28,858
Available for sale investments	10,987	96,250	107,237	18,306	33,444	51,750
Derivative financial instruments						
Interest rate swaps	-	36	36	-	37	37
Forward foreign exchange contracts	526	-	526	142	-	142
	<u>42,501</u>	<u>96,286</u>	<u>138,787</u>	<u>47,306</u>	<u>33,481</u>	<u>80,787</u>
Financial liabilities						
Derivative financial instruments						
Interest rate swaps	-	-	-	-	96	96
Forward foreign exchange contracts	-	216	216	-	183	183
	<u>-</u>	<u>216</u>	<u>216</u>	<u>-</u>	<u>279</u>	<u>279</u>
Financial assets:	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Held for trading investments	80,488	-	80,488	74,956	-	74,956
Available for sale investments	28,538	250,000	278,538	47,548	86,867	134,415
Derivative financial instruments						
Interest rate swaps	-	94	94	-	96	96
Forward foreign exchange contracts	1,366	-	1,366	369	-	369
	<u>110,392</u>	<u>250,094</u>	<u>360,486</u>	<u>122,873</u>	<u>86,963</u>	<u>209,836</u>
Financial liabilities						
Derivative financial instruments						
Interest rate swaps	-	-	-	-	250	250
Forward foreign exchange contracts	-	561	561	-	475	475
	<u>-</u>	<u>561</u>	<u>561</u>	<u>-</u>	<u>725</u>	<u>725</u>

No financial instruments are carried at level 3 fair value as on 31 December 2014 (31 December 2013: nil)

30 DERIVATIVES

Derivative product types

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

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

Derivatives held for hedging purposes

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



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

30 DERIVATIVES (continued)

Derivatives held for risk management purposes

The Bank has entered into interest rate swaps and forward contracts for risk management purposes which are usually not closed out prior to contractual maturity. The Bank ensures that its exposure is kept to acceptable level by buying and selling of foreign currencies in forward market when necessary to address short term imbalances.

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. The table shows the expected net amount for derivatives that are net settled but gross inflow and outflow amount for derivatives that have simultaneous gross settlement (e.g. forward exchange contracts).

At 31 December 2014	Assets RO '000	Liabilities RO '000	Nominal cash flows by term to maturity			
			Nominal cash flows Total RO '000	Within 3 months RO '000	3 to 12 months RO '000	Over 1 year RO '000
Derivatives for hedging:						
Interest rate swaps	36	-	44	9	26	9
Derivatives:						
Forward purchase contracts	-	216	276,088	143,148	94,441	38,500
Forward sales contracts	526	-	275,778	143,062	94,216	38,500
	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Derivatives for hedging:						
Interest rate swaps	94	-	114	23	68	23
Derivatives:						
Forward purchase contracts	-	561	717,112	371,813	245,301	100,000
Forward sales contracts	1,366	-	716,306	371,590	244,717	100,000
<i>At 31 December 2013</i>	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
<i>Derivatives for hedging:</i>						
Interest rate swaps	33	23	154	14	67	72
<i>Derivatives:</i>						
Interest rate swaps	4	-	1,438	68	209	1,160
Interest rate swaps	-	73	1,403	29	238	1,136
Forward purchase contracts	-	183	108,209	101,688	6,521	-
Forward sales contracts	142	-	108,250	101,737	6,513	-
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<i>Derivatives for hedging:</i>						
Interest rate swaps	86	60	400	36	174	187
<i>Derivatives:</i>						
Interest rate swaps	10	-	3,735	177	543	3,013
Interest rate swaps	-	190	3,644	75	618	2,951
Forward purchase contracts	-	475	281,062	264,124	16,938	-
Forward sales contracts	369	-	281,169	264,252	16,917	-

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



Financial Statements of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

31 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 risk from its use of financial instruments:

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

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

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

The Bank's Audit and Compliance Committee 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 Bank's Audit and Compliance Committee is assisted in these functions by Internal Audit Department. Internal Audit Department undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Compliance Committee.

31.1 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. 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).

31.1.1 Management of credit risk

The Board of Directors 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 and advances), and by issuer, market liquidity and country (for investment securities);
- developing and maintaining the Bank's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks;
- reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Ensuring to be within the single obligor limit and also within the concentration risk limit for various sectors, which are continuously monitored; and
- providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

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.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

31 FINANCIAL RISK MANAGEMENT (continued)

31.1 CREDIT RISK (continued)

31.1.1 Management of credit risk (continued)

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.

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 one of the 5 risk classification categories: Standard, Special Mention, Substandard, Doubtful, and Loss – as stipulated by Central Bank of Oman regulations and guidelines. The responsibility for identifying problem accounts and classifying them rests with business line function.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

31 FINANCIAL RISK MANAGEMENT (continued)

31.1 CREDIT RISK (continued)

31.1.3 Credit rating analysis (continued)

At 31 December 2014 investments securities classified as available for sale amounting to RO 8,381 million equivalent to US\$ 21.769 million (31 December 2013: RO 13,450 million equivalent to US\$ 34.934 million) and due from banks amounting to RO 15,212 million equivalent to US\$ 39,511 million (31 December 2013: RO 7,721 million equivalent to US\$ 20,055 million) are unrated and are not included in the investments and due from banks as disclosed in the notes above.

It is the Bank's policy to maintain consistent internal risk ratings across the credit portfolio. The credit quality of the portfolio of the loans & advances and financing that are neither past due nor impaired can be assessed by reference to the Bank's internal credit rating system. This facilitates focused portfolio management of the inherent level of risk across all lines of business. The credit quality rating disclosed above can be equated to the following risk rating grades.

Credit quality rating	Risk rating	Definition
High standard	Risk rating 1 to 4	Undoubted through to good credit risk
Standard	Risk rating 5 to 6	Satisfactory through to adequate credit risk
Special mention	Risk rating 7	Satisfactory but vulnerable to non-payment

The risk rating system is supported by various financial analytics and qualitative market information for the measurement of counter party risk.

31.1.4 Impaired loans & advances and financing

These are loans & advances and financing for which the Bank determines that it is probable that it will not be able to collect all the principal repayments and interest due according to the contractual terms of the loan agreement.

Past due but not impaired

These are loans & advances and financing where contractual interest, profit or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and /or the stage of collection of amounts owed by the Bank.

Loans & advances and financing with renegotiated terms

Loans & advances and financing with renegotiated terms are loans and financing that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loans and financing is restructured it remains in this category for twelve months independent of satisfactory performance after restructuring.

Loans and financing impairment

The Bank establishes an allowance for impairment losses account that represents its estimate of incurred losses in its loans and financing portfolio. The main components of this allowance are specific loss component that relate to individually significant exposures, and a collective loans and financing loss allowance established for group of homogenous assets in respect of losses that have been incurred but have not been identified on loans and financing subject to individual assessment for impairment.

Write off policy

The Bank writes off loans & advances and financing balance (and any related allowances for impairment losses) when the Bank determines that the loans and financing is uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer repay the obligation or that proceeds from the collateral will not be sufficient to pay back the entire outstanding exposure. For smaller balance standardised loans and financing, charge off decisions generally are based on a product specific past due status.

Set out below is an analysis of gross and net (of loan and financing impairment) amounts of individually impaired assets by risk classification.

Particulars	2014		2013	
	Gross RO '000	Net RO '000	Gross RO '000	Net RO '000
Loans & advances and financing (refer note 31.1.2)	<u>13,711</u>	<u>5,464</u>	<u>10,844</u>	<u>5,937</u>
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Loans & advances and financing (refer note 31.1.2)	<u>35,613</u>	<u>14,192</u>	<u>28,167</u>	<u>15,421</u>



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

31 FINANCIAL RISK MANAGEMENT (continued)

31.1 CREDIT RISK (continued)

31.1.5 Collateral and other credit enhancements

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. In addition, the Bank obtains other credit support such as salary assignments, personal guarantees of owners or directors and guarantees from parent companies for loans to their subsidiaries.

The Bank also obtains guarantees from parent companies for loans & advances and financing to their subsidiaries but the benefits are not included in the note 31.1.2.

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 2014 towards loans & advances and financing not impaired amounted to RO 888.306 million equivalent to US\$ 2,307.288 million (31 December 2013: RO 806.745 million equivalent to US\$ 2,095.442 million).

It is the Bank's policy to dispose of repossessed properties in the best possible manner. The proceeds are used to reduce or repay the outstanding claim.

31.1.6 Settlement Risk

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

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

31.1.7 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 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.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

31 FINANCIAL RISK MANAGEMENT (continued)

31.1 CREDIT RISK (continued)

31.1.7 Concentration Risk (continued)

	2014			2013		
	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 sector						
Corporate	691,742	-	8,825	570,962	-	13,450
Personal	594,688	-	-	471,610	-	-
Sovereign	99,232	-	127,238	69,434	-	67,158
Banks	21,501	34,735	2,162	7,318	81,483	-
Concentration by location						
Oman	1,382,493	26,950	38,863	1,100,632	60,446	38,724
Other GCC countries	9,693	4,996	1,055	4,499	18,220	41,884
India	-	9	2,057	7,732	6	-
United States of America	-	188	96,250	-	746	-
Others	14,977	2,592	-	6,461	2,065	-

	2014			2013		
	Loans & advances and financing, gross	Due from banks	Investment securities	Loans & advances and financing, gross	Due from banks	Investment securities
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Concentration by sector						
Corporate	1,796,732	-	22,922	1,483,018	-	34,935
Personal	1,544,644	-	-	1,224,961	-	-
Sovereign	257,745	-	330,488	180,348	-	174,436
Banks	55,847	90,221	5,616	19,008	211,644	-
Concentration by location						
Oman	3,590,890	70,000	100,943	2,858,784	157,002	100,582
Other GCC countries	25,177	12,978	2,740	11,686	47,325	108,789
India	-	23	5,343	20,083	15	-
United States of America	-	488	250,000	-	1,938	-
Others	38,901	6,732	-	16,782	5,364	-

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 32.



Financial Statements of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

31 FINANCIAL RISK MANAGEMENT (continued)

31.2 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.

31.2.1 Management of liquidity risk

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

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

Adequate liquidity is ensured by Treasury, which receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, placements with other banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. In this process due care is taken to ensure that the Bank complies with all the Central Bank of Oman 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 on the Rial denominated assets and liabilities in a time horizon spanning one month. The gap is adjusted by instruments for repo or refinance and also for unavailed committed lines of credit, if any. This statement of short term liquidity is to be reported to the ALCO and Executive Risk Committee every month.

31.2.2 Exposure to liquidity risk

The lending ratio, which is the ratio of the total loans and advances to customer deposits and capital, is monitored on a daily basis in line with the regulatory guidelines. Internally the lending ratio is set at a more conservative basis than required by regulation. The Bank also manages its liquidity risk on a monthly basis monitoring the liquid ratio which is a ratio of net liquid assets to total assets.

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

The Bank is also required to maintain a cash reserve with the CBO of 5% (31 December 2013: 5%) of customer deposits.

The CBO also restricts the limits on lending by the commercial banks. The maximum lending ratio permissible as at 31 December 2014 was 87.5% (31 December 2013: 87.5%).

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

	2014	2013
	Lending ratio	Lending ratio
Year end	86.65%	86.48%
Maximum for the year	87.47%	87.39%
Minimum for the year	83.29%	82.97%
Average for the year	85.89%	85.93%

The following table summarises the maturity profile of the Bank's assets and liabilities as on the reporting date based on contractual repayment arrangements. 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.



Financial Statements of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

31 FINANCIAL RISK MANAGEMENT (continued)

31.2 LIQUIDITY RISK (continued)

31.2.2 Exposure to liquidity risk (continued)

	Upto three months RO '000	Above three months to twelve months RO '000	Above one year to five years RO '000	More than five years RO '000	Total RO '000
31 December 2014					
Assets					
Cash and balances with Central Bank of Oman	53,920	-	-	525	54,445
Due from banks	34,735	-	-	-	34,735
Loans & advances and financing, net	413,170	116,275	205,977	653,449	1,388,871
Investment securities	134,754	-	1,414	2,057	138,225
Property and equipment	-	-	-	17,457	17,457
Other assets	10,750	-	-	328	11,078
Total assets	647,329	116,275	207,391	673,816	1,644,811
Liabilities and equity					
Due to banks	184,943	12,919	38,500	-	236,362
Customers' deposits	246,423	370,960	253,692	205,115	1,076,190
Borrowed funds	-	19,250	27,250	11,000	57,500
Taxation	3,859	-	-	-	3,859
Other liabilities	17,737	8,161	2,929	2,543	31,370
Subordinated liabilities	-	-	40,000	-	40,000
Shareholders' funds	-	-	-	199,530	199,530
Total liabilities and equity	452,962	411,290	362,371	418,188	1,644,811
Net liquidity gap	194,367	(295,015)	(154,980)	255,628	-
31 December 2014					
Assets					
Cash and balances with Central Bank of Oman	140,052	-	-	1,364	141,416
Due from banks	90,221	-	-	-	90,221
Loans & advances and financing, net	1,073,169	302,013	535,005	1,697,270	3,607,457
Investment securities	350,010	-	3,673	5,343	359,026
Property and equipment	-	-	-	45,343	45,343
Other assets	27,922	-	-	852	28,774
Total assets	1,681,374	302,013	538,678	1,750,172	4,272,237
Liabilities and equity					
Due to banks	480,371	33,556	100,000	-	613,927
Customers' deposits	640,060	963,532	658,940	532,766	2,795,298
Borrowed funds	-	50,000	70,780	28,571	149,351
Taxation	10,023	-	-	-	10,023
Other liabilities	46,070	21,199	7,608	6,605	81,482
Subordinated liabilities	-	-	103,896	-	103,896
Shareholders' funds	-	-	-	518,260	518,260
Total liabilities and equity	1,176,524	1,068,287	941,224	1,086,202	4,272,237
Net liquidity gap	504,850	(766,274)	(402,546)	663,970	-



Financial Statements of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

31 FINANCIAL RISK MANAGEMENT (continued)

31.2 LIQUIDITY RISK (continued)

31.2.2 Exposure to liquidity risk (continued)

	Upto three months	Above three months to twelve months	Above one year to five years	More than five years	Total
31 December 2013	RO '000	RO '000	RO '000	RO '000	RO '000
<i>Assets</i>					
Cash and balances with Central Bank of Oman	42,950	-	-	525	43,475
Due from banks	81,483	-	-	-	81,483
Loans & advances and financing, net	340,625	101,408	175,285	487,599	1,104,917
Investment securities	74,857	1,558	1,414	2,779	80,608
Property and equipment	-	-	-	16,576	16,576
Deferred tax asset	-	-	-	104	104
Other assets	12,000	-	-	322	12,322
Total assets	551,915	102,966	176,699	507,905	1,339,485
<i>Liabilities and equity</i>					
Due to banks	96,401	-	-	-	96,401
Customers' deposits	292,670	240,683	232,815	188,887	955,055
Borrowed funds	-	28,875	-	-	28,875
Taxation	3,229	-	489	-	3,718
Other liabilities	22,730	2,866	3,245	1,700	30,541
Subordinated liabilities	-	-	40,000	-	40,000
Shareholders' funds	-	-	-	184,895	184,895
Total liabilities and equity	415,030	272,424	276,549	375,482	1,339,485
Net liquidity gap	136,885	(169,458)	(99,850)	132,423	-
<i>31 December 2013 (US\$ '000)</i>					
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<i>Assets</i>					
Cash and balances with Central Bank of Oman	111,558	-	-	1,364	112,922
Due from banks	211,644	-	-	-	211,644
Loans & advances and financing, net	884,740	263,397	455,286	1,266,491	2,869,914
Investment securities	194,433	4,047	3,673	7,218	209,371
Property and equipment	-	-	-	43,055	43,055
Deferred tax asset	-	-	-	270	270
Other assets	31,169	-	-	836	32,005
Total assets	1,433,544	267,444	458,959	1,319,234	3,479,181
<i>Liabilities and equity</i>					
Due to banks	250,392	-	-	-	250,392
Customers' deposits	760,182	625,151	604,714	490,615	2,480,662
Borrowed funds	-	75,000	-	-	75,000
Taxation	8,387	-	1,270	-	9,657
Other liabilities	59,039	7,444	8,428	4,416	79,327
Subordinated liabilities	-	-	103,896	-	103,896
Shareholders' funds	-	-	-	480,247	480,247
Total liabilities and equity	1,078,000	707,595	718,308	975,278	3,479,181
Net liquidity gap	355,544	(440,151)	(259,349)	343,956	-



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

31 FINANCIAL RISK MANAGEMENT (continued)

31.3 MARKET RISK

Market risk is the exposure to loss resulting from the changes in the interest rates, foreign currency exchange rates, equity prices and commodity prices. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return to risk.

31.3.1 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.

31.3.2 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 Central Bank of Oman 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 50 bps.



Financial Statements of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

31 FINANCIAL RISK MANAGEMENT (continued)

31.3 MARKET RISK (continued)

31.3.2 Exposure to interest rate risk (continued)

31 December 2014	Effective annual interest rate %	Upto three months RO '000	Above three months to twelve months RO '000	Above one year to five years RO '000	More than five years RO '000	Non - Sensitive to interest rate RO '000	Total RO '000
Assets							
Cash and balances with Central Bank of Oman	1.50	500	-	-	-	53,945	54,445
Due from banks	0.15	34,735	-	-	-	-	34,735
Loans & advances and financing, net	5.00	630,926	219,658	197,128	341,159	-	1,388,871
Investment securities	0.98	134,753	-	3,472	-	-	138,225
Property and equipment	-	-	-	-	-	17,457	17,457
Other assets	2.12	36	-	-	-	11,042	11,078
Total assets		800,950	219,658	200,600	341,159	82,444	1,644,811
Liabilities and equity							
Due to banks	0.59	184,947	12,917	38,498	-	-	236,362
Customers' deposits	1.67	273,661	338,429	232,361	154	231,585	1,076,190
Borrowed funds	2.11	-	19,250	27,250	11,000	-	57,500
Taxation	-	-	-	-	-	3,859	3,859
Other liabilities	-	-	-	-	-	31,370	31,370
Subordinated liabilities	5.53	-	-	-	-	40,000	40,000
Shareholders' funds	-	-	-	-	-	199,530	199,530
Total liabilities and equity		458,608	370,596	298,109	11,154	506,344	1,644,811
Total interest rate sensitivity gap		342,342	(150,938)	(97,509)	330,005	(423,900)	-
Cumulative interest rate sensitivity gap		342,342	191,404	93,895	423,900	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

31 FINANCIAL RISK MANAGEMENT (continued)

31.3 MARKET RISK (continued)

31.3.2 Exposure to interest rate risk (continued)

	Effective annual interest rate	Upto three months	Above three months to twelve months	Above one year to five years	More than five years	Non - Sensitive to interest rate	Total
31 December 2014	%	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	-	-	-	140,117	141,416
Due from banks	0.15	90,221	-	-	-	-	90,221
Loans & advances and financing, net	5.00	1,638,769	570,540	512,021	886,127	-	3,607,457
Investment securities	0.98	350,008	-	9,018	-	-	359,026
Property and equipment	-	-	-	-	-	45,343	45,343
Other assets	2.12	94	-	-	-	28,680	28,774
Total assets		2,080,391	570,540	521,039	886,127	214,140	4,272,237
Liabilities and equity							
Due to banks	0.59	480,382	33,550	99,995	-	-	613,927
Customers' deposits	1.67	710,808	879,036	603,535	400	601,519	2,795,298
Borrowed funds	2.11	-	50,000	70,780	28,571	-	149,351
Taxation	-	-	-	-	-	10,023	10,023
Other liabilities	-	-	-	-	-	81,482	81,482
Subordinated liabilities	5.53	-	-	-	-	103,896	103,896
Shareholders' funds	-	-	-	-	-	518,260	518,260
Total liabilities and equity		1,191,190	962,586	774,310	28,971	1,315,180	4,272,237
Total interest rate sensitivity gap		889,201	(392,046)	(253,271)	857,156	(1,101,040)	-
Cumulative interest rate sensitivity gap		889,201	497,155	243,884	1,101,040	-	-



Financial Statements of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014



Financial Statements of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

31 FINANCIAL RISK MANAGEMENT (continued)

31.3 MARKET RISK (continued)

31.3.2 Exposure to interest rate risk (continued)

31 December 2013	Effective annual interest rate %	Upto three months RO '000	Above three months to twelve months RO '000	Above one year to five years RO '000	More than five years RO '000	Non - Sensitive to interest rate RO '000	Total RO '000
Assets							
Cash and balances with Central Bank of Oman	1.50	500	-	-	-	42,975	43,475
Due from banks	0.13	81,483	-	-	-	-	81,483
Loans & advances and financing, net	5.30	517,385	123,019	157,937	306,576	-	1,104,917
Investment securities	1.13	74,857	1,558	1,414	2,779	-	80,608
Property and equipment	-	-	-	-	-	16,576	16,576
Deferred tax asset	-	-	-	-	-	104	104
Other assets	-	10,460	-	-	-	1,862	12,322
Total assets		684,685	124,577	159,351	309,355	61,517	1,339,485
Liabilities and equity							
Due to banks	0.39	96,401	-	-	-	-	96,401
Customers' deposits	1.82	330,995	215,430	245,414	172	163,044	955,055
Borrowed funds	1.82	-	28,875	-	-	-	28,875
Taxation	-	-	-	-	-	3,718	3,718
Other liabilities	2.29	10,676	-	-	-	19,865	30,541
Subordinated liabilities	5.53	-	-	-	-	40,000	40,000
Shareholders' funds	-	-	-	-	-	184,895	184,895
Total liabilities and equity		438,072	244,305	245,414	172	411,522	1,339,485
Total interest rate sensitivity gap		246,613	(119,728)	(86,063)	309,183	(350,005)	-
Cumulative interest rate sensitivity gap		246,613	126,885	40,822	350,005	-	-



Financial Statements of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

31 FINANCIAL RISK MANAGEMENT (continued)

31.3 MARKET RISK (continued)

31.3.2 Exposure to interest rate risk (continued)

31 December 2013	Effective annual interest rate	Upto three months	Above three months to twelve months	Above one year to five years	More than five years	Non - Sensitive to interest rate	Total
Assets	%	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Cash and balances with Central Bank of Oman	1.50	1,299	-	-	-	111,623	112,922
Due from banks	0.13	211,644	-	-	-	-	211,644
Loans & advances and financing, net	5.30	1,343,857	319,530	410,226	796,301	-	2,869,914
Investment securities	1.13	194,433	4,047	3,673	7,218	-	209,371
Property and equipment	-	-	-	-	-	43,055	43,055
Deferred tax asset	-	-	-	-	-	270	270
Other assets	-	27,169	-	-	-	4,836	32,005
Total assets		1,778,402	323,577	413,899	803,519	159,784	3,479,181
<i>Liabilities and equity</i>							
Due to banks	0.39	250,392	-	-	-	-	250,392
Customers' deposits	1.82	859,727	559,558	637,439	447	423,491	2,480,662
Borrowed funds	1.82	-	75,000	-	-	-	75,000
Taxation	-	-	-	-	-	9,657	9,657
Other liabilities	2.29	27,730	-	-	-	51,597	79,327
Subordinated liabilities	5.53	-	-	-	-	103,896	103,896
Shareholders' funds	-	-	-	-	-	480,247	480,247
Total liabilities and equity		1,137,849	634,558	637,439	447	1,068,888	3,479,181
Total interest rate sensitivity gap		640,553	(310,981)	(223,540)	803,072	(909,104)	-
Cumulative interest rate sensitivity gap		640,553	329,572	106,032	909,104	-	-



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

31 FINANCIAL RISK MANAGEMENT (continued)

31.3 MARKET RISK (continued)

31.3.2 Exposure to interest rate risk (continued)

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 50 bps parallel shift in interest rate is provided below:

2013	2014		2014	2013
US\$ '000	US\$ '000		RO '000	RO '000
2,447	2,657	Impact of +50 bps interest rate increase	1,023	942
(2,447)	(2,657)	Impact of -50 bps interest rate decrease	(1,023)	(942)

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

Exposure and sensitivity analysis

The Bank analyses price sensitivity of the equity portfolio as follows:

a) 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 50 basis points parallel shift in interest rate is provided below:

b) For the international quoted equity portfolio, based on the individual security market price movement.

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

2013	2014	Security as per country	2014	2013
US\$ '000	US\$ '000		RO '000	RO '000
982	743	MSM - Oman +5% impact	286	378
(982)	(743)	MSM - Oman -5% impact	(286)	(378)
275	101	Other GCC countries +5% impact	39	106
(275)	(101)	Other GCC countries -5% impact	(39)	(106)

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.



Financial Statements of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

31 FINANCIAL RISK MANAGEMENT (continued)

31.3 MARKET RISK (continued)

31.3.2 Exposure to interest rate risk (continued)

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

2013	2014		2014	2013
US\$ '000	US\$ '000		RO '000	RO '000
75,314	154,829	US Dollar	59,609	28,996
52	257	Euro	99	20
660	1,351	UAE Dirham	520	254
8	301	GBP Sterling	116	3
6,018	6,475	Others	2,493	2,317

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 2014 on net assets is considered negligible.

31.4 OPERATIONAL RISK

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

The Bank's objective is to manage operational risk to avoid/reduce financial losses to the Bank by establishing necessary controls, systems and procedures. The Bank recognises that over controlled environment will 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 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 up gradation 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.



Financial Statements of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

31 FINANCIAL RISK MANAGEMENT (continued)

31.5 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 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, 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, minimum capital adequacy ratio requirement for the year is 12.625% including capital conservation buffer of 0.625% (31 December 2013: 12%). The capital adequacy ratio working is as follows:

2013	2014		2014	2013
US\$ '000	US\$ '000		RO '000	RO '000
435,303	499,964	Common Equity Tier 1 (CET1)	192,486	167,592
-	-	Additional Tier 1	-	-
435,303	499,964	Tier 1	192,486	167,592
85,712	71,223	Tier 2	27,421	32,999
<u>521,015</u>	<u>571,187</u>	Total regulatory capital	<u>219,907</u>	<u>200,591</u>
		Risk weighted assets		
3,172,054	3,701,852	Credit risk	1,425,213	1,221,241
223,499	187,694	Market risk	72,262	86,047
168,906	203,387	Operational risk	78,304	65,029
<u>3,564,459</u>	<u>4,092,933</u>	Total risk weighted assets	<u>1,575,779</u>	<u>1,372,317</u>
		Capital adequacy ratio		
12.21%	12.22%	CET1 capital expressed as a percentage of total risk-weighted assets	12.22%	12.21%
12.21%	12.22%	Total tier I capital expressed as a percentage of total risk-weighted assets	12.22%	12.21%
2.41%	1.74%	Tier II capital expressed as a percentage of total risk-weighted assets	1.74%	2.41%
14.62%	13.96%	Total regulatory capital expressed as a percentage of total risk-weighted assets	13.96%	14.62%

32 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.
- Corporate 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.



Financial Statements of the Bank

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

32 SEGMENT INFORMATION (continued)

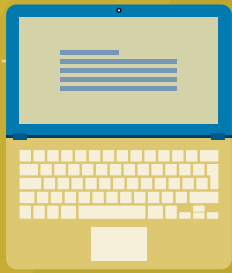
The Management Committee monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on the profit after tax.

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:

	2014			2013		
	Retail banking RO '000	Corporate banking, Treasury & Investment RO '000	Total RO '000	Retail banking RO '000	Corporate banking, Treasury & Investment RO '000	Total RO '000
Net interest income and income from Islamic financing and investments	19,757	21,571	41,328	18,111	20,202	38,313
Other operating income	1,467	8,837	10,304	1,611	6,676	8,287
Net operating income	21,224	30,408	51,632	19,722	26,878	46,600
Loans and financing impairment, net of recoveries	(2,622)	(2,276)	(4,898)	(2,922)	(1,642)	(4,564)
Impairment for investments	-	(346)	(346)	-	-	-
Operating expenses	(9,778)	(7,906)	(17,684)	(9,909)	(5,868)	(15,777)
Profit before taxation	8,824	19,880	28,704	6,891	19,368	26,259
Tax expense	(1,085)	(2,492)	(3,577)	(848)	(2,381)	(3,229)
Segment profit for the year	7,739	17,388	25,127	6,043	16,987	23,030
Segment assets	586,960	1,057,851	1,644,811	466,144	873,341	1,339,485
Segment liabilities	150,545	1,294,736	1,445,281	132,415	1,022,175	1,154,590
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Net interest income and income from Islamic financing and investments	51,317	56,028	107,345	47,042	52,473	99,515
Other operating income	3,810	22,953	26,763	4,184	17,341	21,525
Net operating income	55,127	78,981	134,108	51,226	69,814	121,040
Loans and financing impairment, net of recoveries	(6,810)	(5,912)	(12,722)	(7,590)	(4,265)	(11,855)
Impairment for investments	-	(899)	(899)	-	-	-
Operating expenses	(25,397)	(20,534)	(45,931)	(25,738)	(15,242)	(40,980)
Profit before taxation	22,920	51,636	74,556	17,898	50,307	68,205
Tax expense	(2,818)	(6,473)	(9,291)	(2,203)	(6,184)	(8,387)
Segment profit for the year	20,102	45,163	65,265	15,695	44,123	59,818
Segment assets	1,524,571	2,747,666	4,272,237	1,210,764	2,268,417	3,479,181
Segment liabilities	391,026	3,362,951	3,753,977	343,935	2,654,999	2,998,934

Report of the Auditors - page 55.



Financial Statements of
**Al Hilal Islamic
Banking Services**
FOR THE YEAR ENDED 31 DECEMBER 2014



SHARIA COMPLIANCE REPORT OF SHARIA SUPERVISORY BOARD AL HILAL ISLAMIC BANKING SERVICES, AHLI BANK SAOG

In the name of Allah, The Beneficent, The Merciful All praise to Allah, and peace be upon His messenger, his family, his companions and all followers of his guidance.

To Shareholders of Al Hilal Islamic Banking Services, Ahli Bank SAOG (the "Bank").

Assalam Alikum wa Ramat Allah wa Barakatuh

In compliance with the letter of appointment, we are required to submit the following report:

Sharia Supervisory Board has reviewed the products and the contracts relating to the transactions and applications developed by the Bank during the period (1 January 2014 to 31 December 2014) ended 2014. We have also conducted our review to form an opinion as to whether the Bank has complied with Sharia principles and also with the specific Fatawa, ruling and guidelines issued by us.

The Bank's management is responsible for ensuring that the Bank conducts its business in accordance with Sharia rules and principles. It is our responsibility to form an independent opinion, based on our review of the operations of the Bank, and to report to you.

We conducted our review which included examining, on a test basis of each type of transaction, the relevant documentation and procedures adopted by the Bank.

We planned and performed our review so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Bank has not violated Sharia rules and principles.

In our opinion:

- a. The contracts, transactions and dealings entered into by the Bank during the year ended 2014 that we have reviewed are in compliance with Sharia rules and principles.
- b. The allocation of profit and charging of losses relating to investment account conform to the basis that had been approved by us in accordance with Sharia rules and principles.
- c. All earning that has been realized from sources or by means prohibited by Sharia principles have been disposed of to charitable causes, and the calculation of Zakah is in compliance with Sharia rules and principles.

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

Dr. Fareed Mohammed Hadi

Chairman SSB

Al Hilal Islamic Banking Services,
Ahli Bank SAOG.

Date: 27th January 2015

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF Ahli Bank SAOG (the "Bank")

Report on the financial statements

We have audited the accompanying statement of financial position of Al Hilal Islamic Banking Services (the "Islamic Window") as of 31 December 2014, and the related statements of income, changes in owners' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. These financial statements and the Bank's undertaking to operate its Islamic Window in accordance with Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Islamic Window as of 31 December 2014, the results of its operations, cash flows and changes in equity for the year then ended in accordance with the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Islamic Window of the Bank and the Financial Accounting Standards issued by AAOIFI.



26 February 2015
Muscat





Financial Statements of Al Hilal Islamic Banking Services

FOR THE YEAR ENDED 31 DECEMBER 2014

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2014

2013 US\$ '000	2014 US\$ '000		Note	2014 RO '000	2013 RO '000
ASSETS					
13,337	27,974	Cash and balances with Central Bank of Oman	5	10,770	5,135
27,187	10,616	Due from banks	6	4,087	10,467
4,698	31,334	Murabaha receivables	7	12,064	1,808
90,862	106,774	Musharaka receivables	8	41,108	34,982
509	483	Investment securities	9	186	196
53,078	276,028	Ijarah assets - Ijarah Muntahia Bittamleek	10	106,271	20,435
4,072	3,875	Property and equipment	11	1,492	1,568
1,608	2,128	Other assets	12	819	619
<u>195,351</u>	<u>459,212</u>	TOTAL ASSETS		<u>176,797</u>	<u>75,210</u>
LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY					
97,488	198,857	Due to banks	13	76,560	37,533
3,779	141,483	Wakala deposits	14	54,471	1,455
14,400	26,777	Customers' current accounts		10,309	5,544
4,992	7,378	Other liabilities	15	2,841	1,922
120,659	374,495	TOTAL LIABILITIES		144,181	46,454
10,423	13,530	Equity of investment account holders	16	5,209	4,013
<u>131,082</u>	<u>388,025</u>	TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS		<u>149,390</u>	<u>50,467</u>
64,935	64,935	Share capital	17	25,000	25,000
26	(65)	Investment fair value reserve		(25)	10
(692)	6,317	Retained earnings		2,432	(267)
<u>64,269</u>	<u>71,187</u>	TOTAL OWNERS' EQUITY		<u>27,407</u>	<u>24,743</u>
<u>195,351</u>	<u>459,212</u>	TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY		<u>176,797</u>	<u>75,210</u>
1,800	2,239	Contingent liabilities and commitments	18	862	693

The financial statements on pages 107 to 129 were approved by the Board of Directors on 27 January 2015 and signed on their behalf by:

Hamdan Ali Nasser Al Hinai
Chairman

Lloyd Maddock
Chief Executive Officer

Report of the Auditors - page 106.



Financial Statements of Al Hilal Islamic Banking Services

FOR THE YEAR ENDED 31 DECEMBER 2014

STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

2013 US\$ '000	2014 US\$ '000		Note	2014 RO '000	2013 RO '000
4,018	14,615	Income from financing activities	19	5,627	1,547
29	65	Income from investing activities	20	25	11
665	2,102	Other operating income	21	809	256
(2,112)	(2,426)	Financing impairment on portfolio and specific basis	23	(934)	(813)
<u>2,600</u>	<u>14,356</u>			<u>5,527</u>	<u>1,001</u>
(106)	(226)	Return to investment account holders		(87)	(41)
73	153	Islamic Windows' share as Mudarib		59	28
(33)	(73)	Return to investment account holders before zakah		(28)	(13)
		Islamic Window's share in income from financing and investing activities (as Mudarib and Fund owner)		5,499	988
2,567	14,283				
36	68	Other operating income from banking services	22	26	14
(132)	(2,031)	Profit paid on due to banks		(782)	(51)
-	(1,083)	Profit paid on wakala deposits		(417)	-
<u>2,471</u>	<u>11,237</u>	Net operating income		<u>4,326</u>	<u>951</u>
(1,257)	(1,841)	Staff expenses	24	(709)	(484)
(470)	(719)	Depreciation	11	(277)	(181)
(1,436)	(1,665)	Other operating expenses	25	(641)	(553)
(3,163)	(4,225)	Total expenses		(1,627)	(1,218)
<u>(692)</u>	<u>7,012</u>	Profit / (loss) for the year / period		<u>2,699</u>	<u>(267)</u>

The notes and other explanatory information on pages 111 to 129 form an integral part of these financial statements.

Report of the Auditors - page 106.



Financial Statements of Al Hilal Islamic Banking Services

FOR THE YEAR ENDED 31 DECEMBER 2014

STATEMENT OF CHANGES IN OWNERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

	Share capital RO '000	Investment fair value reserve RO '000	Retained earnings RO '000	Total RO '000
At 1 January 2014	25,000	10	(267)	24,743
Profit for the year	-	-	2,699	2,699
Cumulative changes in fair value	-	(35)	-	(35)
At 31 December 2014	<u>25,000</u>	<u>(25)</u>	<u>2,432</u>	<u>27,407</u>
At 31 December 2014 (US\$ '000)	<u>64,935</u>	<u>(65)</u>	<u>6,317</u>	<u>71,187</u>

	Share capital RO '000	Investment fair value reserve RO '000	Retained earnings RO '000	Total RO '000
Allocated share capital	25,000	-	-	25,000
Loss for the period	-	-	(267)	(267)
Cumulative changes in fair value	-	10	-	10
At 31 December 2013	<u>25,000</u>	<u>10</u>	<u>(267)</u>	<u>24,743</u>
At 31 December 2013 (US\$ '000)	<u>64,935</u>	<u>26</u>	<u>(692)</u>	<u>64,269</u>

The notes and other explanatory information on pages 111 to 129 form an integral part of these financial statements.

Report of the Auditors - page 106.



Financial Statements of Al Hilal Islamic Banking Services

FOR THE YEAR ENDED 31 DECEMBER 2014

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014

2013 US\$ '000	2014 US\$ '000	Note	2014 RO '000	2013 RO '000
CASH FLOWS FROM OPERATING ACTIVITIES				
(692)	7,012		2,699	(267)
Profit / (loss) for the year / period				
<i>Adjustments for:</i>				
470	719	11	277	181
881	9,000	10	3,465	339
2,112	2,426	23	934	813
Operating profit before change in operating assets and liabilities				
2,771	19,157		7,375	1,066
<i>Increase in operating assets and liabilities</i>				
(4,794)	(26,894)		(10,354)	(1,845)
(91,790)	(16,036)		(6,174)	(35,339)
(1,608)	(520)		(200)	(619)
-	133,556		51,419	-
3,779	137,704		53,016	1,455
14,400	12,377		4,765	5,544
4,992	2,386		919	1,922
10,423	3,107		1,196	4,013
(61,827)	264,837		101,962	(23,803)
Net from / (used in) operating activities				
CASH FLOWS FROM INVESTING ACTIVITIES				
(55,047)	(233,997)		(90,089)	(21,193)
(483)	(65)		(25)	(186)
(4,542)	(522)	11	(201)	(1,749)
(60,072)	(234,584)		(90,315)	(23,128)
Net cash used in investing activities				
CASH FLOWS FROM FINANCING ACTIVITIES				
64,935	-	17	-	25,000
64,935	-		-	25,000
Net cash from financing activities				
NET CHANGE IN CASH AND CASH EQUIVALENTS				
(56,964)	30,253		11,647	(21,931)
-	(56,964)		(21,931)	-
CASH AND CASH EQUIVALENTS AT 31 DECEMBER (Refer below)				
(56,964)	(26,711)		(10,284)	(21,931)

CASH AND CASH EQUIVALENT COMPRISES OF THE FOLLOWING:

2013 US\$ 000	2014 US\$ 000		2014 RO '000	2013 RO '000
13,337	27,974	5	10,770	5,135
27,187	10,616	6	4,087	10,467
(97,488)	(65,301)		(25,141)	(37,533)
(56,964)	(26,711)		(10,284)	(21,931)

The notes and other explanatory information on pages 111 to 129 form an integral part of these financial statements.

Report of the Auditors - page 106.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Al Hilal Islamic Banking Services (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 customer deposits, providing Sharia compliant financing based on Murabaha, Mudaraba, Musharaka, Ijarah, Istisna, Salam 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 seven branches as at year end.

The registered address of the Islamic Window is PO Box 545, PC 116, Mina Al Fahal, Sultanate of Oman.

The Islamic Window employed 62 employees as at 31 December 2014 (31 December 2013: 56 employees)

2 BASIS OF PREPARATION

2.1 Statement of compliance

In accordance with the requirements of Section 1.2 of Title 3 of the IBRF issued by CBO, the 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. Complete set of financial statements of the Bank is presented separately.

The Islamic Window has commenced its operations on 28 January 2013; hence the comparative financial information included in these financial statements are for the period from 28 January 2013 to 31 December 2013.

2.2 Basis of measurement

The financial statements have been prepared under the historical cost convention except for investments classified as equity type 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 for these financial statements. 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. 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 4.

2.5 New and amended standards and interpretations

No new amended standards and interpretations have been issued by AAOIFI during the year.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

3 SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Foreign currency translation

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

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

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

3.2 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.

3.3 Due from banks

Due from banks comprise wakala placements and nostro accounts. These are stated at cost, less provision for impairment, if any.

3.4 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 provision for impairment, if any.

3.5 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.

3.6 Investments

Investments comprise of debt type instrument carried at amortised cost, equity type instrument carried at fair value through equity and equity type instrument carried at fair value through income statement. All investments are initially recognised at cost, being the fair value of the consideration given including acquisition charges associated with the investment, except in the case of investment carried at fair value through income statement.

3.6.1 Instruments at fair value through income statement

This includes instruments held for the purpose of generating profits from the short term market fluctuations. These are subsequently re-measured at fair value. All related realized and unrealized gains or losses are included in the income statement.

3.6.2 Equity-type instruments at fair value through equity

This includes all equity-type instruments that are not fair valued through income statement. Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value with unrealized gains or losses recognized proportionately in owners' equity and equity of investment accountholders until the investment is derecognized or determined to be impaired at which time the cumulative gain or loss previously recorded in owners' equity or equity of investment accountholders is recognised in the income statement.

Impairment losses on equity type instruments carried at fair value through equity are not reversed through the statement of income and increases in their fair value after impairment are recognised directly in owners' equity.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Investments (continued)

3.6.3 Debt-type instruments at amortised cost

Investments which have fixed or determinable payments and where the Islamic Window has both the intent and ability to hold to maturity are classified as debt type instrument carried at amortised cost. Such investments are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such type of instruments is recognized in the income statement, when the instruments are de-recognised or impaired.

3.7 Ijarah assets – Ijarah Muntahia Bittamleek

Ijarah assets (Ijarah Muntahia Bittamleek) are stated at cost less accumulated depreciation and any impairment in value. Under the terms of lease, the legal title of the assets passes at the end of the lease term, provided that all the lease installments are settled. Depreciation is calculated on systematic basis to reduce the cost of leased assets over the period of lease. The Islamic Window assesses at each reporting date whether there is objective evidence that these assets are impaired. Impairment losses are measured as the difference between the carrying amount of the asset (including lease rental receivables) and the estimated recoverable amount. Impairment losses, if any, are recognised in the income statement.

3.8 Property and equipment

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

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

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

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

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

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

3.9 Identification and measurement of impairment on financial assets

An assessment is made at each reporting date to determine whether there is any objective evidence that a specific financial asset or group of financial assets may be impaired. If such evidence exist, the estimated recoverable amount of that asset or a group of assets is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised in the income statement and credited to respective financing or investments. The Islamic Window also makes impairment provision on portfolio basis on group of financial assets which although not identified as requiring a specific provision have a greater risk of default than the risk at initial recognition. These are more fully described in note 4.

3.10 Due to banks

It comprises of wakala placements from banks and vostro account balances. Wakala payables are stated at cost less amounts repaid.

3.11 Wakala deposits

The Islamic Window accepts deposits from customers under Wakala arrangement under which a return may be payable to customers as agreed in the agreement. There is no restriction on the Islamic Window for the use of funds received under wakala agreement.

3.12 Customers current account

Customer's current accounts are treated on the basis of "Qard". No profit or loss is passed on to current account holders.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13 Equity of investment account holders

Equity of investment account holders is fund held by the Islamic Window. It comprises of deposits obtained on the basis of mudaraba. The investment account holders authorises 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 a management fee (Mudarib fees) to investment account holders. Of the total income from investment accounts, the income attributable to account holders is allocated to investment accounts after setting aside provisions, reserves (profit equalisation reserve and investment risk reserve) 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.

Investment accounts are carried at their book values and include amounts retained towards the profit equalisation and investment risk reserves.

3.13.1 Profit equalisation reserve

The profit equalisation reserve is the amount appropriated by the Islamic Window out of the mudaraba income, before allocating the Mudarib's share, in order to maintain a certain level of return to the account holders on the investments.

3.13.2 Investment risk reserve

The investment risk reserve is the amount appropriated by the Islamic Window out of the income of investment account holders, after allocating the Mudarib's share, in order to cater against future losses for investment account holders.

3.14 Revenue recognition

3.14.1 Due from banks

Income on amounts due from banks is recognised on a time proportion basis over the period of the contract based on the principal amounts outstanding and the profit agreed with the clients.

3.14.2 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.

3.14.3 Musharaka

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

3.14.4 Ijarah

Rentals accrued from ijarah financings net of depreciation charged are taken to the income statement, net of suspended profit.

3.14.5 Income from investments

Income from investments is recognised when earned.

3.14.6 Dividend

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

3.14.7 Fee and commissions

Fee and commission income recognised when earned.

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

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

3.14.8 Islamic Window share as a Mudarib

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

3.14.9 Profit suspension

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



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15 Provisions

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

3.16 Identification and measurement of impairment assets

At each reporting date, the Islamic Window reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss. Recoverable amount is the greater of net selling price and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately in the income statement.

3.17 Taxation

Taxation is provided in accordance with Omani fiscal regulations at Bank level and not calculated for the Islamic window.

3.18 Fair value

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

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

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

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

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

3.19 De-recognition of financial assets and liabilities

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

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

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

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

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

3.20 Employee terminal benefits

3.20.1 Terminal benefits

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

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

3.20.2 Short term benefits

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



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21 Earnings prohibited by Sharia

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

3.22 Zakah

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

3.23 Offsetting

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

3.24 Sharia Supervisory Board

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

3.25 Joint and self financed

All the Investments, financing and receivables are jointly owned by the Islamic Window and the equity of investment accountholders.

3.26 Commingling of funds

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

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. The Islamic Window's significant accounting estimates are in the followings:

4.1 Impairment losses on financings

The Islamic Window reviews its financing portfolio to assess impairment periodically. In determining whether an impairment loss should be recorded in the income statement, the Islamic Window makes judgements as to whether there is any observable data indicating an impairment followed by measurable decrease in the estimated future cash flows from a portfolio of financing before the decrease can be identified within that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers and/or national or local economic conditions that correlate with defaults on assets. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed periodically to reduce any difference between loss estimates and actual loss experience. For individually significant financings which are impaired, the necessary impairment loss is considered based on the future cash flow estimates. Individually significant financings which are not impaired and all individually insignificant financings are then assessed collectively considering historical experience and observable data on a portfolio basis, in group of assets with similar risk characteristics to determine whether collective impairment loss to be made. In determining collective impairment loss, the Islamic Window takes into account several factors including credit quality, concentration risk, level of past due, industry and sector performance, available collateral and macro-economic conditions.

5 CASH AND BALANCES WITH CENTRAL BANK OF OMAN

2013	2014		2014	2013
US\$ '000	US\$ '000		RO '000	RO '000
2,891	2,579	Cash	993	1,113
10,446	25,395	Clearing account with Central Bank of Oman	9,777	4,022
13,337	27,974		10,770	5,135



Financial Statements of Al Hilal Islamic Banking Services

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

6 DUE FROM BANKS

2013	2014		2014	2013
US\$ '000	US\$ '000		RO '000	RO '000
27,000	10,000	Wakala placements	3,850	10,395
187	616	Nostro account balances	237	72
<u>27,187</u>	<u>10,616</u>		<u>4,087</u>	<u>10,467</u>

7 MURABAHA RECEIVABLES

2013	2014		2014	2013
US\$ '000	US\$ '000		RO '000	RO '000
1,902	11,774	Vehicles	4,533	732
4,092	26,519	Personal financing	10,210	1,575
5,994	38,293	Gross receivables	14,743	2,307
(1,200)	(6,608)	Deferred profits	(2,544)	(462)
4,794	31,685		12,199	1,845
(96)	(317)	Impairment on portfolio basis	(122)	(37)
-	(34)	Impairment on specific basis	(13)	-
<u>4,698</u>	<u>31,334</u>		<u>12,064</u>	<u>1,808</u>

8 MUSHARAKA RECEIVABLES

2013	2014		2014	2013
US\$ '000	US\$ '000		RO '000	RO '000
91,790	107,826	Real estate	41,513	35,339
(928)	(1,052)	Impairment on portfolio basis	(405)	(357)
<u>90,862</u>	<u>106,774</u>		<u>41,108</u>	<u>34,982</u>

9 INVESTMENT SECURITIES

2013	2014		2014	2013
US\$ '000	US\$ '000		RO '000	RO '000
		At fair value through equity		
509	483	Unlisted Islamic open end mutual fund	186	196

10 IJARAH ASSETS - IJARAH MUNTAHIA BITTAMLEEK

2013	2014		2014	2013
US\$ '000	US\$ '000		RO '000	RO '000
55,047	289,044	Cost	111,282	21,193
(881)	(9,881)	Accumulated depreciation	(3,804)	(339)
54,166	279,163	Book value	107,478	20,854
(1,088)	(3,127)	Impairment on portfolio basis	(1,204)	(419)
-	(8)	Impairment on specific basis	(3)	-
<u>53,078</u>	<u>276,028</u>	Net book value	<u>106,271</u>	<u>20,435</u>



Financial Statements of Al Hilal Islamic Banking Services

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

11 PROPERTY AND EQUIPMENT

	Building RO '000	Leasehold improvements RO '000	Computer and other equipment RO '000	Furniture RO '000	Capital work in progress RO '000	Total RO '000
Cost:						
At 1 January 2014	477	370	771	61	99	1,778
Additions	-	63	5	18	115	201
Transferred from the Bank	-	-	76	-	(76)	-
Disposals / scrapped	-	-	(1)	-	-	(1)
At 31 December 2014	<u>477</u>	<u>433</u>	<u>851</u>	<u>79</u>	<u>138</u>	<u>1,978</u>
Accumulated depreciation:						
At 1 January 2014	2	53	138	17	-	210
Depreciation	20	85	156	16	-	277
Disposals / scrapped	-	-	(1)	-	-	(1)
At 31 December 2014	<u>22</u>	<u>138</u>	<u>293</u>	<u>33</u>	<u>-</u>	<u>486</u>
Net book value as at						
At 31 December 2014	<u>455</u>	<u>295</u>	<u>558</u>	<u>46</u>	<u>138</u>	<u>1,492</u>
At 31 December 2014 (US\$ '000)	<u>1,182</u>	<u>766</u>	<u>1,450</u>	<u>119</u>	<u>358</u>	<u>3,875</u>

	Building RO '000	Leasehold improvements RO '000	Computer and other equipment RO '000	Furniture RO '000	Capital work in progress RO '000	Total RO '000
Cost:						
Additions / transferred from the Bank	477	370	771	61	99	1,778
At 31 December 2013	<u>477</u>	<u>370</u>	<u>771</u>	<u>61</u>	<u>99</u>	<u>1,778</u>
Accumulated depreciation:						
Depreciation	2	53	109	17	-	181
Transferred from the Bank	-	-	29	-	-	29
At 31 December 2013	<u>2</u>	<u>53</u>	<u>138</u>	<u>17</u>	<u>-</u>	<u>210</u>
Net book value as at						
At 31 December 2013	<u>475</u>	<u>317</u>	<u>633</u>	<u>44</u>	<u>99</u>	<u>1,568</u>
At 31 December 2013 (US\$ '000)	<u>1,234</u>	<u>823</u>	<u>1,644</u>	<u>114</u>	<u>257</u>	<u>4,072</u>



Financial Statements of Al Hilal Islamic Banking Services

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

12 OTHER ASSETS

2013	2014		2014	2013
US\$ '000	US\$ '000		RO '000	RO '000
956	1,499	Profit receivable on financing	577	368
5	-	Profit receivable on wakala placements	-	2
138	213	Prepayments	82	53
509	416	Others	160	196
<u>1,608</u>	<u>2,128</u>		<u>819</u>	<u>619</u>

13 DUE TO BANKS

2013	2014		2014	2013
US\$ '000	US\$ '000		RO '000	RO '000
96,740	198,556	Wakala placements	76,444	37,245
748	301	Vostro account balances	116	288
<u>97,488</u>	<u>198,857</u>		<u>76,560</u>	<u>37,533</u>

14 WAKALA DEPOSITS

2013	2014		2014	2013
US\$ '000	US\$ '000		RO '000	RO '000
3,779	62,283	Financial institutions	23,979	1,455
-	79,200	Others	30,492	-
<u>3,779</u>	<u>141,483</u>		<u>54,471</u>	<u>1,455</u>

15 OTHER LIABILITIES

2013	2014		2014	2013
US\$ '000	US\$ '000		RO '000	RO '000
3	-	Profit payable to investment account holders	-	1
23	148	Profit payable on due to banks	57	9
34	912	Profit payable on wakala deposits	351	13
2,558	4,587	Accrued expenses and payable	1,766	985
1,260	1,042	Unearned fee income	401	485
3	10	Charity payable	4	1
1,111	679	Others	262	428
<u>4,992</u>	<u>7,378</u>		<u>2,841</u>	<u>1,922</u>

16 EQUITY OF INVESTMENT ACCOUNT HOLDERS

2013	2014		2014	2013
US\$ '000	US\$ '000	(By type)	RO '000	RO '000
10,379	13,512	Saving accounts	5,202	3,996
44	18	Term accounts	7	17
<u>10,423</u>	<u>13,530</u>		<u>5,209</u>	<u>4,013</u>

The average profit rate for the investment account holders during the year was 0.57% (2013 : 0.57%). During the period there is no appropriation to profit equalisation reserve and investment risk reserve.



Financial Statements of Al Hilal Islamic Banking Services

FOR THE YEAR ENDED 31 DECEMBER 2014

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

17 SHARE CAPITAL

The allocated share capital of the Islamic Window is RO 25 million. (equivalent to US\$ 64.935 million)

18 CONTINGENT LIABILITIES AND COMMITMENTS

2013	2014		2014	2013
US\$ '000	US\$ '000		RO '000	RO '000
1,800	2,081	Guarantees	801	693
-	158	Letter of credits	61	-
<u>1,800</u>	<u>2,239</u>		<u>862</u>	<u>693</u>

19 INCOME FROM FINANCING ACTIVITIES

2013	2014		2014	2013
US\$ '000	US\$ '000		RO '000	RO '000
2,953	4,374	Musharaka	1,684	1,137
966	9,384	Rental income on ijarah assets	3,613	372
99	857	Murabaha	330	38
<u>4,018</u>	<u>14,615</u>		<u>5,627</u>	<u>1,547</u>

20 INCOME FROM INVESTING ACTIVITIES

2013	2014		2014	2013
US\$ '000	US\$ '000		RO '000	RO '000
29	65	Income from wakala placements	25	11

21 OTHER OPERATING INCOME

2013	2014		2014	2013
US\$ '000	US\$ '000		RO '000	RO '000
475	1,842	Fee and commission, net	709	183
-	13	Dividend income	5	-
190	247	Others	95	73
<u>665</u>	<u>2,102</u>		<u>809</u>	<u>256</u>

22 OTHER OPERATING INCOME FROM BANKING SERVICES

2013	2014		2014	2013
US\$ '000	US\$ '000		RO '000	RO '000
36	68	Other operating income	26	14



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

23 PROVISION FOR FINANCING IMPAIRMENT

In accordance with the directives of CBO, the movement in the financing impairment provision is analysed as below;

2013 US\$ '000	2014 US\$ '000		2014 RO '000	2013 RO '000
		Impairment provision on portfolio basis		
-	2,112	Balance at the beginning of the year / period	813	-
<u>2,112</u>	<u>2,384</u>	Provided during the year / period	<u>918</u>	<u>813</u>
<u>2,112</u>	<u>4,496</u>	Balance at the end of the year / period	<u>1,731</u>	<u>813</u>
		Impairment provision on specific basis		
-	-	Balance at the beginning of the year / period	-	-
-	<u>42</u>	Provided during the year / period	<u>16</u>	-
-	<u>42</u>	Balance at the end of the year / period	<u>16</u>	-

24 STAFF EXPENSES

2013 US\$ '000	2014 US\$ '000		2014 RO '000	2013 RO '000
769	1,088	Salaries and wages	419	296
<u>488</u>	<u>753</u>	Allowances	<u>290</u>	<u>188</u>
<u>1,257</u>	<u>1,841</u>		<u>709</u>	<u>484</u>

25 OTHER OPERATING EXPENSES

2013 US\$ '000	2014 US\$ '000		2014 RO '000	2013 RO '000
535	1,070	Operating and administration costs	412	206
436	439	Occupancy costs	169	168
400	81	Advertisement costs	31	154
<u>65</u>	<u>75</u>	Shariah Supervisory Board related expenses	<u>29</u>	<u>25</u>
<u>1,436</u>	<u>1,665</u>		<u>641</u>	<u>553</u>

26 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.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

27 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:

2013 US\$ '000	2014 US\$ '000		2014 RO '000	2013 RO '000
		Major shareholders and others		
8	55	Nostro account balances	21	3
509	483	Investment securities	186	196
37,000	155,000	Due to banks - wakala placements	59,675	14,245
748	301	Vostro account balances	116	288

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

2013 US\$ '000	2014 US\$ '000		2014 RO '000	2013 RO '000
		Major shareholders and others		
3	3	Income from investing activities	1	1
44	1,132	Expenses due to banks - wakala placements	436	17

28 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 2014 is RO 0.186 million equivalent to US\$ 0.483 million (31 December 2013: RO 0.196 million equivalent to US\$ 0.509 million) with cost amounts to RO 0.211 million equivalent to US\$ 0.548 million (31 December 2013: RO 0.186 million equivalent to US\$ 0.483 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:

	2014 RO '000	2014 RO '000	2013 RO '000	2013 RO '000
	Level 1	Total	Level 1	Total
Financial assets				
Investment carried at fair value through equity	<u>186</u>	<u>186</u>	<u>196</u>	<u>196</u>
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Financial assets				
Investment carried at fair value through equity	<u>483</u>	<u>483</u>	<u>509</u>	<u>509</u>

No financial instruments are carried at level 2 and level 3 fair values as on 31 December 2014 (31 December 2013: Nil)



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

29 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

29.1 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.

29.1.1 Type of credit risk

Financing contracts mainly comprise Murabaha receivables, Musharaka and Ijarah Muntahia Bittamleek.

29.1.1.1 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.

29.1.1.2 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.

29.1.1.3 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

29.1.1.4 Impaired financing

As at 31 December 2014, financing amounting to RO 0.064 million equivalent to US\$ 0.167 million (31 December 2013: Nil) has been impaired. The collateral held against impaired financing is RO 0.147 million equivalent to US\$ 0.381 million.

29.2 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.

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



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

29 RISK MANAGEMENT (continued)

29.2 LIQUIDITY RISK (continued)

	Upto three months RO '000	Above three months to twelve months RO '000	Above one year to five years RO '000	More than five years RO '000	Total RO '000
31 December 2014					
Assets					
Cash and balances with Central Bank of Oman	10,770	-	-	-	10,770
Due from banks	4,087	-	-	-	4,087
Financing assets	4,170	8,597	33,888	114,519	161,174
Investment securities	186	-	-	-	186
Property and equipment	-	-	-	1,493	1,493
Other assets	818	-	-	-	818
Total assets	20,031	8,597	33,888	116,012	178,528
Liabilities, equity of investment account holders and owners' equity					
Due to banks	25,141	12,919	38,500	-	76,560
Wakala deposits	11,673	15,123	16,008	11,667	54,471
Customers' current accounts and equity of investments accountholders	4,644	4,395	2,601	3,878	15,518
Other liabilities	2,841	-	-	1,731	4,572
Shareholder's fund	-	-	-	27,407	27,407
Total liabilities, equity of investment account holders and owners' equity	44,299	32,437	57,109	44,683	178,528
Net liquidity gap	(24,268)	(23,840)	(23,221)	71,329	-
31 December 2014					
Assets					
Cash and balances with Central Bank of Oman	27,974	-	-	-	27,974
Due from banks	10,616	-	-	-	10,616
Financing assets	10,831	22,328	88,021	297,452	418,632
Investment securities	483	-	-	-	483
Property and equipment	-	-	-	3,878	3,878
Other assets	2,125	-	-	-	2,125
Total assets	52,029	22,328	88,021	301,330	463,708
Liabilities, equity of investment account holders and owners' equity					
Due to banks	65,301	33,556	100,000	-	198,857
Wakala deposits	30,319	39,281	41,579	30,304	141,483
Customers' current accounts and equity of investments accountholders	12,062	11,416	6,756	10,073	40,307
Other liabilities	7,378	-	-	4,496	11,874
Shareholder's fund	-	-	-	71,187	71,187
Total liabilities, equity of investment account holders and owners' equity	115,060	84,253	148,335	116,060	463,708
Net liquidity gap	(63,031)	(61,925)	(60,314)	185,270	-



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

29 RISK MANAGEMENT (continued)

29.2 LIQUIDITY RISK (continued)

	Upto three months	Above three months to twelve months	Above one year to five years	More than five years	Total
31 December 2013	RO '000	RO '000	RO '000	RO '000	RO '000
<i>Assets</i>					
Cash and balances with Central Bank of Oman	5,135	-	-	-	5,135
Due from banks	10,467	-	-	-	10,467
Financing assets	680	3,611	16,628	36,306	57,225
Investment securities	-	196	-	-	196
Property and equipment	-	-	-	1,568	1,568
Other assets	619	-	-	-	619
<i>Total assets</i>	<u>16,901</u>	<u>3,807</u>	<u>16,628</u>	<u>37,874</u>	<u>75,210</u>
<i>Liabilities, equity of investment account holders and owners' equity</i>					
Due to banks	37,533	-	-	-	37,533
Wakala deposits	-	1,455	-	-	1,455
Customers' current accounts and equity of investments accountholders	2,624	2,545	1,998	2,390	9,557
Other liabilities	1,922	-	-	-	1,922
Shareholder's fund	-	-	-	24,743	24,743
<i>Total liabilities, equity of investment account holders and owners' equity</i>	<u>42,079</u>	<u>4,000</u>	<u>1,998</u>	<u>27,133</u>	<u>75,210</u>
<i>Net liquidity gap</i>	<u>(25,178)</u>	<u>(193)</u>	<u>14,630</u>	<u>10,741</u>	<u>-</u>
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
31 December 2013					
<i>Assets</i>					
Cash and balances with Central Bank of Oman	13,337	-	-	-	13,337
Due from banks	27,187	-	-	-	27,187
Financing assets	1,768	9,378	43,189	94,304	148,638
Investment securities	-	509	-	-	509
Property and equipment	-	-	-	4,072	4,072
Other assets	1,608	-	-	-	1,608
<i>Total assets</i>	<u>43,900</u>	<u>9,887</u>	<u>43,189</u>	<u>98,376</u>	<u>195,351</u>
<i>Liabilities, equity of investment account holders and owners' equity</i>					
Due to banks	97,489	-	-	-	97,489
Wakala deposits	-	3,778	-	-	3,778
Customers' current accounts and equity of investments accountholders	6,816	6,610	5,190	6,207	24,823
Other liabilities	4,992	-	-	-	4,992
Shareholder's fund	-	-	-	64,269	64,269
<i>Total liabilities, equity of investment account holders and owners' equity</i>	<u>109,297</u>	<u>10,388</u>	<u>5,190</u>	<u>70,476</u>	<u>195,351</u>
<i>Net liquidity gap</i>	<u>(65,397)</u>	<u>(501)</u>	<u>37,999</u>	<u>27,900</u>	<u>-</u>



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

29 RISK MANAGEMENT (continued)

29.3 MARKET RISK

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

29.3.1 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 50 basis points parallel shift in profit rate is provided below;

	2014 RO '000	2014 US\$ '000	2013 RO '000	2013 US\$ '000
Net profit earned	<u>4,425</u>	<u>11,494</u>	<u>1,494</u>	<u>3,881</u>
Impact of +50 bps profit rate increase	<u>3</u>	<u>8</u>	<u>153</u>	<u>398</u>
Impact of -50 bps profit rate decrease	<u>(3)</u>	<u>(8)</u>	<u>(153)</u>	<u>(398)</u>

29.3.2 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:

2013 US\$ '000	2013 US\$ '000		2014 RO '000	2013 RO '000
512	6,010	US Dollar	2,314	197
3	3	Euro	1	1
36	39	UAE Dirham	15	14
3	3	GBP Sterling	1	1
10	70	Others	27	4

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.

Changes in the non-parity foreign currency prices as at 31 December 2014 on net assets is considered negligible

29.3.3 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.

As the Islamic Window has investment in only one mutual fund therefore, Bank is not exposed to significant price risk.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

29 RISK MANAGEMENT (continued)

29.4 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.

29.5 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.

	2014				
	Murabaha, gross RO '000	Musharaka, gross RO '000	Ijarah Muntahia Bittamleek RO '000	Due from banks RO '000	Investment securities RO '000
Concentration by sector					
Corporate	-	41,513	35,148	-	186
Personal	12,199	-	72,330	-	-
Banks	-	-	-	4,087	-
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Corporate	-	107,826	91,294	-	483
Personal	31,685	-	187,869	-	-
Banks	-	-	-	10,616	-
	2013				
	RO '000	RO '000	RO '000	RO '000	RO '000
<i>Concentration by sector</i>					
Corporate	-	35,339	-	-	196
Personal	1,845	-	20,854	-	-
Banks	-	-	-	10,467	-
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Corporate	-	91,790	-	-	509
Personal	4,794	-	54,166	-	-
Banks	-	-	-	27,187	-



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

29 RISK MANAGEMENT (continued)

29.5 CONCENTRATION RISK (continued)

	2014				
	Murabaha, gross RO '000	Musharaka, gross RO '000	Ijarah Muntahia Bittamleek RO '000	Due from banks RO '000	Investment securities RO '000
Concentration by location					
Oman	12,199	41,513	102,665	3,852	186
Other GCC countries	-	-	4,813	45	-
Unites States of America	-	-	-	188	-
Others	-	-	-	2	-
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Oman	31,685	107,826	266,662	10,005	483
Other GCC countries	-	-	12,501	117	-
Unites States of America	-	-	-	488	-
Others	-	-	-	6	-

	2013				
	Murabaha, gross RO '000	Musharaka, gross RO '000	Ijarah Muntahia Bittamleek RO '000	Due from banks RO '000	Investment securities RO '000
<i>Concentration by location</i>					
Oman	1,845	35,339	20,854	10,396	196
Other GCC countries	-	-	-	19	-
Unites States of America	-	-	-	50	-
Others	-	-	-	2	-
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Oman	4,794	91,790	54,166	27,001	509
Other GCC countries	-	-	-	49	-
Unites States of America	-	-	-	131	-
Others	-	-	-	6	-

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.

29.6 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.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

29 RISK MANAGEMENT (continued)

29.6 CAPITAL MANAGEMENT (continued)

The risk asset ratio, calculated in accordance with the capital adequacy guidelines of the Basel Committee on Banking Supervision, IBRF and CBO Circular BM 1114 'Regulatory Capital and Composition of Capital Disclosure requirements under Basel III' effective from 31 December 2013, is as follows. The minimum capital adequacy ratio requirement for the year ended 31 December 2014 is 12.625% including capital conservation buffer of 0.625% (31 December 2013: 12%).

2013 US\$ '000	2014 US\$ '000		2014 RO '000	2013 RO '000
64,242	64,174	Common Equity Tier 1 (CET1)	24,707	24,733
-	-	Additional Tier 1	-	-
64,242	64,174	Tier 1	24,707	24,733
1,751	3,813	Tier 2	1,468	674
<u>65,993</u>	<u>67,987</u>	Total regulatory capital	<u>26,175</u>	<u>25,407</u>
		Risk weighted assets		
139,242	305,135	Credit risk	117,477	53,608
5,051	12,073	Market risk	4,648	1,945
8,590	8,595	Operational risk	3,309	3,307
<u>152,883</u>	<u>325,803</u>	Total risk weighted assets	<u>125,434</u>	<u>58,860</u>
		Capital adequacy ratio		
42.02%	<u>19.70%</u>	CET1 capital expressed as a percentage of total risk weighted assets	<u>19.70%</u>	42.02%
42.02%	<u>19.70%</u>	Total tier I capital expressed as a percentage of total risk weighted assets	<u>19.70%</u>	42.02%
1.15%	<u>1.17%</u>	Tier II capital expressed as a percentage of total risk weighted assets	<u>1.17%</u>	1.15%
43.17%	<u>20.87%</u>	Total regulatory capital expressed as a percentage of total risk weighted assets	<u>20.87%</u>	43.17%

30 SOCIAL RESPONSIBILITY

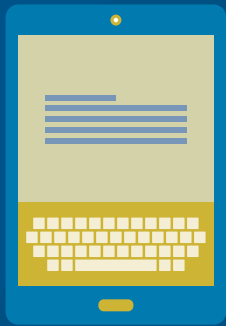
The Islamic Window discharges its social responsibilities through donations to charitable causes and organisations.

31 COMPARATIVE FIGURES

Certain corresponding figures for 2013 have been reclassified in order to conform to the presentation for the current year. Such reclassifications do not affect previously reported net profits or owners' equity.

Report of the the Auditors - page 106.

Basel II Pillar III & Basel III Report of



Al Hilal Islamic Banking Services

FOR THE YEAR ENDED 31 DECEMBER 2014

Report on factual findings to the Board of Directors of Ahli Bank SAOG (the “Bank”) in respect of Basel II – Pillar III and Basel III related Disclosures

We have performed the procedures agreed with you and as prescribed in Title 5 of the Islamic Banking Regulatory Framework, 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 Disclosures (the disclosures) of Al Hilal Islamic Banking Services (Islamic Window) of the Bank set out on pages 132 to 151 as at end for the year ended 31 December 2014. The disclosures were prepared by the Islamic Window’s management in accordance with the related requirements set out in Title 5 of the Islamic Banking Regulatory Framework, CBO’s Circular number BM 1009 dated 13 September 2006, Circular No. BM 1027 dated 4 December 2007 and Circular No. 1114 dated 17 November 2013. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures, as set out in Title 5 of Islamic Banking Regulatory Framework and Circular number BM 1027 dated 4 December 2007, were performed solely to assist you in evaluating the Islamic Window’s compliance with the related disclosure requirements as set out in Title 5 of Islamic Banking Regulatory Framework, CBO’s Circular number BM 1009 dated 13 September 2006 and Circular No. BM 1114 dated 17 November 2013.

We report our findings as follows:

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

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

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying disclosures to be included in the Bank’s annual report for the year ended 31 December 2014 and does not extend to any financial statements of the Bank taken as a whole or to any other reports of the Bank.



26 February 2015
Muscat



1. INTRODUCTION

The Basel Committee on Banking Supervision recommended revised international capital adequacy standards in 2004, referred as the Basel II capital framework or the revised capital framework. The framework consists of three pillars.

- Pillar 1 makes recommendations for calculation of minimum capital requirements.
- Pillar 2 discusses the key principles of supervisory review and risk management guidance.
- Pillar 3 complements the first two pillars of Basel II by requiring a range of disclosures on capital and risk assessment processes, aimed at encouraging and reinforcing market discipline.

2. SCOPE

In January 2013, Ahli Bank SAOG (the Bank) received license from the Central Bank of Oman to operate its Islamic Banking Window under Al Hilal Islamic Banking Services and commenced operations through a network of dedicated Islamic branches. Al Hilal Islamic Banking Services (the Islamic Window) was incorporated in Sultanate of Oman to operate as an Islamic Banking Window of Ahli Bank SAOG. The principle activity of the Islamic Window is to carry out banking and other financial trading activities in accordance with Islamic Shari'a rules as permitted under the Islamic Banking Regulatory Framework (IBRF) issued by the Central Bank of Oman (CBO) through a network of seven branches as at year end.

The Islamic Window prepares this report in accordance with the Basel II Accord in conjunction with and as per the directive of the Central Bank of Oman (CBO). The major highlights of the regulations are:

- Islamic Window is required to maintain a minimum capital adequacy ratio of 12% and Capital Conversation Buffer (CCB) of 0.625% at Common Equity Tier 1 (CET1) level.
- There are three core risk disciplines under the Basel II Banking Accord for which capital is reserved for:
 - **Market Risk:** Market risk is defined as the risk of losses in, on and off balance sheet positions arising from movements in market prices. Main factors contributing to market risk are equity, profit rate, foreign exchange and commodity risk.
 - **Credit Risk:** Credit risk is defined as the risk that a counter party will not settle an obligation for full value, either when due or at any time thereafter.
 - **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 is new to the Basel Accord.

- Under the Framework of Capital Adequacy, the Islamic Window is required to provide timely, accurate, relevant and adequate disclosures of qualitative and quantitative information that enables users to assess its activities and risk profile. The capital adequacy returns are required to be submitted to the CBO on a quarterly basis, not later than 21 days from the end of each quarter.
- The Bank has a formal "Disclosure Policy", which is applicable on the Islamic Window as well, 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. Ahli Bank SAOG makes information publicly available in accordance with its policy on disclosure of information and applicable regulations.

3. CAPITAL MANAGEMENT

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

Ahli Bank SAOG has following credit ratings at present:

Capital Intelligence	Long Term Rating:	BBB+
	Short Term Rating:	A2
	Outlook:	Stable
Fitch	Long Term Rating:	BBB+
	Short Term Rating:	F2
	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.

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 Islamic Window capital structure consists of Tier I capital (paid-up equity capital and reserves) and Tier II capital, which is currently general provision made against investments and financing:

	RO '000s
Tier I capital	24,707
Tier II capital	1,468
Total	26,175



The Islamic Window 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, market, liquidity and interest rate risks. The Islamic Window follows the standardized approach for implementing Basel II and adopts rating from CBO's recognized four External Credit Assessment Institutions (ECAI), namely Moody's, Standard & Poors, Fitch and Capital Intelligence, for calculating the risk on its sovereign and bank exposures.

Capital structure and capital adequacy is presented in section 17 "Disclosure tables".

Internal Capital Adequacy Assessment Process (ICAAP)

In addition to Pillar I under the Base Case, the Bank also calculates the internal capital requirements for Pillar II risks (i.e. liquidity risk, Rate of Return Risk, concentration risk and other risks including strategic, reputational, legal risks, etc.) for the entire bank, and has completed the ICAAP exercise for years 2013-2017.

4. RISK MANAGEMENT OF THE BANK

Risk Management Principles

The Bank has an independent Risk Management Department that also monitors the Islamic Window core risk areas and reports to the Executive Risk Committee (a Board Committee).

The primary goal of risk management is to ensure that the Bank's asset and liability profile, its trading positions, and its credit and operational activities 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 Islamic Window's capital and financial positions.

The Islamic Window 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 us to identifying the various associated risks.

Having identified the risks, our next steps would be to 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.

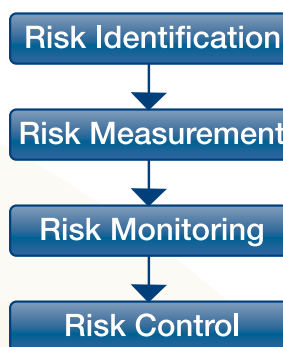
The key to this approach is the creation of a responsive organization structure around each of these risk categories with appropriate delegated authority to deliver in line with the business objectives approved by the Board of Directors.

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 risk management department reports directly to the Executive Risk Committee (a Board Committee).

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. Risks covered include credit, market, operational, interest rate and liquidity risk. The risk management department has identified material risks that the Islamic Window is exposed to, and has defined the framework necessary to measure, monitor, and report these risks on a timely basis.

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

- Board of Directors
- Audit and Compliance Committee
- Executive and Credit Committee
- Executive Risk Committee
- Compensation Committee
- Credit and Investment Committee
- Management Committee
- Special Assets Committee
- Assets and Liabilities Committee
- Operational Risk Committee
- IT Steering Committee
- New Product Committee



Policies and Procedures:

The Board of Directors under its terms of reference, controls and directs the Bank on behalf of the shareholders, its conduct of business, setting objectives and strategy by establishing policies under which the Bank operates. The Board of Directors approve the Bank's risk appetite, risk management strategies, policies and the framework for their effective implementation and control, including delegated authorities to the Executive Committee and Management to approve all risk exposures. In this context, the Board of Directors has approved the following policies:

1. Anti-Money Laundering Manual
2. Personal Account Dealing Policy
3. New Product Committee and Procedures
4. Voice Recording Policy
5. Compliance Policy
6. Communications Policy
7. Corporate Governance Policy
8. Corporate Social Responsibility Policy
9. Dividend Policy
10. Expenses Policy
11. Capital Management Policy
12. Disclosure Policy
13. Board Remuneration Policy
14. Financial Institutions Policy
15. Human Resources Policy
16. Outsourcing Policy
17. Code of Business Conduct
18. Information Security Management Policy
19. Business Continuity Management
20. Credit and Investment Policy
21. Operational Risk Policy & Procedure
22. Anti-Fraud Policy & Procedure
23. Liquidity Policy
24. Trading Book Policy
25. Risk Management-Approach & Framework
26. Social and Environment Management System
27. Security and Safety Policy and Plan
28. Asset Management Policy
29. Brokerage Policy
30. FATCA Policy
31. Customer Complaints Redressal Policy
32. Profit Distribution Policy
33. Charity Policy
34. Zakah Policy
35. Cost Sharing Policy
36. Segregation of Funds Policy
37. Social Media Policy
38. Shari'a Governance Manual

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).

5. CREDIT RISK

Credit Risk Principles

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.

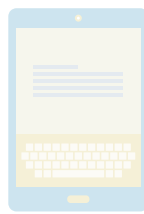
All corporate, bank and sovereign credit requires independent credit risk review to be approved by Credit and Investment Committee. Wherever group exposure exceeds a certain limit, it requires Executive and Credit Committee approval. Any Board of Directors' related credit is approved strictly in accordance with Central Bank of Oman requirements.

Risk Management quantifies the Islamic Window's credit risk appetite in line with the Bank's strategic direction. A well-established process exists to ensure the allocation of capital for the total credit risk to be assumed by the Islamic Window; 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 financing and investment assets 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.

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.



Credit Risk Management

Credit risk management maximizes the Islamic Window's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Credit risk makes up the largest part of the Islamic Window's risk exposure. The Islamic Window has set clear and well defined limits to address different dimensions of credit risk including concentration risk. Credit risk is addressed by performing the following procedures:

- Establishing a sound credit granting process
- Maintaining an appropriate credit administration, monitoring and reporting process
- Ensuring monitoring of the adequacy of controls over credit risk.
- Lending limits

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.

Credit facility risk is a part of portfolio credit risk management. Portfolio risk arises because of high positive correlation between individual credit facilities. This may include:

- concentration of exposure in geographies, sectors, groups, counter-parties or rating categories;
- interaction with other risks such as Rate of Return risk, FX risk, and broader economic risk;
- trends in portfolio quality (customers' risk migration, non-performing assets).

Past due credit exposures

The Islamic Window defines past due and impaired exposure and provides specific and collective provisions in line with the IBRF issued by CBO. Where required, the value of securities are computed on the basis of Paras 13.7 and 13.8 of Circular BM 977 "Master Circular on Risk Classification and Provisioning" issued by the Central Bank of Oman dated 25 September 2004 and as amended dated 21 May 2014.

Specific provisions are required to cover impairment of financing receivables and assets acquired for investments. To ensure that the credit risk is effectively managed, the Islamic Window has a well-established and comprehensive credit risk management policy framework covering the entire credit spectrum, to ensure the incidence of impairment of financing receivables is minimized.

Structure for credit risk approval



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 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. In the case of a 'split rating' from approved external rating agencies such as S&P, Fitch or Moody's the lower rating normally applies.

The Credit & Investment Policy sets limit criteria for individual exposure, group exposure, internal limits for aggregate exposure to different risk ratings, country limits and economic sector limits. Business with any counter-party does not commence until a credit line has been approved. A strict credit approval process also exists with authority levels delegated to ensure the efficient conduct of business. Country limit proposals cover an assessment of the country's political and economic risks and its credit ratings and outlook. Specific transaction needs shall be through credit application on a case by case basis.

In case of annual reviews, limits are to be renewed at one level down if there is no material change or increase in the exposure.

Credit risk mitigation:

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

- Financing receivables;
- Ijara assets – Ijarah Muntahia Bittamleek; and
- Equity-type instruments at fair value through equity;

Financing receivables are principally divided into following Islamic products:

- **Murabaha:** An agreement whereby the Islamic Window sells to a customer a commodity or a property which the Islamic Window has purchased and acquired based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises of the cost of the commodity and an agreed profit margin.



- **Financing Ijarah:** An agreement whereby the Islamic Window (lessor) leases an asset 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.
- **Wakala:** An agreement whereby the Islamic Window provides a certain sum of money to an agent, who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to guarantee the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.
- **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.

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.

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 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.

The Islamic Window normally accepts the following types of collateral:

- Cash margins and wakala deposits
- Real estate comprising income-producing and not 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 Islamic Window also accepts guarantees of individuals and corporates to mitigate risks, wherever applicable, based on adequate 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 management also periodically reviews the collateral cover for determining the adequacy of the allowance for impairment losses.

6. Operational Risk

Operational Risk Framework

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, and systems or from external events.

Losses from external events such as a natural disaster that has a potential to damage the Islamic Window's physical assets or electrical or telecommunication failures that disrupt business are relatively easier to define than losses from internal problems such as employee fraud and product flaws. The risks from internal problems are more closely tied to the Islamic Window's specific products and business lines; they are more specific to the Islamic Window's operations than the risks due to external events. Operational risks faced by the Islamic Window include IT Security, telecom failure, frauds, and operational errors.

Operational risk is controlled through a series of strong internal controls and audits, well-defined segregation of duties and reporting lines, operational manuals and standards. Internal audit independently reviews the effectiveness of the Islamic Window's internal controls and its ability to minimize the impact of operational risks. Moreover, an Operational Risk Framework and unit were established during 2009. There is an Operational Risk Committee that is the owner of this Framework and holds responsibility.

The Islamic Window identifies and assesses the operational risk inherent in its key material products, activities, processes and systems. It also ensures that before any new products or services, activities, processes or systems are introduced; the associated operational risks are properly assessed and mitigated.

Risk identification is vital to the development of operational risk monitoring and control systems. Risk identification considers internal factors such as the Islamic Window's structure, the nature of its activities, the quality of its human resources, organizational changes, and employee turnover. It also examines external factors such as changes in the industry, major political and economic changes, and technological advances.

The Islamic Window has identified the following operational risks and has been implementing an effective framework to manage them:

- Process Risk
- Legal Risk
- People Risk
- Compliance Risk
- IT Risk
- Physical Security Risk



Control and Mitigation of Operational Risk

The Islamic Window and the Bank has established policies, processes and procedures to control and mitigate material operational risks. It periodically reviews risk limitation and control strategies and adjusts the operational risk profile accordingly, using appropriate strategies in light of its overall risk appetite and profile.

Towards this, the Islamic Window has implemented Operation Risk Self Assessment (ORSA) procedure for each of its business segments, where operating risk related to each business area is identified; documented and corresponding control processes are defined and documented. The action points arising from ORSA are reviewed and reported at the Operational Risk Committee on a regular basis. The Islamic Window also has Key Risk Indicators (KRIs) in place and monitors these on a regular basis.

The Islamic Window ensures that there is appropriate segregation of duties and personnel are not assigned responsibilities that may create a conflict of interest or enable them to conceal losses, errors or inappropriate actions.

The Islamic Window ensures adequate internal audit coverage to verify that operating policies and procedures have been implemented effectively.

The Islamic Window takes insurance cover to mitigate operational risk, wherever applicable.

It also ensures that internal practices exist to control operational risk such as:

- maintaining safeguards for access to, and use of, the Islamic Window's assets and records;
- ensuring staff have appropriate expertise and training;
- regularly verifying and reconciling transactions and accounts.

Reputation risk

Reputation Risk is negative public opinion/reaction which could cause damage to the Islamic Window'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 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.

Business Continuity

The Bank has documented the Business Continuity 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; 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
- 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

The Bank has carried out a comprehensive BCP test during 2014, and the test results were submitted to the Board.

7. MARKET RISK

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 Management Framework

The Bank uses a combination of risk sensitivities, stress testing, etc. to manage market risks and establish limits.

Shares and investments

The Islamic Window has invested in Al Hilal MENA Fund (an Islamic Fund managed by the Asset Management Division of the Bank) and recognised this as equity type instruments carried at fair value through equity. The fair value of investments as of 31 December 2014 is RO 0.186 million with cost amounts to RO 0.211 million.

Rate of Return Risk Principles and Framework

Rate of return risk arises from the possibility that changes in rates of return will affect the value of underlying financial instruments. The Islamic Window is exposed to rate of return 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 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 from financing activities. Rate of return risk is measured as the potential volatility in net income from financing activities caused by changes in market rates of return. The Islamic Window manages this risk by matching or hedging the re-pricing profile of assets and liabilities through various risk management strategies.



Rate of Return Risk in Banking Book (RRRBB)

The nature of RRRBB and key assumptions, including assumptions regarding prepayments and behavior of non-maturity deposits, and frequency of RRRBB measurement, are given below. Rate of return risk is limited for Retail Banking book as the financing receivables can be re-priced with any change in the CBO's rate of return and for Corporate Banking financing receivables which are 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 rate of return movements are categorized separately. The earnings at risk are calculated based on rate of return re-pricing gaps. The Islamic Window is confident of sourcing the cheaper source of funds by way of customers' deposits. ALCO along with the risk management department identifies rate of return risk and these are monitored and reported periodically. Rate sensitive exposures are quantified using re-pricing gaps.

Rate of Return Risk in Trading Book

Rate of Return risk in the trading book arises from the sensitivity of investment assets to rate of return volatility. Rate of Return Risk in the trading book is controlled through notional exposure limits, stop loss limits, and maximum maturity limits, and is marked to market.

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. All foreign exchange exposures are centrally managed by the 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.

Investments in the banking book

The Islamic Window's investments will have to be within the overall limits and restrictions as CBO may prescribe from time to time, and only in Shari'a compliant product categories.

Also, 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.

In addition to the CBO restrictions on investments by banks, and such internal limits as described above, the following restrictions apply, including the investments made by the Islamic Window:

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 and 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 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

This should also 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.



Investment Exits / Stop Loss (does not cover Asset Management Division operations)

Exit strategies must be clearly outlined in all investment proposals. In case of a change in the exit strategy, approval from the same approving body must be obtained. Sale of AFS investments to book profit should be approved / ratified by the ALCO.

Unless stated otherwise in the investment application the tolerance level of a decrease in the value of a liquid investment is a maximum of 15%. Any holding with loss equivalent or greater than 10% should be notified to ALCO members. In case the investment is witnessing a material change (downgrading or expected downgrade etc.), the Business Unit must also notify the Credit and Investment Committee outlining the action/remedial plan. Approval for any loss in excess of 15% on liquid investment (unless already specifically allowed as per original investment strategy), will need to be obtained from CIC and ALCO.

8. LIQUIDITY RISK

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 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 deposit liabilities with CBO in the form of clearing balances.
- Commitments for investments and financing are approved after taking into account the Islamic Window'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 management policies and a contingency liquidity plan have been established by the Bank, which applies to its Islamic Window as well.

Liquidity Management Policy

The liquidity management 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 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

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.

Diversification of liabilities

The Bank and its Islamic Window 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 and its 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 Bank and its Islamic Window 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 and its 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 Bank and its 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 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.

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 manages DCR through the Asset Liability Committee (ALCO). The Islamic Window may forgo its fee in case DCR arises. Rates of returns are benchmarked with other Banks in the market.

10. INVESTMENT ACCOUNT HOLDERS

The Islamic Window receives deposits by Investment Account Holders (IAH) under mudaraba contract. As per the contract the investment account holders 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. Under this arrangement, Islamic window can commingle the equity of investment account holders with its own funds (owner's equity) or with other funds the Islamic Window has right to use (current accounts or any other funds not received under Mudaraba mode). As at year end the Islamic Window does not has any investment account under restricted mudaraba contract.

The Islamic Window charges a management fee (Mudarib fee) to IAH. Of the total income from investment accounts, the income attributable to account holders is allocated to investment accounts after setting aside provisions, reserves (profit equalisation reserve and investment risk reserve) 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.

During the year ended December 2014 there were no appropriations made towards Profit equalisation and Investment risk reserve.

11. MATURITY PROFILE OF ASSETS AND LIABILITIES

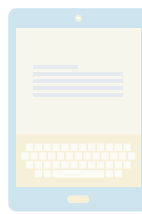
The maturity profile of the assets and liabilities at the year-end are based on contractual repayment arrangements. The details of the same are provided in note 29.2 of financial statements.

12. SUBSIDIARIES AND SIGNIFICANT INVESTMENTS

The Islamic Window does not have any subsidiary or other significant equity investments as on 31 December 2014 (except the investment in Al Hilal MENA Fund as mentioned in 7 above).

13. 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 Shari'a 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



14. EARNINGS PROHIBITED BY SHARI'A

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. During the year ended 2014, no income has been credited to charity account being prohibited by Shari'a.

15. REMUNERATION OF SHARI'A SUPERVISORY BOARD (SSB)

Following remuneration of Shari'a Board has been approved by the general assembly;

Chairman: RO 9,625 per annum

Member: RO 6,738 per annum

Sitting fee : US\$ 1,000 per meeting per member, maximum of 5 sitting per year

16. DISCLOSURE TABLES

1. Capital Adequacy Disclosures (RO '000)

As on 31 December 2014				
Sl. No.	Details	Gross balances (book value)	Net balances (book value)	Risk weighted assets
1	On-balance sheet items	178,543	178,543	116,616
2	Off-balance sheet items	861	861	861
3	Derivatives (Banking Book)	-	-	-
4	Total	179,404	179,404	117,477
5	Tier 1 Capital			24,707
6	Tier 2 Capital			1,468
7	Tier 3 Capital			-
8	Total Regulatory Capital			26,175
8.1	Capital requirement for credit risk (including CCB)			14,831
8.2	Capital requirement for market risk (including CCB)			587
8.3	Capital requirement for operational risk (including CCB)			418
9	Total required capital (including CCB)			15,836
10	Tier 1 Ratio			19.70%
11	Total Capital Ratio			20.87%

2. Capital Breakup (RO '000)

As on 31 December 2014		
Sl. No.	Amount	
1	Elements of capital	
	Tier I Capital	
1	Paid-up capital	25,000
2	Share premium	-
3	Legal reserves	-
4	General reserves	-
5	Subordinated loan reserve	-

As on 31 December 2014

Sl. No.	Elements of capital	Amount
6	Stock dividend	-
7	Retained earnings	(268)
8	Non-cumulative perpetual preferred stock	-
9	Other non-distributable Reserve	-
	Total Gross Tier I Capital	24,732
	Deductions	
10	Goodwill	-
11	Deferred Tax Asset	-
12	Intangible Assets, including losses, cumulative unrealised losses recognised directly in equity	(25)
13	Reciprocal crossholding of bank capital, artificially designed to inflate the capital position of banks	-
	sub-total	(25)
14	Tier I capital after the above deductions	24,707
15	50% of investments in the capital of banks and other financial entities, other than reciprocal cross holdings of bank capital	-
16	50% of Significant minority and majority investments in commercial entities, which exceed 5% of the bank's net worth for individual significant investments and 20% of the banks' net worth for aggregate of such investments	-
17	50% of shortfall in the regulatory capital requirements in the un-consolidated entities	-
18	50% of investments in unconsolidated banking and financial subsidiary companies associates or affiliates, etc	-
	sub-total	-
19	Tier I capital after all deductions	24,707
	Tier II Capital	
20	Undisclosed reserves	-
21	Revaluation reserves / cumulative fair value gains or losses on investments at AFVTE	-
22	General loan loss provisions / Collective provision	1,468
23	Subordinated debt	-
24	Hybrid debt capital instruments	-
25	Total Tier II capital	1,468
	Deductions	
26	50% of investments in the capital of banks and other financial entities, other than reciprocal cross holdings of bank capital	-
27	50% of significant minority and majority investments in commercial entities, which exceed 5% of the bank's net worth for individual significant investments and 20% of the banks' net worth for aggregate of such investments	-
28	50% of shortfall in the regulatory capital requirements in the un-consolidated entities	-
29	50% of investments in unconsolidated banking and financial subsidiary companies associates or affiliates, etc	-
	Total deductions from Tier II	-
	Tier II Capital (Net)	1,468
30	Tier III Capital (eligible)	-
31	Total Regulatory Capital	26,175



3. Computation of Capital Adequacy Ratio (RO '000)

As on 31 December 2014

Sl. No.	Details	As on 31 December 2014		Sl. No.	Details	Simple Approach
			Simple Approach			
1	Tier I Capital (after supervisory deductions)	24,707			i) Minimum required Tier I Capital for banking book and operational risk (including CCB)	13,781
2	Tier II capital (after supervisory deductions and up to eligible limits)	1,468			ii) Tier II Capital required for banking book and operational risk	1,468
3	Tier III Capital (up to a limit where Tier II and Tier III does not exceed Tier I)	-		9	Tier I capital available for supporting trading book	11,681
4	Of which, total eligible tier III capital	-		10	Tier II capital available for supporting trading book	-
5	Risk weighted assets – banking book	117,477		11	Risk Weighted Assets – trading book	4,648
6	Risk weighted assets – operational risk	<u>3,309</u>		12	Total capital required to support trading book	587
7	Total Risk Weighted Assets – Banking Book + Operational Risk	120,786		13	Minimum Tier I capital required for supporting trading book	167
8	Minimum required capital to support RWAs of banking book and operational risk (including CCB)	15,249		14	Used Eligible Tier III Capital	-
				15	Total Regulatory Capital	<u>26,175</u>
				16	Total Risk Weighted Assets – Whole bank	<u>125,434</u>
				17	BIS Capital Adequacy Ratio	<u>20.87%</u>
				18	Unused but eligible Tier III Capital	-

4. Gross and average credit risk exposure (RO '000)

As on 31 December 2014

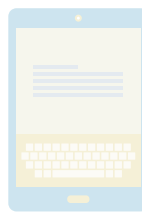
Sl. No.	Type of credit exposure	Average Gross Exposure		Total Gross Exposure	
		31-Dec-14	31-Dec-13	31-Dec-14	31-Dec-13
1	Musharaka	29,182	34,965	41,513	35,339
2	Ijarah	73,909	7,582	107,478	20,854
3	Murabaha	<u>5,903</u>	<u>779</u>	<u>12,199</u>	<u>1,845</u>
		<u>108,994</u>	<u>43,326</u>	<u>161,190</u>	<u>58,038</u>

5. Credit risk exposure: Industry-wise (RO '000)

As on 31 December 2014

Sl. No.	Economic sector	Ijarah	Murabaha	Musharaka	Off-balance sheet exposures *	
					Total	
1	Construction	18,841	-	37,490	56,331	862
2	Manufacturing	4,930	-	1,189	6,120	-
3	Service	9,170	-	2,475	11,645	-
4	Trading	2,207	-	359	2,566	-
5	Personal financing	<u>72,330</u>	<u>12,199</u>	-	<u>84,528</u>	-
	Total	<u>107,478</u>	<u>12,199</u>	<u>41,513</u>	<u>161,190</u>	<u>862</u>

* Off balance sheet exposures pertain to guarantees.



6. Credit risk maturity exposure (RO '000)

		As on 31 December 2014				
Sl. No.	Time Band	Musharaka	Ijarah	Murabaha	Total	Off-balance sheet exposures
1	Up to 1 month	412	763	173	1,348	71
2	1 - 3 months	825	1,527	347	2,699	439
3	3 - 6 months	1,237	2,290	511	4,038	244
4	6 - 9 months	1,237	2,282	500	4,019	-
5	9 - 12 months	1,237	2,282	500	4,019	94
6	1 - 3 years	9,896	17,905	3,711	31,512	8
7	3 - 5 years	9,679	16,118	2,972	28,769	6
8	Over 5 years	16,990	64,311	3,485	84,786	-
	Total	41,513	107,478	12,199	161,190	862

7. Gross exposure: Provisioning distribution (RO '000)

		As on 31 December 2014					
Sl. No.	Economic sector	Gross financing	of which NPLs	Portfolio based provision / reserves	Specific provision held	Reserve profit	Provision / reserve made during the year
1	Construction	56,331	-	366	-	-	60
2	Manufacturing	6,120	-	68	-	-	15
3	Service	11,645	-	76	-	-	76
4	Trading	2,566	-	17	-	-	17
5	Personal financing	84,528	64	1,204	16	1	766
	Total	161,190	64	1,731	16	1	934

8. Financings: Geographical Impairment Distribution (RO '000)

		As on 31 December 2014					
Sl. No.	Countries	Gross financing	Of which NPLs	Portfolio based provision / reserves	Specific provision held	Reserve profit	Provisions made during the year
1	Oman	156,377	64	1,683	16	1	886
2	Other GCC Countries	4,813	-	48	-	-	48
	Total	161,190	64	1,731	16	1	934

9. Movements in gross financings during the year (RO '000)

		As on 31 December 2014				
Sl. No.	Details	Performing financings	Sub-Standard	Doubtful	Loss	Total
1	Opening balance	58,038	-	-	-	58,038
2	Migration / changes (+/-)	-	-	-	-	-
3	New financings	122,029	64	-	-	122,093
4	Recovery of financings	(18,941)	-	-	-	(18,941)
5	Financings written off	-	-	-	-	-
6	Closing balance	161,126	64	-	-	161,190
7	Provisions / reserves	1,731	16	-	-	1,747
8	Reserve Profit	-	1	-	-	1



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

As on 31 December 2014

Sl. No.	Type	Amount
1	Saving accounts	5,202
2	Term accounts	<u>7</u>
	Total	<u>5,209</u>

11. Equity of Investment Accountholders – Ratios

As on December 2014

Profit sharing ratio (Mudarib : Investment Accountholders)	70:30
Average Profit paid to investment accountholders	0.57%
Average Profit distributed per type of IAH	
Savings (RO 100 – RO 999.999)	0.27%
Savings (RO 1,000 – RO 9,999.999)	0.42%
Savings (above RO 10,000)	0.64%
Al Nama Smart Saving (RO 2,500 – RO 49,999.999)	1.53%
Al Nama Smart Saving (RO 50,000 – RO 499,999.999)	1.78%
Time deposits (below RO 25,000)	0.87%

The calculation and distribution of profit was based on average balances.

There was no appropriation made towards Profit Equalization Reserve and Investment Risk Reserve.



17. Basel III Capital Disclosure

The below capital disclosures are prepared in accordance with the requirements of the CBO Circular BM 1114 'Regulatory Capital and Composition of Capital Disclosure Requirements under Basel III' issued on 17 November 2014.

17.1 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. In step 1, the accounting consolidation is identical to regulatory consolidation therefore the capital reconciliation is started from step 2 onwards.

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

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

Year ended 31 December 2014	Published financial statements	Under Regulatory scope of consolidation	Reference
Assets			
Cash and balances with CBO	10,770	10,770	
Due from banks	4,087	4,087	
Financings – Net, of which:	159,443	159,443	
- Loans and advances to domestic customers	-	161,190	
- Provision against financings, of which:	-	(1,747)	
- Amount eligible for T2	-	(1,468)	a
- Amount ineligible for T2	-	(279)	
Investments, of which	186	186	
At fair value through equity	186	186	
Fixed assets	1,493	1,493	
Other assets	818	818	
Total Assets	176,797	176,797	
Capital & Liabilities			
Paid-up Capital, of which:	25,000	25,000	
- Amount eligible for CET1	-	25,000	b
Reserves & Surplus; of which	2,407	2,407	
- Accumulated loss brought forward (CET1 adjustment)	-	(268)	c
- AFS investment fair value loss (CET1 adjustment)	-	(25)	d
- Current year unaudited profit not eligible for CET1	-	2,700	
Total Capital	27,407	27,407	
Deposits	69,989	69,989	
Due to banks	76,560	76,560	
Other liabilities & provisions	2,841	2,841	
TOTAL	176,797	176,797	



Step 3: Step Reconciliation of Regulatory Capital:

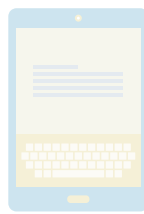
Common Equity Tier 1 capital: instruments and reserves (RO' 000)

	Component of regulatory capital reported by Bank	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from step 2
1 Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	25,000	b
2 Accumulated loss	(268)	c
3 Common Equity Tier 1 capital before regulatory adjustments	24,732	
4 Total regulatory adjustments to Common equity Tier 1	(25)	d
5 Common Equity Tier 1 capital (CET1)	<u>24,707</u>	
Additional Tier 1 capital: instruments		
6 Additional Tier 1 capital (AT1)	-	-
Tier 1 capital (T1 = CET1 + AT1)	<u>24,707</u>	
Tier 2 capital: instruments and provisions		
7 Provisions	1,468	a
8 Fair value reserve of AFS investments	-	
Tier 2 capital before regulatory adjustments	<u>1,468</u>	
Tier 2 capital: regulatory adjustments	-	
Tier 2 capital (T2)	<u>1,468</u>	
Total capital (TC = T1 + T2)	<u>26,175</u>	

17.2 MAIN FEATURES OF REGULATORY CAPITAL

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

	Common Equity Share Capital
1 Al Hilal Islamic Banking Services - Ahli Bank SAOG	NA
2 Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA
3 Governing law(s) of the instrument Regulatory treatment	The laws of Oman in the form of Royal Decrees, Ministerial Decisions and CMA and CBO Regulations
4 Transitional Basel III rules	Common Equity Tier 1
5 Post-transitional Basel III rules	Common Equity Tier 1
6 Eligible at solo/group/group & solo	Solo
7 Instrument type (types to be specified by each jurisdiction)	Common Equity Share Capital
8 Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	25 million
9 Par value of instrument	25 million
10 Accounting classification	Shareholders' Equity
11 Original date of issuance	Capital allocated in January 2013
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



17.2 MAIN FEATURES OF REGULATORY CAPITAL (continued)

Coupons / dividends *		
17	Fixed or floating dividend/coupon	NA
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	NA
21	Existence of step up or other incentive to redeem	NA
22	Noncumulative or cumulative	NA
23	Convertible or non-convertible	NA
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	NA
31	If write-down, write-down trigger(s)	NA
32	If write-down, full or partial	NA
33	If write-down, permanent or temporary	NA
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	NA
37	If yes, specify non-compliant features	NA

*Coupons / dividends features are not applicable for Islamic Window as all related decisions are taken at Bank level.

17.3 DISCLOSURE TEMPLATE DURING THE TRANSITION PHASE

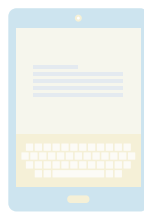
Table below is prepared using the disclosure template to be used during transition of regulatory adjustments;

Basel III common disclosure template to be used during the transition of regulatory adjustments (i.e. from 1 January 2013 to 31 December 2018)	AMOUNTS SUBJECT TO PRE- BASEL III TREATMENT		
	(RO'000)		
Common Equity Tier 1 capital: instruments and reserves			
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	25,000	-
2	Accumulated loss	(268)	-
3	Accumulated other comprehensive income (and other reserves)	-	-
4	<i>Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)</i>	-	-
	<i>Public sector capital injections grandfathered until 1 January 2018</i>	-	-
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	-
6	Common Equity Tier 1 capital before regulatory adjustments	24,732	-
Common Equity Tier 1 capital: regulatory adjustments			
7	Prudential valuation adjustments(AFS investments fair value loss)	(25)	-
8	Goodwill (net of related tax liability)	-	-



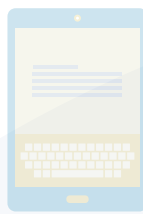
17.3 DISCLOSURE TEMPLATE DURING THE TRANSITION PHASE (continued)

Basel III common disclosure template to be used during the transition of regulatory adjustments (i.e. from 1 January 2013 to 31 December 2018)		(RO'000)	AMOUNTS SUBJECT TO PRE- BASEL III TREATMENT
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-	-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-
11	Cash-flow hedge reserve	-	-
12	Shortfall of provisions to expected losses	-	-
13	Securitisation gain on sale (as set out in paragraph 14.9 of CP-1)	-	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities.	-	-
15	Defined-benefit pension fund net assets	-	-
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-	-
17	Reciprocal cross-holdings in common equity	-	-
18	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-
19	Significant investments in the common stock of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	-
20	Mortgage Servicing rights (amount above 10% threshold)	-	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-
22	Amount exceeding the 15% threshold	-	-
23	of which: significant investments in the common stock of financials	-	-
24	of which: mortgage servicing rights	-	-
25	of which: deferred tax assets arising from temporary differences	-	-
26	National specific regulatory adjustments	-	-
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE BASEL III TREATMENT	-	-
	Of which: [INSERT NAME OF ADJUSTMENT]	-	-
	Of which: [INSERT NAME OF ADJUSTMENT]	-	-
	OF WHICH: [INSERT NAME OF ADJUSTMENT]	-	-
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	-
28	Total regulatory adjustments to Common equity Tier 1	(25)	-
29	Common Equity Tier 1 capital (CET1)	24,707	-
	Additional Tier 1 capital: instruments	-	-
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	-
31	of which: classified as equity under applicable accounting standards	-	-
32	of which: classified as liabilities under applicable accounting standards	-	-
33	<i>Directly issued capital instruments subject to phase out from Additional Tier 1</i>	-	-
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-	-
35	<i>of which: instruments issued by subsidiaries subject to phase out</i>	-	-
36	Additional Tier 1 capital before regulatory adjustments	-	-



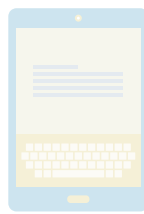
17.3 DISCLOSURE TEMPLATE DURING THE TRANSITION PHASE (continued)

Basel III common disclosure template to be used during the transition of regulatory adjustments (i.e. from 1 January 2013 to 31 December 2018)		(RO'000)	AMOUNTS SUBJECT TO PRE- BASEL III TREATMENT
Additional Tier 1 capital before regulatory adjustments			
37	Investments in own Additional Tier 1 instruments	-	-
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	-
39	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	-
40	Significant investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-
41	National specific regulatory adjustments	-	-
	REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	-	-
	OF WHICH: [INSERT NAME OF ADJUSTMENT]	-	-
	OF WHICH: [INSERT NAME OF ADJUSTMENT]	-	-
	OF WHICH: [INSERT NAME OF ADJUSTMENT]	-	-
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-
43	Total regulatory adjustments to Additional Tier 1 capital	-	-
44	Additional Tier 1 capital (AT1)	-	-
45	Tier 1 capital (T1 = CET1 + AT1)	24,707	-
Tier 2 capital: instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	-
47	<i>Directly issued capital instruments subject to phase out from Tier 2</i>	-	-
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	-
49	<i>of which: instruments issued by subsidiaries subject to phase out</i>	-	-
50	Provisions	1,468	-
51	Tier 2 capital before regulatory adjustments	1,468	-
Tier 2 capital: regulatory adjustments			
52	Investments in own Tier 2 instruments	-	-
53	Reciprocal cross-holdings in Tier 2 instruments	-	-
54	Investments in the capital of banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	-
55	Significant investments in the capital banking, financial, insurance and takaful entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-
56	National specific regulatory adjustments	-	-



17.3 DISCLOSURE TEMPLATE DURING THE TRANSITION PHASE (continued)

Basel III common disclosure template to be used during the transition of regulatory adjustments (i.e. from 1 January 2013 to 31 December 2018)	(RO'000)	AMOUNTS SUBJECT TO PRE- BASEL III TREATMENT
REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	-	-
OF WHICH: [INSERT NAME OF ADJUSTMENT]		
OF WHICH: [INSERT NAME OF ADJUSTMENT]		
OF WHICH: [INSERT NAME OF ADJUSTMENT]		
57 Total regulatory adjustments to Tier 2 capital	<u>-</u>	-
58 Tier 2 capital (T2)	<u>1,468</u>	-
59 Total capital (TC = T1 + T2)	<u>26,175</u>	-
RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	125,434	-
OF WHICH: [INSERT NAME OF ADJUSTMENT]		
OF WHICH: ...		
60 Total risk weighted assets (60a+60b+60c)	125,434	-
60a <i>Of which: Credit risk weighted assets</i>	117,477	-
60b <i>Of which: Market risk weighted assets</i>	4,648	-
60c <i>Of which: Operational risk weighted assets</i>	3,309	-
Capital Ratios		
61 Common Equity Tier 1 (as a percentage of risk weighted assets)	19.70%	-
62 Tier 1 (as a percentage of risk weighted assets)	19.70%	-
63 Total capital (as a percentage of risk weighted assets)	20.87%	-
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)	7.625%	-
65 <i>of which: capital conservation buffer requirement</i>	0.625%	-
66 <i>of which: bank specific countercyclical buffer requirement</i>	-	-
67 <i>of which: D-SIB/G-SIB buffer requirement</i>	-	-
68 Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	8.87%	-
National minima (if different from Basel III)		
69 National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	7.625%	-
70 National Tier 1 minimum ratio (if different from Basel 3 minimum)	9.625%	-
71 National total capital minimum ratio (if different from Basel 3 minimum)	12.625%	-
Amounts below the thresholds for deduction (before risk weighting)		
72 Non-significant investments in the capital of other financials	-	-
73 Significant investments in the common stock of financials	-	-
74 Mortgage servicing rights (net of related tax liability)	-	-
75 Deferred tax assets arising from temporary differences (net of related tax liability)	-	-
Applicable caps on the inclusion of provisions in Tier 2		
76 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	1,468	-
77 Cap on inclusion of provisions in Tier 2 under standardised approach	1,468	-



17.3 DISCLOSURE TEMPLATE DURING THE TRANSITION PHASE (continued)

Basel III common disclosure template to be used during the transition of regulatory adjustments (i.e. from 1 January 2013 to 31 December 2018)	AMOUNTS SUBJECT TO PRE- BASEL III TREATMENT (RO'000)
78 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-
79 Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)	
80 Current cap on CET1 instruments subject to phase out arrangements	-
81 Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-
82 Current cap on AT1 instruments subject to phase out arrangements	-
83 Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-
84 Current cap on T2 instruments subject to phase out arrangements	-
85 Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-

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

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

Basel III capital 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.

For Al Hilal Islamic Banking Services – Ahli Bank SAOG

Hamdan Ali Nasser Al Hinai

Chairman

Date: 27th January 2015

EXECUTIVE MANAGEMENT OF AHLI BANK



Lloyd Maddock

Chief Executive Officer

Is a Bachelor of Engineering in Civil & Mining Engineering from the University of Exeter, UK. Former Deputy Group CEO Corporate Banking, Ahli United Bank BSC, Bahrain; Former Chief Executive Officer, HSBC Pakistan; Former Chief Executive Officer, HSBC Kuwait; Former Head of Wholesale Credit & Risk, HSBC MENA region subsequent to working in various senior management roles with HSBC covering Corporate Banking, Strategy and Risk Management.



Chandrashekhar Chetty

DCEO – Support Services

Hold Masters in Administrative Management from the Jamnalal Bajaj Institute of Management Studies, Mumbai University; Bachelor in Science from Wilson College, Mumbai University. Former COO, Global Retail & Commercial Bank Barclays Bank PLC, India, Former COO, Calyon Bank India; Former COO, Credit Agricole Indosuez, India; Former COO, Dresdner Bank Group, India; Executive Assistant to Group CEO, Dresdner Bank, Group, Asia-Pacific Region, Singapore.



CB Ganesh

DCEO - Banking Group (responsible for wholesale Banking, Retail Banking, Treasury and Investment Banking)

Holds Masters in commerce, Masters of Bank Management, Bachelors in commerce and Certified Associate of Indian Institute of Bankers. Former Head of Trade Finance, ICICI Bank Ltd, India; Former Dy. Chief Executive & Head of Wholesale Banking, North Asia, ICICI Bank Ltd; Former Regional Head, Corporate Banking, South India, ICICI Bank.