



ANNUAL REPORT 2016





His Majesty Sultan Qaboos Bin Said

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البنك الأهلي
ahlibank





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MISSION VISION BELIEF

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.

Mission

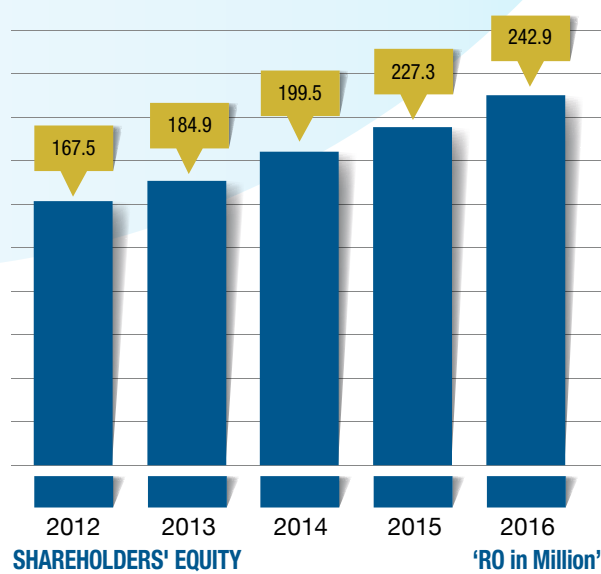
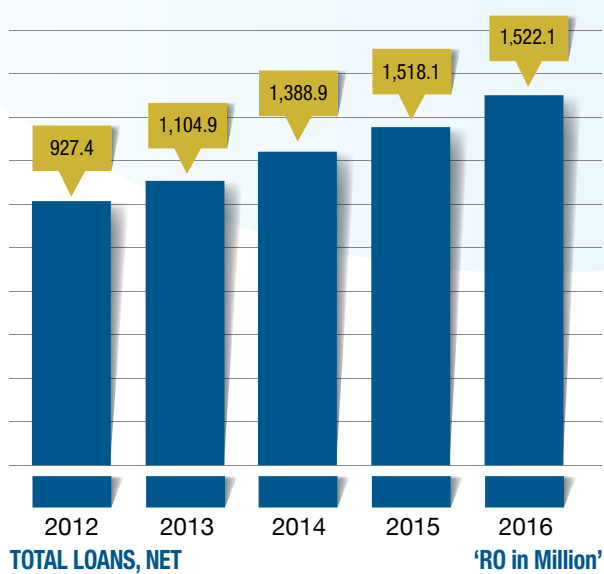
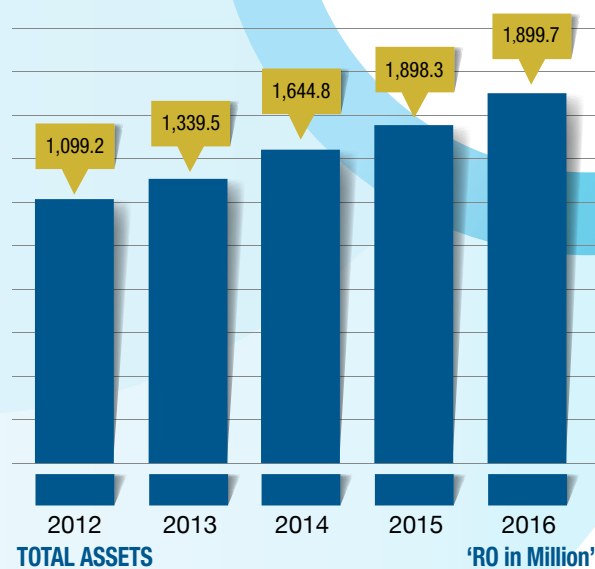
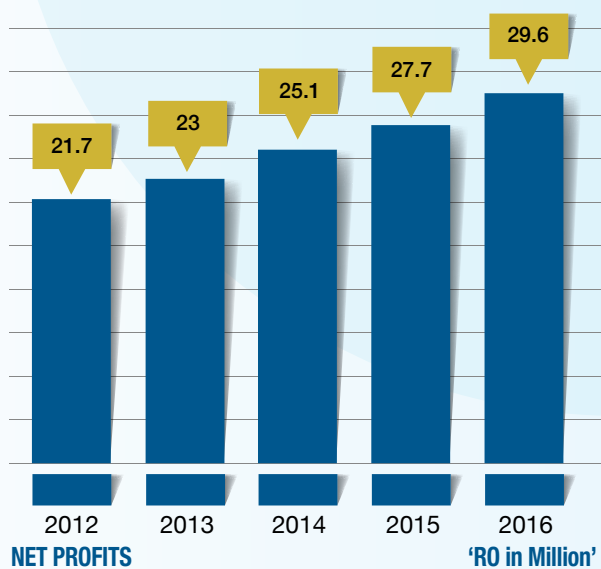
To create an unrivalled ability to meet customer needs, provide fulfillment and development for our staff and deliver outstanding shareholder value.

Belief

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

SUSTAINABLE GROWTH



BOARD OF DIRECTORS



Hamdan Ali Nasser Al Hinai



Adel Mohamed
Abdelshafe El-Labban



Munir Abdalnabi
Yousef Makki



Sanjeev Bajjal



Keith Henry Gale



Mustafa Shafqat Anwar



Rashad Khamis
Hamed Al Battashi



Anwar Hilal Hamdoon Al Jabri

BOARD OF DIRECTORS

Hamdan Ali Nasser Al Hinai

Chairman

Holds Master in Development and project management, Bachelors in Business Management & Economics and Diploma in international Development Management. Director General, Purchasing and Contracts, Ministry of Defense; Chairman, Oman Power and Water Procurement Co. SAOC; Chairman, Albndr Lttnmyt SAOC; Director, Oman Trading Company.

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 (UK) PLC; Director, Ahli United Bank K.S.C.P., Kuwait; Director, Commercial Bank of Iraq PSC; Deputy Chairman, United Bank for Commerce & Investment S.A.C. Libya; Deputy Chairman, Middle East Financial Investment Co. (Saudi Arabia); Deputy Chairman, Ahli United Bank Ltd (UAE); Director, Bahrain Association of Banks, Bahrain; Former Chief Executive Officer and Director of the United Bank of Kuwait PLC, UK; Former Managing Director, Commercial International Bank of Egypt; Former Chairman, Commercial International Investment Company, Egypt; Former Deputy Chairman, Ahli United Bank (Egypt); Former Vice President, Corporate Finance, Morgan Stanley, USA; Former Assistant Vice President, Arab Banking Corporation, Bahrain; Former Director, Bahrain Stock Exchange, Bahrain; Former Director, Kuwait & Middle East Financial Investment Co. (Kuwait).

Munir Abdulnabi Yousef Makki

Second Deputy Chairman

Holds Bachelor of Arts in Political Science from the American University, USA; Master 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 & 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; Chairman, Al Hilal Life B.S.C.(c) & Al Hilal Takaful B.S.C. (c), Bahrain; Director of Ahli United Bank K.S.C.P., Kuwait; Previous experience as Group Head of Finance, Ahli United Bank B.S.C, Bahrain; Financial Controller, Al-Ahli Commercial Bank, Bahrain; Held various positions earlier at Ernst & Young, Bahrain and Price Waterhouse in India.

Keith Gale

Director

Holds a Bachelor's degree in Accounting and Finance from the University of Lancaster, UK. Associate Member of the Institute of Chartered Accountants England & Wales (ACA). Deputy Group CEO: Risk, Legal and Compliance, Ahli United Bank BSC, Bahrain; Director, Ahli United Bank K.S.C.P. Kuwait; Ahli United Bank SAE, Egypt; Ahli United Bank (UK) PLC; Director; Previously Group Head of Risk Management, Ahli United Bank, 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 Master of Business Administration, a Master of Public Administration and a Bachelor 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 (Egypt) S.A.E.; Former Deputy Chief Executive Officer, Finance, Risk and Operations, Ahli United Bank (Egypt) S.A.E.; Former Group Head Of Operations, Ahli United Bank B.S.C., 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; Bachelor degree in Accounting. Having more than 14 years' experience in Investment field. Investment Analyst, Civil Services Employees Pension Fund; Director, Oman Chlorine; Director National Gas and Director, Unigaz Oman.

Anwar Hilal Hamdoon Al Jabri

Director

Certified Public Accountant (CPA), USA, Masters of Business Administration (MBA), University of Hull, UK and Bachelors of Science in Accounting (BS.A), University of Akron, Ohio, USA. Investment Director of Oman Investment Fund (A Sovereign Wealth Fund). Director, Dhofar Power Company SAOC, Oman; Director, Ominvest, Oman; Director, National Life and General Insurance Company SAOC, Oman; Director, Taageer Finance Company SAOG, Oman. Previous experience as Financial Controller in Oman Refinery Company and various positions at Central Bank of Oman.

CHAIRMAN'S REPORT

**FOR THE YEAR END
31 DECEMBER 2016**



“At ahlibank, our values, strong leadership acumen, good governance, and commitment to operating sustainably guide the way towards contributing to the Sultanate’s vision, help us deliver value to our shareholders and customers”.

CHAIRMAN'S REPORT

FOR THE YEAR END 31 DECEMBER 2016

On behalf of the Board of Directors of Ahli Bank S.A.O.G; I am pleased to present ahlibank's financial statements and Auditor's report thereon for the year ended 31 December 2016.

The Year 2016:

Notwithstanding of the challenging economic situation due to low oil prices in 2016, the banking sector remained resilient supporting economic diversification initiatives and credit needs. Continued oil price volatility affected business confidence and performance, but Oman banks still overall recorded growth in assets, capital and net profit compared to the previous year. The year 2017 will remain challenging but continued expansions in the non-oil sector are expected to boost performance.

The Bank's Financial Performance:

The financial results for the year ended 31 December 2016 reflected prudent balance sheet management in line with the Bank's business plan.

	31-DEC-16	31-DEC-15	
	RO in Millions		Growth %
Total assets	1,899.7	1,898.3	0.1%
Loans & advances and financing, net	1,522.1	1,518.1	0.3%
Customers' deposits	1,271.0	1,300.8	-2.3%
Equity	242.9	227.3	6.9%
Operating income	52.8	50.7	4.1%
Operating expenses	19.2	20.3	-5.4%
Profit for the year	29.6	27.7	6.9%

Overall, the Net Profit After Tax increased by 6.9% to RO 29.6 million, as compared to RO 27.7 million during the same period last year. Total assets at 31 December 2016 stood at RO 1,899.7 million showing a growth 0.1 per cent as compared to the same period last year.

The Bank maintained the level of its Loans & advances and financing, driven by its paramount concern to maintain high asset quality. As compared to last year, ahlibank's net operating income has increased by 4.1% to RO 52.8 million from RO 50.7 million. The operating expenses (excluding loans and investments impairment net of recoveries) were controlled at RO 19.2 million resulting in a cost to income ratio of 35.9%, which is the lowest in the banking sector in Oman.

The Bank was able to robustly control its loans & financing impairment charges, due to its conservative business

origination and monitoring process and its streamlined collection efforts thus maintaining its non-performing loans to gross loans ratio at 1.1%, lowest amongst its peers.

Corporate Governance:

ahlibank stays committed to its compliance to regulations and best traditions of Corporate Governance and to make appropriate disclosures and accountability. The Bank has instituted a solid corporate governance agenda and is dedicated to incorporating best practices in areas of culture and conduct. The Board of Directors regularly analyses this framework along with the evaluation of policies and procedures to augment internal controls and guarantee compliance to local laws and regulations.

Corporate Social Responsibility (CSR):

The Bank believes that corporate success and social welfare are interdependent, thereby the Business strategies of the Bank are build up with a social value proposition. At ahlibank, Corporate Social Responsibility (CSR) has been the core of its existence since the bank's inception. During year 2016, ahlibank continued to make great progress with its various CSR activities.

ahlibank supported the open day at the College of Banking and Financial Studies (CBFS), as part of its ongoing commitments from inception, to the support of educational initiatives in Oman.

As part of its continuing commitment to give back to the community, ahlibank organised the 'ahlibank Charity Drive' during Ramadan. The 'ahlibank Charity Drive,' is an annual campaign where the bank gives back to various social institutions - orphanages, schools, women's associations, associations for the differently-abled and NGOs. ahlibank has also organised a blood donation camp at its head office in Wattayah. The camp received an overwhelming response from the employees as well the customers of ahlibank.

To promote wellbeing and building health awareness among its employees, ahlibank organised a health screening camp in association with Apollo Hospital at the bank. The camp was held to help employees identify risk factors and plan for a healthier lifestyle. ahlibank is an active supporter of the Oman Traffic Safety Expo, which not only features the latest trends and most innovative solutions in traffic safety but also highlights effective safety models and best practices. Within the framework of its occupational security and safety policy, ahlibank held a mock drill on fire and safety at its headquarters in Wattayah.

CHAIRMAN'S REPORT

FOR THE YEAR END 31 DECEMBER 2016

The Future:

2017 is expected to be another challenging year for the banking sector. ahlibank is well positioned to face these headwinds, thanks to its robust risk management framework, corporate governance, and solid capitalization. The Bank will continue to remain judicious in the areas of risk and cost and will do the best to service customer needs to meet shareholders expectations while being committed to the growth in the Sultanate.

ahlibank will remain dedicated to its organic growth and development, not only in terms of market share but also in diversifying its products and services to its growing customer base. In line with the mandate of the government to support SME businesses, ahlibank will remain resolute on providing this segment the essential support it requires. While continuing to drive profitability across business segments, ahlibank will continue to build its brand equity and expand its banking footprint to further expand its businesses locally as well as regionally in 2017. In the consumer banking area in specific, the Bank will focus on improving its customer service plan.

In the wholesale banking segment, the Bank aims to focus on developing comprehensive client solutions, and leveraging its banking expertise across industry sectors. The Bank is constantly seeking additional ways to

structure and provide innovative products and services to improve the lives of customers. In line with this objective, the Bank will continue to upgrade its Information Technology platforms to ensure secure and fast service to customers. The Bank also expanded its e-banking and mobile banking services to Al Hilal Islamic Banking customers, supplemented by additional Cash Deposit Machines for the convenience of all customers.

Acknowledgements

We remain eternally grateful to His Majesty Sultan Qaboos bin Said for his vision and guidance, which has helped develop the banking sector and the country along its path of growth and prosperity. The Board of Directors places on record its gratitude to the Central Bank of Oman, Capital Market Authority and other regulatory authorities for their strong support and guidance. We also wish to place on record our appreciation to our esteemed shareholders and to our strategic partner Ahli United Bank for their continued support. We are grateful to our customers for their conviction and confidence. On behalf of the Board of Directors, I would like to thank the Management and staff for their consistent dedication, commitment and professionalism.



Hamdan Ali Nasser Al Hinai
Chairman

Dated: 25th January 2017

The background features several overlapping circles in light blue, olive green, and yellow. A large white circle is centered on the page, containing the title text.

CORPORATE GOVERNANCE REPORT

REPORT OF FACTUAL FINDINGS

TO THE SHAREHOLDERS OF AHLI BANK SAOG

We have performed the procedures agreed with you pursuant to the Capital Market Authority's (CMA) circular no. E/4/2015, dated 22 July 2015, with respect to the Board of Directors' corporate governance report of Ahli Bank SAOG (the "Bank") as at and for the year ended 31 December 2016 and its application of the corporate governance practices in accordance with amendments to CMA Code of Corporate Governance issued under circular no. E/10/2016 dated 1 December 2016 (collectively the "Code"). 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 and are summarised as follows:

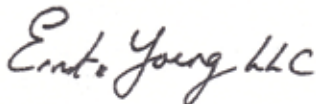
- 1) We obtained the corporate governance report (the "report") issued by the Board of Directors and checked that the report of the Bank includes as a minimum, all items suggested by the CMA to be covered by the report as detailed in the Annexure 3 of the Code by comparing the report with such suggested content in Annexure 3; and
- 2) We obtained the details regarding areas of non-compliance with the Code identified by the Bank's Board of Directors for the year ended 31 December 2016. The Bank's Board of Directors has not identified any areas of non-compliance with the Code.

We have no exceptions to report in respect of the procedures performed.

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 Ahli Bank SAOG to be included in its annual report for the year ended 31 December 2016 and does not extend to any financial statements of Ahli Bank SAOG, taken as a whole.



Muscat
27 February 2017



CORPORATE GOVERNANCE REPORT

INTRODUCTION

Good Corporate Governance practices are important in creating and sustaining shareholder value, ensuring appropriate disclosure and transparency. The Bank's Corporate Governance Policy provides the framework for the principles of effective Corporate Governance standards across the Bank. 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 including the Code of Corporate Governance and the Central Bank of Oman (CBO) circular BM 932 on Corporate Governance in Banks are the principal codes and drivers of the Corporate Governance practices in 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 working with management to ensure our business is financially strong, that it is well-governed and that risks if any 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 ahlilbank by creating and delivering sustainable shareholders 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 of Directors consists of 8 non-executive Directors. 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 Master in Development and project management, Bachelors in Business Management & Economics and Diploma in international Development Management. Director General, Purchasing and Contracts, Ministry of Defense; Chairman, Oman Power and Water Procurement Co. SAOC; Chairman, Albndr Lttnmyt SAOC; Director, Oman Trading Company.

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 (UK) PLC; Director, Ahli United Bank K.S.C.P., Kuwait; Director, Commercial Bank of Iraq PSC; Deputy Chairman, United Bank for Commerce & Investment S.A.C. Libya; Deputy Chairman, Middle East Financial Investment Co. (Saudi Arabia); Deputy Chairman, Ahli United Bank Ltd (UAE); Director, Bahrain Association of Banks, Bahrain; Former Chief Executive Officer and Director of the United Bank of Kuwait PLC, UK; Former Managing Director, Commercial International Bank of Egypt; Former Chairman, Commercial International Investment Company, Egypt; Former Deputy Chairman, Ahli United Bank (Egypt); Former Vice President, Corporate Finance, Morgan Stanley, USA; Former Assistant Vice President, Arab Banking Corporation, Bahrain; Former Director, Bahrain Stock Exchange, Bahrain; Former Director, Kuwait & Middle East Financial Investment Co. (Kuwait).

Munir Abdulnabi Yousef Makki Second Deputy Chairman

Holds Bachelor of Arts in Political Science from the American University, USA; Master 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 & President, The Financial Corporation SAOG (FINCORP).

Sanjeev Baijal 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; Chairman, Al Hilal Life B.S.C.(c) & Al Hilal Takaful B.S.C. (c), Bahrain; Director of Ahli United Bank K.S.C.P., Kuwait; Previous experience as Group Head of Finance, Ahli United Bank B.S.C, Bahrain; Financial Controller, Al-Ahli Commercial Bank, Bahrain; Held various positions earlier at Ernst & Young, Bahrain and Price Waterhouse in India.

Keith Gale Director

Holds a Bachelor's degree in Accounting and Finance from the University of Lancaster, UK. Associate Member of the Institute of Chartered Accountants England & Wales (ACA). Deputy Group CEO: Risk, Legal and Compliance, Ahli United Bank BSC, Bahrain; Director, Ahli United Bank K.S.C.P. Kuwait; Ahli United Bank SAE, Egypt; Ahli United Bank (UK) PLC; Director; Previously Group Head of Risk Management, Ahli United Bank, 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 Master of Business Administration, a Master of Public Administration and a Bachelor 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 (Egypt) S.A.E.; Former Deputy Chief Executive Officer, Finance, Risk and Operations, Ahli United Bank (Egypt) S.A.E.; Former Group Head Of Operations, Ahli United Bank B.S.C., 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.

CORPORATE GOVERNANCE REPORT

Rashad Khamis Hamed Al Battashi Director

Hold High Diploma in Advanced Accounting; Bachelor degree in Accounting. Having more than 14 years' experience in Investment field. Investment Analyst, Civil Services Employees Pension Fund; Director, Oman Chlorine; Director National Gas and Director, Unigaz Oman.

Anwar Hilal Hamdoon Al Jabri Director

Certified Public Accountant (CPA), USA, Masters of Business Administration (MBA), University of Hull, UK and Bachelors of Science in Accounting (BS.A), University of Akron, Ohio, USA. Investment Director of Oman Investment Fund (A Sovereign Wealth Fund). Director, Dhofar Power Company SAOC, Oman; Director, Ominvest, Oman; Director, National Life and General Insurance Company SAOC, Oman; Director, Taageer Finance Company SAOG, Oman. Previous experience as Financial Controller in Oman Refinery Company and various positions at Central Bank of Oman.

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 2016

Sl. No.	Board Meeting
1.	28-Jan-2016
2.	28-Mar-2016
3.	26-Apr-2016
4.	26-Jul-2016
5.	30-Oct-2016
6.	14-Dec-2016

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	5	NRC	Yes
Adel Mohamed Abdelshafe El-Labban	First Deputy Chairman	Non-Independent/Representing Ahli United Bank	6	ECC,NRC	Yes
Munir Abdulnabi Yousef Makki	Second Deputy Chairman	Independent	6	ACC	Yes
Sanjeev Bajjal	Director	Non-Independent	5	ACC	No
Keith Henry Gale	Director	Non-Independent	6	ECC, ERC, NRC	Yes
Mustafa Shafqat Anwar	Director	Non-Independent	5	ERC	Yes
Rashad Khamis Hamed Al Battashi	Director	Independent	5	ACC	No
Anwar Hilal Hamdoon Al Jabri*	Director	Independent	5	ECC, ERC	No

Audit and Compliance Committee - ACC, Executive and Credit Committee - ECC, Executive Risk Committee - ERC, Nomination and Remuneration Committee - NRC.

Independent directors are as per principle Eight of Code of Corporate Governance of MSM Listed Companies, revised definition issued through circular E/4/2015 dated 22nd July 2015.

SUB-COMMITTEES

Ahlibank has four board sub-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. Nomination and Remuneration 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.

A. Audit and Compliance Committee (continued):

Composition of Audit and Compliance Committee and Details of Meetings held and Attendance Record of Members during the year 2016:

Composition of Audit and Compliance Committee		Meetings Dates			
Director's Name	Position	28-Jan-16	26-Apr-16	26-Jul-16	30-Oct-16
Munir Abdulnabi Yousef Makki	Chairman	Yes	Yes	Yes	Yes
Sanjeev Bajjal	Member	Yes	Yes	Yes	Yes
Rashad Khamis Hamed Al Battashi	Member	Yes	No	Yes	Yes
Attendance		3	2	3	3

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.
- 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 and Credit Committee and Details of Meetings held and Attendance Record of Members during the year 2016:

Composition of Executive and Credit Committee		Meetings Dates					
Director's Name	Position	28-Jan-16	24-Feb-16	26-Apr-16	24-May-16	26-Jul-16	13-Dec-16
Adel Mohamed Abdelshafe El-Labban	Chairman	Yes	Yes	Yes	Yes	Yes	Yes
Anwar Hilal Al Jabri	Member	Yes	Yes	Yes	Yes	Yes	Yes
Keith Henry Gale	Member	Yes	Yes	Yes	Yes	Yes	Yes
Attendance		3	3	3	3	3	3

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 2016:

Composition of Executive Risk Committee		Meetings Dates			
Director's Name	Position	24-Feb-16	24-May-16	06-Oct-16	13-Dec-16
Keith Henry Gale	Chairman	Yes	Yes	Yes	Yes
Mustafa Shafqat Anwar	Member	Yes	Yes	Yes	Yes
Anwar Hilal Hamdoon Al Jabri	Member	Yes	Yes	Yes	Yes
Attendance		3	3	3	3

D. Nomination and Remuneration Committee:

During the year, the Compensation Committee has been revamped to Nomination and Remuneration Committee with enlarged scope to cover the Code of Corporate Governance.

The role of the Nomination and Remuneration Committee includes:

- The committee reviews the performance of all 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.
- To help the General Meeting nominate competent Board members and elect the best out of them.
- Annual assessment of the Board's/Sub-Committees overall performance.

Composition of Nomination and Remuneration Committee and Details of Meetings held and Attendance Record of Members during the year 2016:

Composition of Nomination and Remuneration Committee		Meetings Dates	
Director's Name	Position	28-Mar-16	14-Dec-16
Hamdan Ali Nasser Al Hinai	Chairman	Yes	Yes
Adel Mohamed Abdelshafe El-Labban	Member	Yes	Yes
Keith Henry Gale	Member	Yes	Yes
Attendance		3	3

PROCEDURE FOR STANDING AS A CANDIDATE FOR THE BOARD:

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

of the candidate and further recommendation to the Annual General Meeting. The Bank shall lodge the application form with the Capital Market Authority 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/her.

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

Sharia Supervisory Board:

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

Profile of SSB Members:

The profile of SSB members is provided below;

Dr. Ahmed Mohiyeldin Ahmed Chairman

Dr. Ahmed is Head of Banking Research & Studies Department of Bank's Establishment and Studies, Al Barakah Group, Saudi Arabia. He holds PhD in Islamic Economics from Um Al Qorah University, Kingdom of Saudi Arabia. He is a leading spokesman of Sharia and its application in Islamic finance, and has played vital role by serving several Islamic financial institutions with Sharia supervisory services. He has more than twenty years' experience of Sharia supervision of Islamic financing institutions and sits on the SSB of several Islamic financial institutions. He is well known for his extensive contribution for the institutionalization of Islamic banking and finance industry through his immense contribution with research, studies and practices.

Mohammed bin Tahir bin Mohammed Al Ibrahim Member

Dr. Mohammed Tahir is currently working as Assistant professor at Sultan Qaboos University (SQU). Academically, he has a doctorate degree in Constitutional Jurisprudence from Edinburgh University, U.K. He is a researcher of Legal and Sharia studies and has been supervising masters as well as PhD level research thesis.

Dr. Abdulraouf Abdullah Hamood Al Tubi Member

Dr. Abdulraouf has a PhD in Law from International Islamic University Malaysia, Master of Law – LLM in Law from UK and Bachelor Degree in Sharia Judicial Science. He is a highly talented, knowledgeable and an experienced Legal Professional. Currently, He is working as the General Counsel, Compliance Officer and Board Secretary of Abraj Energy Services SAOG and previously he held various positions at different organizations.

Dr. Mustaien Ali Abdulhameed Member

Dr. Mustaien holds bachelor of Economics and Political Sciences from Um Derman Islamic University in Sudan, MA and Ph.D. in Islamic Economics from the College of Islamic Sharia at Um ul Qura University in Makka from 1985-1992. He worked as Sharia advisor at the Sharia Board in Al Bilad Bank (2005-2015) and as Sharia Supervisor and Advisor at Al Rajhi Bank, Kingdom of Saudi Arabia (1995-2005). He contributed in establishing a number of banks, investment vehicles and takaful companies in both Sudan and Saudi Arabia. He is a researcher of Islamic economics and Sharia and has contributed in number of researches and studies on Economics and Sharia to a number of professional institutes and consultancy firms in Saudi Arabia and Sudan.

Composition of SSB and Details of Meetings held and Attendance Records of Members during the year 2016:

Composition of Sharia Supervisory Board		Meetings Dates			
Member Name	Position	06-Apr-16	14-Feb-16	16-Oct-16	29-Dec-16
Dr. Ahmed Mohiyeldin Ahmed	Chairman	Yes	Yes	Yes	Yes
Mohammed bin Tahir bin Mohammed Al Ibrahim	Member	Yes	Yes	Yes	Yes
Dr. Abdulraouf Abdullah Hamood Al Tubi	Member	Yes	Yes	Yes	Yes
Dr. Mustaien Ali Abdulhameed	Member	Yes	Yes	Yes	Yes
Attendance		4	4	4	4

SSB Remuneration and Sitting Fee expenses:

The shareholders' of the Bank in the AGM held on 28 March 2016 have approved the remuneration and sitting fee of the SSB as below;

Designation	Amount
Chairman of SSB	RO 9,625 per annum
Member of SSB	RO 6,738 per annum
Sitting fees per meeting (maximum of five sitting per year per member)	RO 385 per meeting

CORPORATE GOVERNANCE REPORT

Below table shows the remuneration and sitting fee expenses of SSB

Member Name	Position	Remuneration	Sitting Fee
Dr. Ahmed Mohiyeldin Ahmed	Chairman	9,625	1,155
Dr. Mohammed bin Tahir bin Mohammed Al Ibrahim	Member	6,738	1,540
Dr. Abdulraouf Abdullah Hamood Al Tubi	Member	6,738	1,540
Dr. Mustaien Ali Abdulhameed	Member	6,738	1,540
Total		29,839	5,775

MANAGEMENT COMMITTEE MEMBERS OF AHLI BANK

Lloyd Maddock Chief Executive Officer

Hold Bachelor of Mining Engineering from the University of Exeter, UK. Chairman of Al Hilal MENA Fund; Treasurer and Board Member of Oman Banks Association. Former Deputy Group Chief Executive Officer, Corporate Banking, Ahli United Bank BSC; 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 & Risk Management.

Chandrashekhar Chetty DCEO – Support Services

Holds a Bachelor of Science and a Masters in Administrative Management from the Jamnalal Bajaj Institute of Management Studies, University of Mumbai. A Banker with over 37 years of experience and held a number of Senior Management positions. 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; Senior Manager & Executive Assistant to Group CEO, Dresdner Bank, Group, Asia-Pacific Region, Singapore.

Said Abdullah Mohammed Al Hatmi Senior General Manager – Finance, Risk, Legal and Compliance

Hold Masters in Business & Administrative from the University of Strathclyde, UK; Bachelor of Science in Finance from Sultan Qaboos University. Certified Management Accountant (CMA) from Institute of Management Accountants, USA. Having more than fifteen years of commercial banking experience in the areas of corporate banking, risk and finance. Previously held various positions at HSBC Bank Middle East, Oman.

Abdullah Salim Saud Salim Al Jabri

Senior General Manager – Operations, IT and General Services

Having over nineteen years of conventional and Islamic Banking experience with ahlibank. Started his career with National Training Institute and then joined Alliance Housing Bank in 1997, where held various positions including Manager Retail Banking and Head of Central Operations. Lead the operations team in centralisation of operations after the conversion to full-fledged commercial bank. With the start of Islamic Banking in Oman in 2013, became Head of Al Hilal Islamic Banking Services and contributed in the success of Islamic Banking. Hold National Diploma in Engineering from Business & Technology Education Council, UK.

Bilal Anwar

General Manager – Corporate Banking

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

Abhik Goswami

General Manager – Risk Management

Hold Post Graduate Diploma in Management from Indian Institute of Management, Bangalore, India; Bachelor of Technology (BTECH) from Indian Institute of Technology, Kharagpur, India; Chartered Financial Analyst (CFA) from Chartered Financial Analyst Institute, USA; Financial Risk Manager (FRM) from Global Association of Risk Professionals, USA. Having more than twenty five years of experience in commercial banking and risk management with various banks including, ICICI and HSBC Bank, India; Bank Muscat, Oman; National Bank of Bahrain, Bahrain; Ahli United Bank BSC, Bahrain; National Bank of Fujairah, UAE.

Sulaiman Al Hinai

General Manager – Treasury, Investments and FI

Hold UK IFRS Credit Skills Development Certificate, Banking Diploma from the Arab Academy for Banking & financial Sciences, Amman, Jordan; Commercial Secondary Diploma (Accounting) from Vocational Training Institute, Ibri, Oman. Treasury professional with regional expertise and experience spanning twenty three years in commercial banking & treasury with various banks including, Oman Arab Bank, Muscat; Doha Bank, Qatar; Oman International Bank, Muscat.

CORPORATE GOVERNANCE REPORT

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 Authority over the last three years.

The Bank has been imposed a penalties of RO 19,500 by Central Bank of Oman for non-compliance over the last three years.

REMUNERATION MATTERS

An amount of RO 160,600 is proposed as Board Remuneration in addition to the sitting fees paid to the Board members for year 2016. The details of sitting fees paid are below:

Name of Director	Sitting Fees Paid (RO)
Hamdan Ali Nasser Al-Hinai	4,000
Adel Mohamed Abdelshafe El-Labban	6,700
Munir Abdulnabi Yousef Makki	5,000
Sanjeev Baijal	3,700
Keith Henry Gale	7,400
Mustafa Shafqat Anwar	3,700
Rashad Khamis Hamed Al Battashi	3,400
Anwar Hilal Hamdoon Al Jabri*	5,500
Total	39,400

Total remuneration paid to the top seven executives (Management Committee) of the bank amounted to RO 1,166,754 during the year 2016 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 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 management discussion and analysis 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.

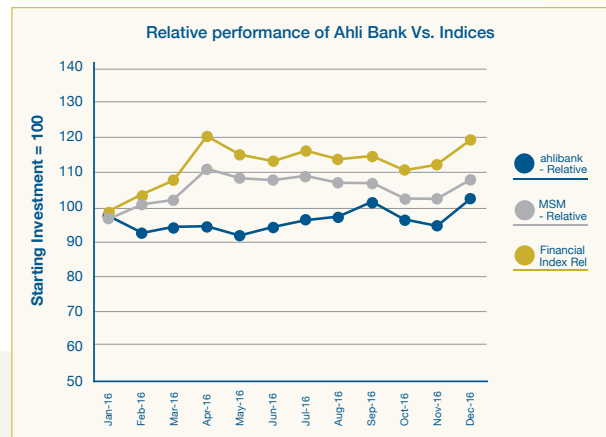
MARKET PRICE DATA:

High / Low share prices in 2016

Table below shows the high / low prices of the Bank's shares in Rial Omani during the months in the year 2016.

Month	High	Low
Jan-16	0.193	0.175
Feb-16	0.187	0.169
Mar-16	0.194	0.170
Apr-16	0.184	0.170
May-16	0.186	0.175
Jun-16	0.187	0.168
Jul-16	0.190	0.178
Aug-16	0.190	0.180
Sep-16	0.194	0.181
Oct-16	0.190	0.181
Nov-16	0.189	0.180
Dec-16	0.200	0.181

Performance of Ahli Bank SAOG Vs MSM and Banking Indices



Distribution of share ownership among shareholders as of 31 December 2016:

Name	Country of incorporation	Number of shares	%
Ahli United Bank	Bahrain	498,762,642	35.00
International Finance Corporation	USA	141,146,435	9.91
Oman Investment Fund Holding LLC and Oman Investment Fund	Oman	135,435,914	9.50
Civil Service employees Pension Fund	Oman	118,837,412	8.34
Oman National Investment SAOC	Oman	113,794,941	7.99
Ministry of Defense – Pension Fund	Oman	101,095,840	7.09
Others		315,962,960	22.17

DONATIONS AND CHARITY

The Bank paid a donation of RO 40,000 to various charitable organizations towards MyHassad Special Ramadhan Charity offer to various organizations.

In addition, the Al Hilal Islamic Banking Services paid RO 18,000 to various charitable organizations from the Charity Fund.

EXTERNAL AUDITOR'S PROFILE – Ernst & Young (EY)

EY is a global leader in assurance, tax, transaction and advisory services. EY is committed to doing its part in building a better working world. The insights and quality services which EY delivers help build trust and confidence in the capital markets and in economies the world over.

The MENA practice of EY has been operating in the region since 1923 and employs over 6,500 professionals. EY has been operating in Oman since 1974 and is a leading professional services firm in the country. EY MENA forms part of EY's EMEA practice, with over 4,400 partners and approximately 100,000 professionals. Globally, EY operates in more than 150 countries and employs 231,000 professionals in 700+ offices. Please visit ey.com for more information about EY.

EY in Oman is accredited by the Capital Market Authority (CMA) to audit joint stock companies (SAOG's). For the year 2016, total remuneration of RO 50,500 is approved for EY towards professional services rendered to the Bank (RO 40,800 audit, RO 7,200 Sharia Audit, 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 of the efficiency and adequacy of internal control systems of the issuer and it complies with internal rules and regulations.
- There is no material thing that affects the continuation of the bank and its ability to continue its operations during the next financial year.



Hamdan Ali Nasser Al Hinai
Chairman Board of Directors



Munir Abdulnabi Yousef Makki
Chairman Audit and Compliance Committee



MANAGEMENT DISCUSSION & ANALYSIS

MANAGEMENT DISCUSSION & ANALYSIS

Economic Overview

The Oman economy continues to be under strain due to prevailing lower oil prices, resulting in slowing GDP growth and fiscal budget deficits. According to data released by the National Centre for Statistics and Information, Oman's budget deficit in 2016 rose by 18% to RO 5.3 billion. To overcome this challenge, the government has been undertaking prudent policy measures to expedite economic diversification and to augment non-oil revenues.

Oman Vision 2020, the plan for Sultanate's economic future, seeks to enhance private sector participation in the economy and to promote growth in the key sectors of tourism, logistics, construction, and transport.

Financial Sector

During September 2016, OPEC members held an extraordinary meeting in Algeria at which they agreed to cut production for the first time in eight years, sending crude prices higher. This positively influenced the overall performance of the Muscat Securities Market (MSM). According to the MSM Annual Statistical Bulletin 2016, the benchmark MSM 30 Index closed at 5,782.71 points at year-end 2016; higher by 7% compared to 2015. In addition, the market capitalization increased by 10% compared to 2015, reaching circa RO 17 billion. The financial sector recorded the best performance on the MSM in 2016, representing 52% of the total market value. This reflects a resilient performance, in particular by the banks and investment companies. According to the statistical

bulletin of December 2016 published by Central Bank of Oman, total credit given to private sector, based on the combined balance sheets of all banks, witnessed a growth of 10.1%, while total deposits registered modest growth of 5.2%.

Opportunities

The Omani economy remains on a transformational course, driven by development plans and diversification initiatives. Despite prevailing challenges, Oman's economy is set upon a medium term trajectory of sustainable growth. While Oman's long-term development strategy focuses on industrialization, privatization and Omanisation; the logistics, tourism and industrial manufacturing sectors are expected to increasingly contribute to the economy going forward. Further, with the expected implementation of new laws by the Public Authority of Mining, Oman looks set to be able to exploit the vast reserves of mineral wealth, with which the Sultanate is blessed.

Financial Review

Although 2016 was a challenging year for the banking sector in Oman, ahlibank achieved a record net profit after tax of RO 29.6 million, an increase of 6.9% compared to 2015. Total assets at 31 December 2016 stood at RO 1.9 billion. The Bank will remain judicious in maintaining a healthy and diversified loan portfolio with a prudent risk management approach, combined with a focus on low-cost deposit funding.

Five year summary

RO ' Million	Dec 16	Dec 15	Dec 14	Dec 13	Dec 12
Net profit	29.6	27.7	25.1	23.0	21.7
Total assets	1,899.7	1,898.3	1,644.8	1,339.5	1,099.2
Loans & advances and financings, net	1,522.1	1,518.1	1,388.9	1,104.9	927.4
Total Deposits	1,271.0	1,300.8	1,076.2	955.1	738.4
Total liabilities	1,656.7	1,671.0	1,445.3	1,154.6	931.7
Shareholders' equity	242.9	227.3	199.5	184.9	167.5
Return on average assets (ROAA)	1.6%	1.6%	1.7%	1.9%	2.1%
Return on average equity (ROAE)	12.6%	13.0%	13.1%	13.1%	15.1%
Cost to income ratio	35.9%	36.3%	34.3%	33.9%	31.4%
Capital adequacy ratio	15.0%	14.5%	14.0%	14.6%	16.9%
Net interest margin	2.2%	2.4%	2.5%	2.7%	2.7%
Earnings per share (baizas)	20.7	19.5	17.6	16.2	16.5
Total Number of Branches	20	20	19	19	12
- Conventional	13	13	12	12	12
- Islamic	7	7	7	7	Nil
ATM's	30	30	25	25	18
Number of staff	538	505	445	427	340

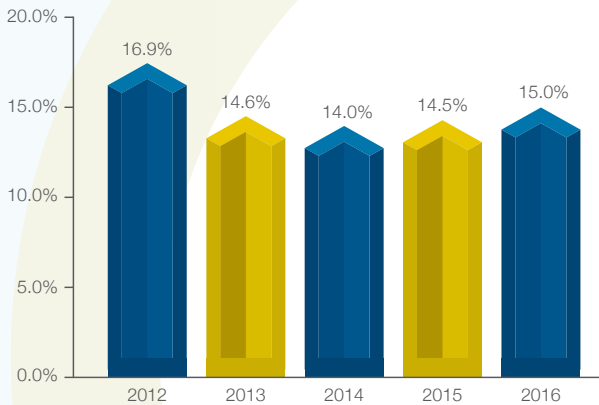
The asset base of the Bank has doubled over the last 5 years, at a compound annual growth rate of 11.6%, while the non-performing loans ratio has been maintained at circa 1%.

MANAGEMENT DISCUSSION & ANALYSIS

Capital and Reserves

Capital and Reserves of the Bank as of 31 December 2016 stood at RO 242.9 million compared to RO 167.5 million as at 31 December 2012; an annual compound growth of 7.7%. The Capital adequacy ratio of 15.0% stands comfortably above the regulatory requirement 12.625% (including capital conversion buffer)

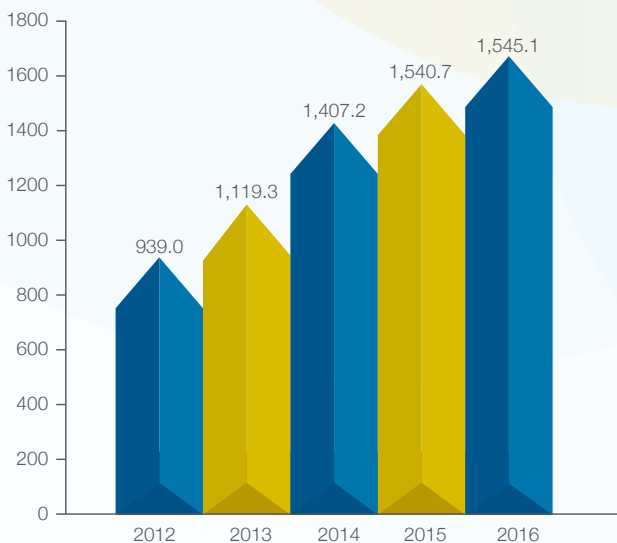
Capital Adequacy Ratio



Loans and Financings

The modest increase in gross loans and financing during 2016 reflects the bank's strategy of active balance sheet management during challenging times, to position the bank for sustainable profitable growth in the coming years. In contrast, over recent years, the compound growth rate of 10.4% resulted in gross loans and financing increasing to RO 1.5 billion as at 31 December 2016, from RO 9.4 billion as at 31 December 2012. The focus in 2016 having been to maintain high asset quality with a non-performing loans to gross loans ratio of 1.1%; comparably the lowest amongst peers.

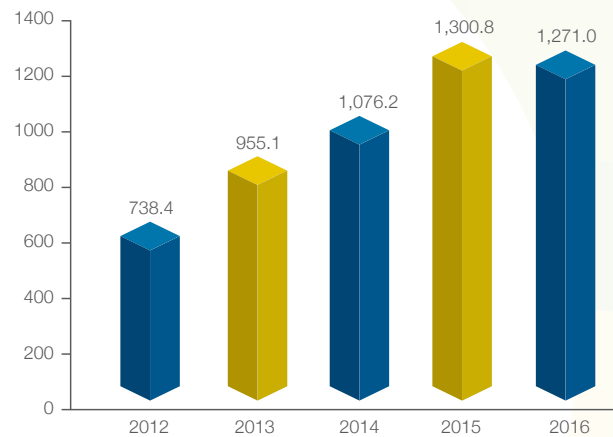
Gross Loans & Advances and Financing - RO' Million



Customer Deposits

Customer deposits of RO 1.3 billion at year-end 2016 reflected a slight decrease of 2.3% compared to 2015. Deposits having increased by 11.5% compounded annually from the year ended 2012. The Bank maintains its strategy to focus on expanding a lower cost funding base, through product innovation and balance sheet management.

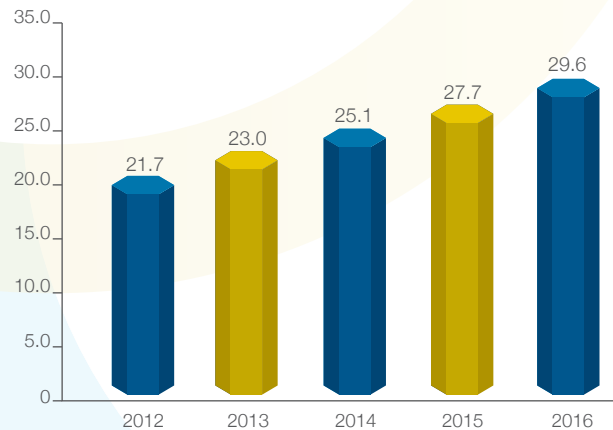
Customers' Deposits - RO' Million



Profitability

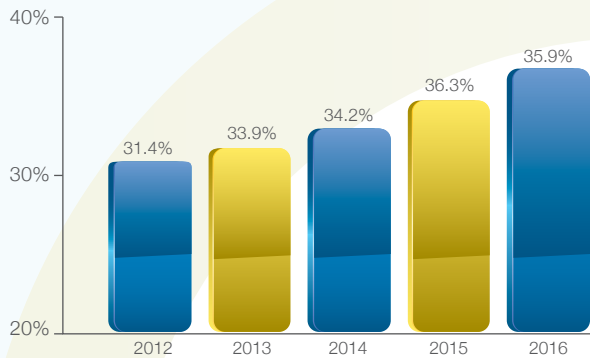
Net profit after tax increased by 6.9% to RO 29.6 million, under-pinned by the quality asset portfolio combined with cost efficiency initiatives, which saw the cost to income ratio improve to 35.9%; the best amongst peers. The net operating profit increased by 5% year on year.

Profit after Tax - RO' Million



Cost-to-Income Ratio

Cost-to-Income Ratio



ahlibank Business Lines

At ahlibank we strive to provide our valued customers with optimal banking propositions, through convenient channels, in a timely manner, 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 market segments, to ensure the delivery of insightful relationship management with fast turnaround times, across our product spectrum.

The industry specific divisions comprise of : food and general trading, contracting, manufacturing, energy and utilities, real estate, financial services, travel and tourism, SME, Mid-market, Al Hilal Islamic Banking Services; supported by the Treasury, Trade Finance, Corporate Finance and Electronic Banking teams.

ahlibank Corporate Banking caters to the needs of large, medium and small customers providing a comprehensive range of competitively priced financial products and advisory services, complemented by our state of the art electronic-banking B2B platform.

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 2016, the Bank has gone through a strategy of revamping the current product and services line, introducing new products/services to further enhance customer experience and strengthen the portfolio. The new MyHassad Prize Scheme which is expected to launch in the beginning 2017 features unique special prize drawings for our retail customers with bigger prizes and higher frequencies of winners. Other products/services in development for launch in 2017 include point of purchase (POS) services, recurring deposit account and Bancassurance products. The enhanced product line along with process efficiencies will ensure a better customer experience leading to sustainable growth in the long term.

Retail banking has also developed a strategic gradual expansion plan for ahlibank's branch network. The main objective of this expansion is to maintain a closer touch with customers, cater to their needs and contribute in the development of local communities. Bigger geographical coverage along with strategic sales plans will ensure maximizing stakeholders equity and mobilize customer service in an efficient manner over the medium term.

Cards

ahlibank offers a comprehensive range of credit and debit cards, suited across various customer segments including Classic, Gold, Platinum and Signature in credit card category and Platinum and Signature in debit card category. The credit cards are equipped with a variety of exciting features which include redemption against air tickets, discounts at 100+ restaurants, travel protection insurance, extended warranty on appliances, priority pass for airport lounge access, purchase protection, priority traveler program etc.

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 a 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.

Instant Car Loan

ahlibank offers Instant Car Loan to customers which guarantee fast approvals, financing for new and used car purchases, competitive interest rates, long repayment tenors up to 7 years and high loan amount.

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.

MyHassad

MyHassad, prize draw savings scheme from ahlibank is a savings product that offers cash prizes to lucky customers, based on an automated draw system. Customers keeping high balances with the bank get higher number of chances to win prizes. The main feature of MyHassad is that customers can simply open an account today and win tomorrow!

MANAGEMENT DISCUSSION & ANALYSIS

MyGlobal

ahlibank gives its customers the freedom of using their bank across borders! With MyGlobal, ahlbank 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 ahlbank in Oman and across the network.

Alternative Channels

In order to meet the growing demand for efficient ATM and online services, ahlbank continues to enhance customer experience by providing banking services at the fingertips. Offering its customers secure and reliable banking technologies, ahlbank is making banking more convenient by launching exciting and innovative products.

ahlibank was among the first banks in the Sultanate to rollout the A2A transfer (ATM to ATM transfer), which allows ahlbank ATM card holders to transfer funds to any other bank's ATM in Oman. Further, ahlbank offers state-of-the-art Internet and Mobile banking platforms for its customers.

ahlibank's free e-channel service offers 24-hour access to banking services, and is an alternative to visiting a branch. With ahlbank's wide network of conventional and Islamic branches across the Sultanate, coupled with host of e-channel services including Internet Banking, Mobile Banking, SMS Banking, 24x7 Call Center, ATMs, CDMs, Service Centers and Kiosks, the bank remains accessible to customers whenever and wherever they require.

By subscribing to ahlbank's Internet Banking Service, customers can enjoy easy access to services such as viewing transactions of accounts and credit cards, making funds transfer locally and internationally, bill payments and issuance of cheque books without having to visit a branch. All these services come with the assurance of the highest standards of online security.

For further convenience, all these services are also accessible on smartphones through ahlbank's Mobile Banking and SMS Banking services. Additionally, ahlbank's e-statement service allows customers to receive bank account statements and view the summary of every transaction via e-mail. Statements can be received on a daily, weekly or monthly basis.

Apart from the wide range of innovative product and services, ahlbank has a well spread network of ATMs, CDMs and kiosks across Oman, which makes the bank accessible to customers including cash deposits, cheque deposits, utility bill payments, credit card payments, mobile top ups among other services.

SME

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 sector experience who 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

business reach their fullest potential and support them with customized product packages, responsive services and access to expert advice.

Treasury and Financial Institutions

ahlibank's 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, money market and derivative products ranging from the traditional to the customized.

Along with our strategic partner Ahli United Bank, our Treasury and Investment division is able to offer best in class service with unparalleled access to the local market and regional markets in which the Group operates. Delivering everyday banking needs effectively and efficiently, is critical to our success. With a Treasury team that understands business needs and ambitions, with 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 all trade requirements of corporate and consumer customers. The Department is aligned with the Bank's Corporate Banking, Retail Banking and Treasury in providing various fund based credit facilities such as Export Finance, Bill Discounting, Receivables/ Invoice finance, Loans against Imports, and non-fund based credit facilities such as Issuance of Letters of Credit, various types of Guarantees, Export and Import Bills for Collection, Avalisation of import bills for collection, advising and handling of documents under export letters of credit 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 and the rules governing international trade.

Asset Management

Ahlibank's managed equity fund and the discretionary portfolios delivered a strong relative performance in 2016, in a year marked by the weak macro environment and tight liquidity in the region. Our Al Hilal MENA Fund achieved a positive performance of 6% (FY 2016), leading the Oman Sharia mutual fund segment in terms of yearly performance, for the second consecutive year in a row. Our fund was also ranked in the top quartile among all mutual funds domiciled in Oman for the second straight year.

Many of our discretionary portfolios generated double-digit returns during 2016, as a result of our deep understanding of regional markets combined with cutting edge portfolio management expertise. In 2016, we launched a DPM strategy based on "Value Investing", a time-tested investment strategy. We will launch new investment products in various asset classes in 2017.

Al Hilal Islamic Banking Services

Al Hilal, which is the Islamic Banking arm of ahlibank, has shown tremendous growth since its launch in 2013. The Sharia compliant products and services offered by Al Hilal Islamic Banking Services cater to all customer segments, including institutional, corporate, SME and retail, through seven dedicated branches located in Wattaya, Bahla, Rustaq, Saham, Salalah, Samail and Al Mawaleh. In addition to the branches, customers are also served through kiosks, ATMs and CDMs in various malls across the Sultanate.

With the recent launch of e-Banking and Mobile Banking for Islamic customers, Al Hilal has achieved yet another milestone in offering seamless, round the clock banking services to its customers. With this state of the art system, customers can now view their balances and statements, transfer funds between the bank accounts, to other banks in Oman and internationally, open linked accounts and term deposits, get cheque books and manager cheques issued etc. anytime at their convenience!

In terms of deposits, financing and cards, the key 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.

Al Hilal's deposit products are bundled with a free cheque book (current and Al Namaa savings account), free debit card, free account statements, free cash withdrawals through branches and ATMs, free e-Banking, mobile banking and a host of other features.

Financing Products

1. Personal (Goods) Finance - High financing amount with long repayment period of 10 years at a very competitive profit rate, in order to meet personal financing requirements of Islamic Banking customers.
2. Auto Finance - 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, socially responsible Islamic credit cards, bundled with the benefits of global airport lounge access, no annual fee, insurance protection, travel and lifestyle deals etc. This unique value proposition revolves around social responsibility, where every time the cardholder uses his/ her Al Hilal Credit Card, 0.50% of every transaction's profit is donated to a charity organization.

In addition to the above, Al Hilal Islamic Banking Services also offers a range of customized products for corporate and SME entities; some of which are as follows:

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

Al Hilal, with thorough expertise in Islamic Banking, can also design customized products for its clients, in order to fulfill their banking needs.

Risk Management

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

The Bank manages the risks effectively and efficiently by monitoring and 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 Board of Directors ensures that the senior management establish 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 Division 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:

MANAGEMENT DISCUSSION & ANALYSIS

Board Committees

- Audit and Compliance Committee
- Executive & Credit Committee
- Executive Risk Committee
- Nomination & Remunerations Committee
- Management Committees
- Special Assets Committee
- Operational Risk Committee
- IT Steering Committee
- New Product Committee
- Credit & Investment Committee
- Credit Risk Management Committee

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

Policies and Procedures

The Board of Directors 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 and Credit Committee and Management to approve all credit exposures. In this context, the Board of Directors has approved the following policies:

- Anti-Money Laundering Manual
- Personal Account Dealing Policy
- New Product Committee and Procedures
- Voice Recording Policy
- Compliance Policy
- Communications Policy
- Corporate Governance Policy
- Corporate Social Responsibility Policy
- Dividend Policy
- Expenses Policy
- Capital Management Policy
- Disclosure Policy
- Board Remuneration Policy
- Financial Institutions Policy
- Human Resources Policy
- Outsourcing Policy
- Code of Business Conduct
- Information Security Management Policy
- Business Continuity Management
- Credit and Investment Policy
- Operational Risk Policy & Procedure
- Anti-Fraud Policy & Procedure
- Liquidity Policy
- Trading Book Policy
- Risk Management-Approach & Framework
- Social and Environment Management System

- Security and Safety Policy and Plan
- Asset Management Policy
- Brokerage Policy
- FATCA Policy
- Customer Complaints Redressal Policy
- Social Media Policy
- Profit Distribution Policy
- Charity Policy
- Zakah Policy
- Cost Sharing Policy
- Segregation of Funds Policy
- Shari'a Governance Manual

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

Information Technology

During 2016, Information Technology (IT) department's team developed a roadmap to transform the technological infrastructure to support the Bank's current and future business growth.

IT implemented several projects in line with the Bank's strategic objectives including the upgrade of conventional Core banking system to Misys BEFQ platform. It also upgraded the Islamic Financing core banking system to its latest version.

IT has delivered tangible improvements such as automated Loan processing through latest Business Process Management (BPM) system, Anti Money Laundering (AML), Customer Complaint Management system and a 3D Secure system for making online purchases.

To further enhance customer experience and provide a bouquet of banking services on the fingertips, IT has implemented a state-of-the-art Internet and Mobile banking system for the Islamic Banking Services. It has upgraded its B2B application to make it a robust, business friendly & useful tool.

The Call Centre infrastructure was upgraded and Interactive Voice Response (IVR) was enhanced to allow customers to access their bank accounts and make banking transactions.

The Network and Security Architecture was reviewed by a leading third party agency and upgraded to enhance the cyber security posture. The Bank's Data Centre, Network, applications etc. were recertified ISO 27001 – 2013 standard.

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.

MANAGEMENT DISCUSSION & ANALYSIS

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 reflect our commitment and dedication to His Majesty's vision of developing young Omanis. One of the key challenges for the year 2016 was 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

At ahlibank, Corporate Social Responsibility (CSR) has been at the core of its existence right from the time of the bank's inception.

During 2016, ahlibank continued to make great progress with its various CSR activities. ahlibank supported the Open Day of the College of Banking and Financial Studies (CBFS). The bank has been committed to the growth of education and development in Oman.

As part of its continuing commitment to give back to the community, ahlibank organised the 'ahlibank Charity Drive' during Ramadan. The 'ahlibank Charity Drive,' is an annual campaign where the bank gives back to various social institutions – orphanages, schools, women's associations, associations for the differently-abled and NGOs.

In continuation with this philosophy to contribute towards the well-being of the society at large, ahlibank organised a blood donation camp at its head office in Wattayah. The camp received an overwhelming response from the employees as well the customers of ahlibank. The successful blood donation camp was held under the theme – 'The gift of blood is a gift of life'. As one of Oman's leading banks, ahlibank is committed to supporting the government's efforts to ensure the constant availability of blood in the Blood Bank of Oman.

To promote wellbeing and building health awareness among its employees, ahlibank organised a health screening camp in association with Apollo Hospital at the bank. The camp was held to help employees identify risk factors and plan for a healthier lifestyle.

ahlibank is an active supporter of the Oman Traffic Safety Expo, which not only features the latest trends and most innovative solutions in traffic safety but also highlights effective safety models and best practices.

Within the framework of its occupational security and safety policy, ahlibank held a mock drill on fire and safety at its headquarters in Wattayah. ahlibank believes in the importance of training and awareness in fire prevention to ensure safety and security at the workplace, with a complete understanding of fire and safety procedures.

Going forward:

The banking sector continues to be resilient despite the global and domestic macroeconomic challenges. Going forward, ahlibank will leverage on its strong foundations and strive to grow and achieve higher levels of accomplishment in the industry. We look forward to our valued customers support as we seek to continue to build the image and presence of ahlibank in Oman's banking sector.

We believe 2017 will offer challenges and opportunities for us to continue building an even better bank. We will continue to partner with our customers, expand prudently, to invest in products and delivery channels, and to constantly strive to exceed service level expectations.

ahlibank aims to distinguish itself as the leading provider of conventional and Islamic financial services. 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 Loan ratio. We promise to deliver a better customer experience and create good shareholder value over the long term.

Creating career opportunities for the Omani youth remains one of our top priorities. Our commitment to the community remains firm, and we will endeavor to meet the aspirations of all stakeholders to the best of our ability. Continuing the strong tradition of giving back, we will remain committed to the community we operate in.

HEAD OFFICE & BRANCH CONTACTS



Head Office

P.O Box 545, PC 116, Mina Al Fahal
Telephone: (+968) 24577000
Fax: (+968) 24568001

Call Centre: (+968) 24577177
Website: www.ahlibank.om
E-mail: info@ahlibank.om

**BASEL II PILLAR III &
BASEL III REPORT
OF THE BANK**
FOR THE YEAR ENDED 31 DECEMBER 2016

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's (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) as at and for the year ended 31 December 2016. 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.

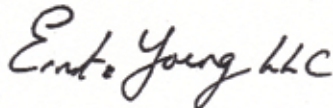
We report our findings as follows:

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 2016 and does not extend to any financial statements of the bank taken as a whole or to any other reports of the bank.



27 February 2017
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

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 Conservation Buffer (CCB) of 0.625% at Common Equity Tier 1 (CET1) level. Accordingly, as at the end of December 2016, the bank has maintained a CCB of 0.625%.
- 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.
- 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, 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.
- 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 “**Disclosure Policy**” for disclosure of information that it makes available to the general public as well as to the regulatory bodies. This policy is framed to enhance transparency about its activities and promote good governance. The Bank makes information publicly available in accordance with its policy on disclosure of information and applicable regulations.

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
Fitih	Long Term Rating:	BBB-
	Short Term Rating:	F3
	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 2016

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	235,650
Tier II capital	40,196

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

The Bank raises Tier 2 capital based on its requirements of additional capital and in line with its long term strategic objectives. The details of tier 2 capital issued are disclosed in section 13.2.

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 2015-2019.

Liquidity Risk

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

- i. Liquid assets to total assets ratio - The Bank calculates additional capital charges if the ratio falls below some pre-determined thresholds.
- ii. 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.
- iii. Total Loans to Deposit ratio (LTD) - 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.

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, shariah compliance 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 (RMD) 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 the Bank to identifying the various associated risks.

Having identified the risks, the RMD 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:



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 Committees:

- Audit and Compliance Committee
- Executive & Credit Committee
- Executive Risk Committee
- Nomination and Remuneration Committee

Management Committees:

- Special Assets Committee
- Assets and Liabilities Committee
- Operational Risk Committee
- IT Steering Committee
- New Product Committee
- Credit & Investment Committee
- Credit Risk Management 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 and Funding 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.

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:

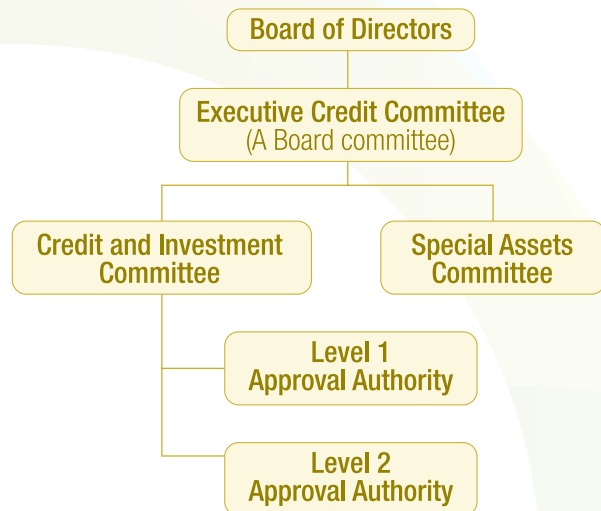
- Concentration of exposure in geographies, sectors, groups, counter-parties or rating categories;
- Interaction with other risk such as interest rate, FX rate and economy;
- Trends in portfolio quality (borrowers' risk migration, weighted average portfolio risk, non-performing loan).

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 amendments thereafter.

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.

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:

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 2016 towards loan and advances not impaired amounted to RO 1,003.560 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

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 2016, the bank has carried out a comprehensive volume test on a working day in order to test the resilience of the bank's business systems at the DR site. The scope of the test was arrived at based on the Business Impact Analysis (BIA) carried by the Bank and the volume test results were submitted to the Board.

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 2016 stood at RO 5,654,485 which generated dividend income of RO 321,279. In addition, the Bank had generated a realized gain of RO 63,248 on sale of investments during the year. The Bank also has investments in other GCC listed companies and the balance as of 31 December 2016 is RO 349,333.

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 2016 stood at RO 191,729.

Interest Rate Risk Principles and Framework

Interest rate risk arises from the possibility that changes in interest rates will affect the value of underlying financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or re-price in a given period. The Bank's overall goal is to manage interest rate sensitivity so that movements in interest rates do not adversely affect the Bank's net interest income. Interest rate risk is measured as the potential volatility in net interest income caused by changes in market interest rates. The Bank manages this risk by matching or hedging the re-pricing profile of assets and liabilities through various risk management strategies.

Interest Rate Risk in 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.

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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
- 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 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.

Further, as per the CBO circular BM 1127 dated December 24, 2014 on Basel III Liquidity Coverage Ratio (LCR), the bank has maintained adequate level of LCR. Further, CBO on October 26, 2016 has issued the guideline for NSFR (Net Stable Funding Ratio) based on the guideline issued by the BCBS. The standard for NSFR will become effective from January 1, 2018 with a minimum ratio of 100%.

Diversification of liabilities

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

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

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

Multi-currency liquidity

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

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

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

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

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. COMPENSATION POLICY

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

Performance awards are based on the achievement of both financial and non-financial objectives. The Performance Management System is aimed at achieving the Bank's

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

The key management comprises of 7 members (2015: 7 members) of the management committee.

The below table provides details of key management compensation:

	2016 RO '000	2015 RO '000
Salaries and allowances	1,131	951
End of service benefits	36	30
Total	1,167	981

10. MATURITY PROFILE OF ASSETS AND LIABILITIES

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

11. 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.

12. SUBSIDIARIES AND SIGNIFICANT INVESTMENTS

The Bank does not have any subsidiary or other significant equity investments as on 31 December 2016 (except the listed equity investments as mentioned in 7 above).

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13. DISCLOSURE TABLES

1. Capital Adequacy Disclosures (RO '000)

As on 31 December 2016

As on 31 December 2016				
Sl. No.	Details	Gross balances (book value)	Net balances (book value)	Risk weighted assets
1	On-balances sheet items	1,922,614	1,899,654	1,505,034
2	Off-balance sheet items	210,813	210,813	58,049
3	Total	2,133,427	2,110,467	1,563,083
4	Tier 1 Capital			221,400
5	Tier 2 Capital			40,196
6	Tier 3 Capital			-
7	Total Regulatory Capital			261,596
7.1	Capital requirement for credit risk (including CCB)			197,339
7.2	Capital requirement for market risk (including CCB)			10,159
7.3	Capital requirement for operational risk (including CCB)			12,136
8	Total required capital (including CCB)			219,634
9	Tier 1 Ratio			12.73%
10	Total Capital Ratio			15.04%

2. Capital Break (RO '000)

As on 31 December 2016		
Sl. No.	Elements of capital	Amount
	Tier I Capital	
1	Paid-up capital	142,504
2	Share premium	-
3	Legal reserves	22,984
4	General reserves	-
5	Subordinated loan reserve	44,541
6	Stock dividend	-
7	Retained earnings *	11,710
8	Non-cumulative perpetual preferred stock	-
9	Other non-distributable Reserve	-
	Total Gross Tier I Capital	221,739
	Deductions	
10	Goodwill	-
11	Deferred Tax Asset	-
12	Intangible Assets, including losses, cumulative unrealised losses recognised directly in equity	(339)
13	Reciprocal crossholding of bank capital, artificially designed to inflate the capital position of banks	-
	sub-total	(339)
14	Tier I capital after the above deductions	221,400

* The Board of Directors has proposed cash dividend of 10%. Payout of cash dividend of RO 14.250 million has been reduced from the retained earnings.

Sl. No.	Elements of capital	Amount
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	221,400
	Tier II Capital	
20	Undisclosed reserves	-
21	Revaluation reserves / cumulative fair value gains or losses on available for sale instruments	340
22	General loan loss provisions / Collective provision	19,397
23	Subordinated debt	20,459
24	Hybrid debt capital instruments	-
25	Total Tier II capital	40,196
	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)	40,196
30	Tier III Capital (eligible)	-
31	Total Regulatory Capital	261,596

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

Sl. No	Details	Simple Approach
1	Tier I Capital (after supervisory deductions)	221,400
2	Tier II capital (after supervisory deductions and up to eligible limits)	40,196
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	1,563,083
6	Risk weighted assets – operational risk	96,123
7	Total Risk Weighted Assets – Banking Book + Operational Risk	1,659,206
8	Minimum required capital to support RWAs of banking book and operational risk (including CCB)	209,475
	i) Minimum required Tier I Capital for banking book and operational risk (including CCB)	169,279
	ii) Tier II Capital required for banking book and operational risk	40,196
9	Tier I capital available for supporting trading book	55,121
10	Tier II capital available for supporting trading book	-
11	Risk Weighted Assets – trading book	80,469
12	Total capital required to support trading book	10,159
13	Minimum Tier I capital required for supporting trading book	2,895
14	Used Eligible Tier III Capital	-
15	Total Regulatory Capital	261,596
16	Total Risk Weighted Assets – Whole bank	1,739,675
17	BIS Capital Adequacy Ratio	15.04%
18	Unused but eligible Tier III Capital	-

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

Sl. No	Type of credit exposure	Average Gross Exposure		Total Gross Exposure	
		31-Dec-16	31-Dec-15	31-Dec-16	31-Dec-15
1	Overdrafts	33,088	23,772	39,477	26,698
2	Personal Loans	646,030	620,298	645,328	646,732
3	Other Loans	863,748	829,845	860,261	867,235
		1,542,866	1,473,914	1,545,066	1,540,665

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

Sl. No	Economic sector	As on 31 December 2016			Off-balance sheet exposures *
		Overdraft	Loans	Total	
1	Personal loans	184	645,328	645,512	-
2	Construction	18,668	273,590	292,258	85,538
3	Wholesale and retail trade	5,617	149,918	155,535	3,828
4	Manufacturing	3,451	78,191	81,642	13,281
5	Financial Institutions	-	79,449	79,449	54
6	Services	4,613	66,539	71,152	4,158
7	Mining and quarrying	1,118	64,404	65,522	686
8	Transport and Communication	1,217	43,439	44,656	1,754
9	Non-resident lending	-	34,787	34,787	-
10	Others	4,609	69,944	74,553	67,040
	Total	39,477	1,505,589	1,545,066	176,339

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

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6. Credit risk maturity exposure (RO '000)

		As on 31 December 2016			
Sl. No.	Time Band	Overdraft	Loans	Total	Off-balance sheet exposures
1	Up to 1 month	1,974	183,882	185,856	73,194
2	1 - 3 months	1,974	176,122	178,096	32,078
3	3 - 6 months	1,974	31,388	33,362	19,754
4	6 - 9 months	1,974	25,498	27,472	8,134
5	9 - 12 months	1,974	31,185	33,159	22,141
6	1 - 3 years	9,869	133,005	142,874	15,397
7	3 - 5 years	9,869	106,227	116,096	5,636
8	Over 5 years	9,869	818,282	828,151	5
	Total	39,477	1,505,589	1,545,066	176,339

7. Gross exposure: Provisioning distribution (RO '000)

							As on 31 December 2016	
Sl. No	Economic sector	Gross loans	Of which, NPLs	Portfolio - based provision /reserves*	Specific provision held	Reserve interest	Provision / reserve made during the year	Advances written off, net during the year
1	Wholesale and retail trade	155,535	120	662	28	8	(938)	
2	Mining and quarrying	65,522	-	655	-	-	92	
3	Construction	292,258	2,540	2,923	698	263	241	
4	Manufacturing	81,642	-	816	-	-	(43)	
5	Financial institution	44,656	34	447	31	3	(496)	
6	Services	79,449	-	794	-	-	(320)	
7	Transport & Communication	71,152	2,716	712	627	565	153	
8	Personal Loans*	645,512	10,596	10,401	6,510	621	164	208
9	Non-Resident Lending	34,787	-	348	-	-	22	
10	Others	74,553	1,143	1,639	597	155	1,269	-
	Total	1,545,066	17,149	19,397	8,491	1,615	144	208

* 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 2016.

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

							As on 31 December 2016	
Sl. No	Countries	Gross loans	Of which, NPLs	Portfolio - based provision /reserves	Specific provisions held	Reserve interest	Provisions made during the year	Advances written off, net during 2016
1	Oman	1,510,279	17,149	19,049	8,491	1,615	144	208
2	Other Countries	34,787	-	348	-	-	-	-
	Total	1,545,066	17,149	19,397	8,491	1,615	144	208

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

		As on 31 December 2016				
Sl. No	Details	Performing loans	Sub- Standard	Doubtful	Loss	Total
1	Opening balance	1,524,230	2,024	2,483	11,928	1,540,665
2	Migration / changes (+/-)	(2,283)	(271)	554	2,000	-
3	New loans	331,026	-	-	333	331,359
4	Recovery of loans	(325,056)	(22)	(79)	(1,106)	(326,263)
5	Loans written off	-	-	-	(695)	(695)
6	Closing balance	1,527,917	1,731	2,958	12,460	1,545,066
7	Provisions/reserves*	19,515	427	1,306	6,640	27,888
8	Reserve interest	-	27	101	1,487	1,615

* It includes provision amounting to RO 0.118 million pertaining to restructured loans.

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14. 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.

14.1 THE 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)

For the year ended 31 December 2016	Published financial statements	Under Regulatory scope of consolidation	Reference
Assets			
Cash and balances with CBO	140,343	140,343	
Balance with banks and money at call & short notice	30,772	30,772	
Investments, of which:	176,643	176,643	
Available for Sale	91,440	91,440	
Held for Trading	85,203	85,203	
Loans and advances – Net, of which:	1,522,106	1,522,106	
- Loans and advances to domestic banks	-	-	
- Loans and advances to non-resident banks	-	-	
- Loans and advances to domestic customers	-	1,231,498	
- Loans and advances to non-resident for operations abroad	-	34,787	
- Loans and advances to SMEs	-	50,807	
- Financing from Islamic banking window	-	227,974	
- Provision against Loans and Advances, of which:	-	(22,960)	
- Specific provision and Reserve interest & profit	-	(10,106)	
- General provision, of which	-	(12,854)	
- amount eligible for T2	-	(12,854)	a
- amount ineligible for T2	-	-	
Fixed assets	16,880	16,880	
Other assets	12,910	12,910	
Total Assets	1,899,654	1,899,654	
Capital & Liabilities			
Paid-up Capital, of which:	142,504	142,504	
- Amount eligible for CET1	-	142,504	b
Reserves & Surplus; of which	100,444	100,444	
- Amount eligible for CET1 (Legal reserve)	22,984	22,984	c
- Amount eligible for CET1 (Subordinated debt reserve)	44,541	44,541	d
- Amount eligible for CET1 (Retained earnings)	25,960	25,960	e
- Amount eligible for T2 (General loan loss reserve)	6,543	6,543	f
- Amount eligible for T2 (Investments Fair value gains)	416	340	g
- AFS investments fair value loss (CET1 adjustment)	-	(339)	h
- AFS investments fair value gain unutilized	-	415	
Total Capital	242,948	242,948	
Deposits from banks	232,278	232,278	
Customer deposits, of which	1,271,026	1,271,026	
- Deposits for customers	-	1,100,367	
- Deposits of Islamic Banking window	-	170,659	
Borrowings, of which:	50,050	50,050	
- From banks	50,050	50,050	
Borrowings in form of bonds, Debentures & sukuks, of which	65,000	65,000	
- Amount eligible for T2	-	20,459	i
- Amount ineligible for T2	-	44,541	
Other liabilities & provisions	38,352	38,352	
TOTAL	1,899,654	1,899,654	

BASEL II PILLAR III & BASEL III REPORT OF THE BANK

FOR THE YEAR ENDED 31 DECEMBER 2016

Step 3: Step Reconciliation of Regulatory Capital:

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

	Component of regulatory capital reported by Bank	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from step 2
For the year ended 31 December 2016		
1 Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	142,504	b
2 Retained earnings	11,710	e
3 Accumulated other comprehensive income (and other reserves)	67,525	c+d
4 Common Equity Tier 1 capital before regulatory adjustments	221,739	
5 Prudential valuation adjustments	(339)	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	(339)	
8 Common Equity Tier 1 capital (CET1)	221,400	
Additional Tier 1 capital: instruments		
9 Additional Tier 1 capital (AT1)	-	
Tier 1 capital (T1 = CET1 + AT1)	221,400	
Tier 2 capital: instruments and provisions		
9 Directly issued qualifying Tier 2 instruments plus related stock surplus	20,459	i
10 Provisions	19,397	a+f
11 Fair value reserve of AFS investments	340	g
Tier 2 capital before regulatory adjustments	40,196	
Tier 2 capital: regulatory adjustments	-	
Tier 2 capital (T2)	40,196	
Total capital (TC = T1 + T2)	261,596	

14.2 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	Subordinated debt
1 Ahli Bank SAOG				
2 Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA	NA	NA
3 Governing law(s) of the instrument Regulatory treatment	The laws of Oman in the form of Royal Decrees, Ministerial Decisions and CMA and CBO Regulations	The laws of Oman in the form of Royal Decrees, Ministerial Decisions and CMA and CBO Regulations	The laws of Oman in the form of Royal Decrees, Ministerial Decisions and CMA and CBO Regulations	The laws of Oman in the form of Royal Decrees, Ministerial Decisions and CMA and CBO Regulations
4 Transitional Basel III rules	Common Equity Tier 1	Tier II	Tier II	Tier II
5 Post-transitional Basel III rules	Common Equity Tier 1	Ineligible	Ineligible	Eligible
6 Eligible at solo/group/group & solo	Solo	Solo	Solo	Solo
7 Instrument type (types to be specified by each jurisdiction)	Common Equity Share Capital	Private Placement of Subordinated Bonds	Private Placement of Subordinated debt	Private Placement of Subordinated debt
8 Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	RO 142.504 million	-	RO 0.818 million	RO 19.641 million
9 Par value of instrument	RO 142.504 million	RO 35.000 million	RO 5.000 million	RO 25.000 million
10 Accounting classification	Shareholders' Equity	Liability amortised cost	Liability amortised cost	Liability amortised cost
11 Original date of issuance	Bank started operations in 1997	16-Dec-10	26-Oct-10	*Refer to the below table

BASEL II PILLAR III & **BANK** BASEL III REPORT OF THE FOR THE YEAR ENDED 31 DECEMBER 2016

14.2 MAIN FEATURES OF REGULATORY CAPITAL (continued)

	Common Equity Share Capital	Subordinated Bonds	Subordinated debt	Subordinated debt
12 Perpetual or dated	Perpetual	Dated	Dated	Dated
13 Original maturity date	No maturity	15-Dec-17	26-Oct-17	**Refer to the below table
14 Issuer call subject to prior supervisory approval	No	Yes	No	No
15 Optional call date, contingent call dates and redemption amount	NA	16-Dec-15	NA	NA
16 Subsequent call dates, if applicable	NA	NA	NA	NA
Coupons / dividends				
17 Fixed or floating dividend/coupon	Floating	Fixed	Fixed	Fixed
18 Coupon rate and any related index	NA	5.50%	5.75%	4% - 5%
19 Existence of a dividend stopper	NA	No	No	No
20 Fully discretionary, partially discretionary or mandatory	Fully discretionary	Partially discretionary	Partially discretionary	Mandatory
21 Existence of step up or other incentive to redeem	No	No	No	No
22 Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative
23 Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Convertible
24 If convertible, conversion trigger (s)	NA	NA	NA	Statutory approach
25 If convertible, fully or partially	NA	NA	NA	May convert fully or partially
26 If convertible, conversion rate	NA	NA	NA	Average price *
27 If convertible, mandatory or optional conversion	NA	NA	NA	Optional
28 If convertible, specify instrument type convertible into	NA	NA	NA	CET 1
29 If convertible, specify issuer of instrument it converts into	NA	NA	NA	Ahli Bank
30 Write-down feature	Yes	No	No	Yes
31 If write-down, write-down trigger(s)	Statutory approach	Contractual approach	Contractual approach	Statutory approach
32 If write-down, full or partial	Write down fully	May be written down partially	May be written down partially	May be written down partially
33 If write-down, permanent or temporary	Permanent	Permanent	Permanent	Permanent
34 If temporary write-down, description of write-up mechanism	NA	NA	NA	NA
35 Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA	Common Equity Share Capital	Common Equity Share Capital	Common Equity Share Capital
36 Non-compliant transitioned features	No	No	No	No
37 If yes, specify non-compliant features	NA	NA	NA	NA

Number Of Subordinated debt (as per Basel III)	Par value of instrument	Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date)	*Original date of issuance	**Original maturity date
Subordinated debt 1	5,000	2,657	28-Aug-14	29-Aug-19
Subordinated debt 2	1,000	949	30-Sep-14	30-Sep-21
Subordinated debt 3	5,000	4,751	01-Oct-14	02-Oct-21
Subordinated debt 4	5,000	3,859	10-Nov-14	10-Nov-20
Subordinated debt 5	1,000	575	13-Nov-14	16-Nov-19
Subordinated debt 6	2,000	1,152	17-Nov-14	18-Nov-19
Subordinated debt 7	3,000	3,000	10-Jun-15	13-Jun-22
Subordinated debt 8	3,000	2,698	30-Jun-15	29-Jun-21
Total	25,000	19,641		

BASEL II PILLAR III & **BANK**

BASEL III REPORT OF THE

FOR THE YEAR ENDED 31 DECEMBER 2016

14.3 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 2017)		(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	142,504	-
2	Retained earnings	11,710	-
3	Accumulated other comprehensive income (and other reserves)	67,525	-
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	-
	Public sector capital injections grandfathered until 1 January 2018	-	-
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	221,739	
Common Equity Tier 1 capital: regulatory adjustments			
7	Prudential valuation adjustments	(339)	-
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 562 of Basel II framework)	-	-
14	Defined-benefit pension fund net assets	-	-
15	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-	-
16	Reciprocal cross-holdings in common equity	-	-
17	Investments in the capital of banking, financial and insurance 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)	-	-
18	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	-
19	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-
20	Amount exceeding the 15% threshold	-	-
21	of which: significant investments in the common stock of financials	-	-
22	of which: mortgage servicing rights	-	-
23	of which: deferred tax assets arising from temporary differences	-	-
24	National specific regulatory adjustments	-	-
25a	Shortfall in equity capital of majority owned financial entities , which have not been consolidated with the banks	-	-
25b	Investments in equity capital of unconsolidated non-financial entities.....etc.	-	-
	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	-	-
26	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	-
27	Total regulatory adjustments to Common equity Tier 1	(339)	
28	Common Equity Tier 1 capital (CET1)	221,400	

BASEL II PILLAR III & **BANK** BASEL III REPORT OF THE FOR THE YEAR ENDED 31 DECEMBER 2016

14.3 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 2017)

AMOUNTS
SUBJECT
TO PRE-
BASEL III
TREATMENT

(RO'000)

Additional Tier 1 capital: instruments			
29	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	-
30	of which: classified as equity under applicable accounting standards	-	-
31	of which: classified as liabilities under applicable accounting standards	-	-
32	<i>Directly issued capital instruments subject to phase out from Additional Tier 1</i>	-	-
33	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-	-
34	<i>of which: instruments issued by subsidiaries subject to phase out</i>	-	-
35	Additional Tier 1 capital before regulatory adjustments	-	-
Additional Tier 1 capital before regulatory adjustments			
36	Investments in own Additional Tier 1 instruments	-	-
37	Reciprocal cross-holdings in Additional Tier 1 instruments	-	-
38	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	-
39	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-
40	National specific regulatory adjustments	-	-
	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]	-	-
41	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-
42	Total regulatory adjustments to Additional Tier 1 capital	-	-
43	Additional Tier 1 capital (AT1)	-	-
44	Tier 1 capital (T1 = CET1 + AT1)	221,400	
Tier 2 capital: instruments and provisions			
45	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	-
	OF WHICH: ...	-	-
46	<i>Directly issued capital instruments subject to phase out from Tier 2</i>	20,459	-
47	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	-
48	<i>of which: instruments issued by subsidiaries subject to phase out</i>	-	-
49	Provisions (provision and fair value reserve)	19,737	-
50	Tier 2 capital before regulatory adjustments	40,196	
Tier 2 capital: regulatory adjustments			
51	Investments in own Tier 2 instruments	-	-
52	Reciprocal cross-holdings in Tier 2 instruments	-	-
53	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	-
54	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-
55	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: ...	-	-

BASEL II PILLAR III & **BANK** BASEL III REPORT OF THE FOR THE YEAR ENDED 31 DECEMBER 2016

14.3 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 2017)

AMOUNTS
SUBJECT
TO PRE-
BASEL III
TREATMENT

	(RO'000)	
56 Total regulatory adjustments to Tier 2 capital	-	-
57 Tier 2 capital (T2)	40,196	
58 Total capital (TC = T1 + T2)	261,596	
RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	1,739,675	-
OF WHICH: [INSERT NAME OF ADJUSTMENT]	-	-
OF WHICH: ...	-	-
59 60 Total risk weighted assets	1,739,675	-
59a Of which: Credit risk weighted assets	1,563,083	-
59b Of which: Market risk weighted assets	80,469	-
59c Of which: Operational risk weighted assets	96,123	-
* Subordinated debt of RO 5 million, raised in 2010; recognized in T2 RO 0.818 million; 100% phase out by end of 2017		
Subordinated debt of RO 25 million, raised in 2014-15; recognized in T2 RO 19.641 million;		
Capital Ratios		
60 Common Equity Tier 1 (as a percentage of risk weighted assets)	12.73%	-
61 Tier 1 (as a percentage of risk weighted assets)	12.73%	-
62 Total capital (as a percentage of risk weighted assets)	15.04%	-
63 Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement expressed as a percentage of risk weighted assets)	7.625%	-
64 of which: capital conservation buffer requirement	0.625%	-
65 of which: bank specific countercyclical buffer requirement	-	-
66 of which: G-SIB buffer requirement	-	-
67 Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted	3.04%	-
National minima (if different from Basel III)		
Tier 2 capital: instruments and provisions		
68 National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	7.625%	-
69 National Tier 1 minimum ratio (if different from Basel 3 minimum)	9.625%	-
70 National total capital minimum ratio (if different from Basel 3 minimum)	12.625%	-
Amounts below the thresholds for deduction (before risk weighting)		
71 Non-significant investments in the capital of other financials	1,409	-
72 Significant investments in the common stock of financials	-	-
73 Mortgage servicing rights (net of related tax liability)	-	-
74 Deferred tax assets arising from temporary differences (net of related tax liability)	-	-
Applicable caps on the inclusion of provisions in Tier 2		
75 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	19,397	-
76 Cap on inclusion of provisions in Tier 2 under standardised approach	19,539	-
77 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	-
78 Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
79 Current cap on CET1 instruments subject to phase out arrangements	-	-
80 Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	-
81 Current cap on AT1 instruments subject to phase out arrangements	-	-
82 Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	-
83 Current cap on T2 instruments subject to phase out arrangements	-	-
84 Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	-

BASEL II PILLAR III & **BANK** BASEL III REPORT OF THE FOR THE YEAR ENDED 31 DECEMBER 2016

15. Basel III LIQUIDITY DISCLOSURE

The below liquidity disclosure is prepared in accordance with the requirements of the CBO Circular BM 1127 'Basel III – Framework on Liquidity Coverage Ratio (LCR) and LCR disclosure standard' issued on 24 December 2014.

LIQUIDITY COVERAGE RATIO (LCR) Common Disclosure Template

	(RO '000)	
	Total Unweighted Value (average)	Total Weighted Value (average)
High Quality Liquid Assets		
1 Total High Quality Liquid Assets (HQLA)		198,883
Cash Outflows		
2 Retail deposits and deposits from small business customers, of which:	187,333	9,275
3 Stable deposits	46,383	2,097
4 Less stable deposits	140,950	7,178
5 Unsecured wholesale funding, of which:	419,265	257,620
6 Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7 Non-operational deposits (all counterparties)	258,196	103,278
8 Unsecured debt	161,069	154,342
9 Secured wholesale funding		-
10 Additional requirements, of which	-	-
11 Outflows related to derivative exposures and other collateral requirements	-	-
12 Outflows related to loss of funding on debt products	-	-
13 Credit and liquidity facilities	-	-
14 Other contractual funding obligations	41,514	4,151
15 Other contingent funding obligations	151,785	7,589
16 TOTAL CASH OUTFLOWS		278,635
Cash Inflows		
17 Secured lending (e.g. reverse repos)	5,234	2,617
18 Inflows from fully performing exposures	175,191	87,595
19 Other cash inflows	57,711	48,275
20 TOTAL CASH INFLOWS	238,136	138,487
		Total Adjusted Value
21 TOTAL HQLA		198,883
22 TOTAL NET CASH OUTFLOWS		140,148
23 LIQUIDITY COVERAGE RATIO (%)		141.91%

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 and liquidity disclosures are prepared in accordance with CBO Circular BM 1114 'Regulatory Capital and Composition of Capital Disclosure Requirements under Basel III' issued on 17 November 2013 and BM 1127 'Basel III – Framework on Liquidity Coverage Ratio (LCR) and LCR disclosure standard' issued on 24 December 2014, respectively.

For Ahli Bank SAOG



Hamdan Ali Nasser Al Hinai

Chairman

Date: 25th January 2017

FINANCIAL
STATEMENTS
OF THE BANK
FOR THE YEAR ENDED 31 DECEMBER 2016

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AHLI BANK SAOG

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Ahli Bank SAOG (the "Bank"), which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AHLI BANK SAOG (CONTINUED)

Key audit matters (continued)

1. Impairment of loans & advances and financing

Impairment of loans & advances and financing (loans and receivables) is a highly subjective area due to the level of judgement applied by management in determining the extent of credit losses which is dependent on the credit risk related to such loans and receivables. The judgements applied by the management in determining the level of impairment for loans and receivables include the identification of events that could possibly result in an impairment, an appropriate valuation of the related collateral, the assessment of customers that are likely to default, and the future cash flows relating to loans and receivables.

Due to the material nature of loans and receivables and the related estimation uncertainties involved, including the consideration of prudential requirements, this is considered a key audit matter. The basis of the Bank's impairment provision policy is presented in the accounting policies section and in note 3.4 to the financial statements. Attention is also drawn to the critical accounting estimates and judgements, disclosures of loans and receivables and the credit risk management set out in notes 4.1, 7 and 31, respectively to the financial statements.

Our audit procedures included the assessment of controls over the granting, booking and monitoring processes of loans and receivables, and the specific and collective impairment provisioning process, including consideration of prudential requirements, to validate the operating effectiveness of the key controls in place, which identify the impaired loans and receivables and the required provisions against them. As part of the control testing procedures, we assessed whether the key controls in the above processes were designed, implemented and operated effectively.

In addition to testing the key controls, we selected samples of loans and receivables outstanding as at the reporting date and critically assessed the criteria for determining whether an impairment event had occurred that would require an impairment provision. For the samples selected, we also verified whether all impairment events as identified by us had also been identified by the Bank's management. Our selected samples also included non-performing loans and receivables where we assessed management's forecast of recoverable cash flows, the valuation of collaterals, estimates of recovery on default and other sources of repayment. For the performing loans and receivables, we assessed whether the borrowers exhibited any possible default risk that may affect meeting their scheduled repayment obligations.

For collective impairment provisions, we obtained an understanding of the methodology used by the Bank to determine the collective provisions, assessed the underlying assumptions and sufficiency of the data used by management.

We also assessed whether the financial statement disclosures appropriately reflect the requirements of IFRS.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AHLI BANK SAOG (CONTINUED)

Key audit matters (continued)

2. Impairment of available for sale investments

The Bank's available for sale portfolio comprises investments made in equity and debt instruments. Investments are impaired only when there is an objective evidence of impairment. We considered impairment of available for sale investment as a key audit matter due to complexity involved in such determination and materiality of the available for sale investment to the financial statements.

The accounting policy relating to available for sale investments, identification and measurement of impairment, critical accounting estimates and judgements, and the disclosures relating to impairment of available for sale investments and fair value measurement are set out in notes 3.3.1(d), 3.4, 4.3, 8 and 29, respectively to the financial statements.

Our audit procedures comprised, amongst others, a critical assessment of the Bank's methodology and the appropriateness of the impairment computation performed by the management on the Bank's available for sale investments. We evaluated the Bank's assessment of whether any objective evidence of impairment exists for each investment.

For equity investments, on a sample basis, we:

- assessed the appropriateness of management criteria for determining significant or prolonged decline in the value of investments;
- evaluated the basis for determining the fair value of investments;
- tested the valuations of investments; and
- considered price fluctuation / movement during the holding period to determine if the significant or prolonged criteria is met.

For debt instruments, on a sample basis, we assessed the creditworthiness of counter parties based on available market information and assessed cash flows to consider any defaults based upon contractual terms and conditions of the instruments.

We also assessed the appropriateness of the disclosures in the financial statements in accordance with IFRS.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AHLI BANK SAOG (CONTINUED)

Other information included in the Bank's 2016 Annual Report

Those charged with governance and management are responsible for the other information. Other information consists of the information included in the Bank's 2016 Annual Report, other than the financial statements and our auditor's report thereon. We obtained the following information prior to the date of our auditor's report, and we expect to obtain the published 2016 Annual Report after the date of our auditor's report:

- Chairman's report
- Corporate governance report
- Management discussion and analysis
- Financial statements of Al Hilal Islamic Banking Services
- Basel II Pillar III and Basel III Report of the Bank
- Basel II Pillar III and Basel III Report of Al Hilal Islamic Banking Services.

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

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

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

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

Those charged with governance are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the relevant requirements of the Commercial Companies Law of 1974, as amended, and the Capital Market Authority ("the CMA") of the Sultanate of Oman, and for such internal control as those charged with governance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AHLI BANK SAOG (continued)

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of those charged with governance's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
AHLI BANK SAOG (continued)**

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

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

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 CMA of the Sultanate of Oman.

Ernst & Young LLC
Sanjay

Sanjay Kawatra
Muscat
27 February 2017



FINANCIAL STATEMENTS OF THE BANK

FOR THE YEAR ENDED 31 DECEMBER 2016

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

2015 US\$ '000	2016 US\$ '000		Note	2016 RO '000	2015 RO '000
ASSETS					
321,299	364,528	Cash and balances with Central Bank of Oman	5	140,343	123,700
156,824	79,927	Due from banks	6	30,772	60,377
3,942,991	3,953,524	Loans & advances and financing, net	7	1,522,106	1,518,052
416,452	458,812	Investment securities	8	176,643	160,334
45,725	43,844	Property and equipment	9	16,880	17,604
47,267	33,533	Other assets	11	12,910	18,198
<u>4,930,558</u>	<u>4,934,168</u>	TOTAL ASSETS		<u>1,899,654</u>	<u>1,898,265</u>
LIABILITIES					
565,478	603,319	Due to banks	12	232,278	217,709
3,378,797	3,301,367	Customers' deposits	13	1,271,026	1,300,837
125,000	130,000	Borrowed funds	14	50,050	48,125
8,427	11,655	Taxation	10	4,487	3,245
93,680	87,961	Other liabilities	15	33,865	36,066
168,831	168,831	Subordinated liabilities	16	65,000	65,000
<u>4,340,213</u>	<u>4,303,133</u>	TOTAL LIABILITIES		<u>1,656,706</u>	<u>1,670,982</u>
EQUITY					
370,140	370,140	Share capital	17	142,504	142,504
52,023	59,699	Legal reserve	18	22,984	20,029
16,995	16,995	General loan loss reserve	7	6,543	6,543
104,771	115,691	Subordinated debt reserve	16	44,541	40,337
138	1,081	Fair value reserve		416	53
46,278	67,429	Retained earnings		25,960	17,817
<u>590,345</u>	<u>631,035</u>	TOTAL EQUITY		<u>242,948</u>	<u>227,283</u>
<u>4,930,558</u>	<u>4,934,168</u>	TOTAL LIABILITIES AND EQUITY		<u>1,899,654</u>	<u>1,898,265</u>
41.4	44.3	Net assets value per share (US cents / baizas)	20	170.5	159.5
734,825	555,382	Contingent liabilities and commitments	21	213,822	282,908

The financial statements on pages 60 to 105 were approved by the Board of Directors on 25 January 2017 and signed on their behalf by:



Hamdan Ali Nasser Al Hinai
Chairman



Lloyd Maddock
Chief Executive Officer

Report of the Auditors - page 54.

FINANCIAL STATEMENTS OF THE BANK

FOR THE YEAR ENDED 31 DECEMBER 2016

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

2015 US\$ '000	2016 US\$ '000		Note	2016 RO '000	2015 RO '000
156,857	175,766	Interest income	22	67,670	60,390
(55,131)	(77,851)	Interest expense	23	(29,973)	(21,226)
101,726	97,915	NET INTEREST INCOME		37,697	39,164
25,291	29,771	Income from Islamic financing and investments		11,462	9,737
(6,727)	(11,499)	Unrestricted investment account holders' share of profit and profit expense		(4,427)	(2,590)
18,564	18,272	NET INCOME FROM ISLAMIC FINANCING AND INVESTMENTS		7,035	7,147
120,290	116,187	NET INTEREST INCOME AND INCOME FROM ISLAMIC FINANCING AND INVESTMENTS		44,732	46,311
25,096	22,961	Other operating income	24	8,840	9,662
145,386	139,148	OPERATING INCOME		53,572	55,973
(12,337)	(395)	Loans and financing impairment, net of recoveries	7	(152)	(4,750)
(1,366)	(1,496)	Impairment on available for sale investments		(576)	(526)
131,683	137,257	NET OPERATING INCOME		52,844	50,697
(31,002)	(31,584)	Staff expenses	25	(12,160)	(11,936)
(3,844)	(3,360)	Depreciation	9	(1,294)	(1,480)
(17,922)	(14,966)	Other operating expenses	26	(5,762)	(6,900)
(52,768)	(49,910)	OPERATING EXPENSES		(19,216)	(20,316)
78,915	87,347	PROFIT BEFORE TAXATION		33,628	30,381
(6,894)	(10,587)	Tax expense	10	(4,076)	(2,654)
72,021	76,760	PROFIT FOR THE YEAR		29,552	27,727
		OTHER COMPREHENSIVE INCOME - NET OF TAX			
		Fair value reserve (available for sale investments) to be reclassified to profit or loss in subsequent periods			
1,060	1,590	- Net amount transferred to profit or loss		612	408
(992)	(647)	- Net changes in fair values		(249)	(382)
68	943	OTHER COMPREHENSIVE INCOME FOR THE YEAR		363	26
72,089	77,703	TOTAL COMPREHENSIVE INCOME FOR THE YEAR		29,915	27,753
5.1	5.4	Basic and diluted earnings per share (US cents / baizas)	27	20.7	19.5

The notes and other explanatory information on pages 64 to 105 form an integral part of these financial statements.

Report of the Auditors - page 54.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL STATEMENTS OF THE BANK FOR THE YEAR ENDED 31 DECEMBER 2016

	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 2016		142,504	20,029	6,543	40,337	53	17,817	227,283
Comprehensive income for the year:								
Profit for the year		-	-	-	-	-	29,552	29,552
Other comprehensive income, net of tax		-	-	-	-	363	-	363
Total comprehensive income	18	-	-	-	-	363	29,552	29,915
Transfer to legal reserve		-	2,955	-	-	-	(2,955)	-
Transfer to subordinated debt reserve	16	-	-	-	4,204	-	(4,204)	-
		-	2,955	-	4,204	-	(7,159)	-
Transactions with owners recognised directly in equity								
Cash dividends paid	19	-	-	-	-	-	(14,250)	(14,250)
Total transactions with owners		-	-	-	-	-	(14,250)	(14,250)
At 31 December 2016		142,504	22,984	6,543	44,541	416	25,960	242,948
At 31 December 2016 (US\$ '000)		370,140	59,699	16,995	115,691	1,081	67,429	631,035

	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 2015		129,549	17,256	6,543	30,492	27	15,663	199,530
Comprehensive income for the year:								
Profit for the year		-	-	-	-	-	27,727	27,727
Other comprehensive income, net of tax		-	-	-	-	26	-	26
Total comprehensive income	18	-	-	-	-	26	27,727	27,753
Transfer to legal reserve		-	2,773	-	-	-	(2,773)	-
Transfer to subordinated debt reserve	16	-	-	-	9,845	-	(9,845)	-
		-	2,773	-	9,845	-	(12,618)	-
Transactions with owners recognised directly in equity								
Issue of bonus shares	17	12,955	-	-	-	-	(12,955)	-
Total transactions with owners		12,955	-	-	-	-	(12,955)	-
At 31 December 2015		142,504	20,029	6,543	40,337	53	17,817	227,283
At 31 December 2015 (US\$ '000)		370,140	52,023	16,995	104,771	138	46,278	590,345

The notes and other explanatory information on pages 64 to 105 form an integral part of these financial statements.

Report of the Auditors - page 54.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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 twenty branches as at year end (thirteen 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 538 employees as at 31 December 2016 compared to 505 as at 31 December 2015.

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 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 2016 and relevant for the Bank's operations

For the year ended 31 December 2016, 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 2016.

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 2016

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 2016:

IFRS 9,	Financial Instruments - Hedge accounting: effective for annual periods commencing 1 January 2018;
IFRS 15,	Revenue from Contracts with Customers: effective for annual periods commencing 1 January 2018;
IFRS 16,	Leases: effective for annual periods commencing 1 January 2019.
IAS 12,	Amendments to IAS 12 Income Taxes: effective for annual periods commencing 1 January 2017.
IAS 7	Amendments to IAS 7 Statement of Cash Flows: effective for annual periods commencing 1 January 2017.

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 2016

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 & advances and financing 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 include 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 & advances and financings receivables

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

Loans & advances and financing receivables are initially recognised at fair value which is the cash consideration to originate or purchase the loan including any transaction costs and measured subsequently at amortised cost using the effective interest method less specifically identified and collective allowance for impairment losses are 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 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 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 2016

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 and all other financial assets and liabilities are initially recognised as set out in note 3.15.

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.

3.3.7 Fair value measurement

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Financial assets and liabilities (continued)

3.3.7 Fair value measurement (continued)

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. Please refer to note 29 for fair value hierarchy valuation techniques.

The fair value of loans & advances 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 market 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.

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 & advances 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 & advances 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 2016

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(a) Assets carried at amortised cost (continued)

Loans & advances and financing receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. 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 upto three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in management of its short term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.6 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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	5
Furniture	5
Computer and other equipment	5-10
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 are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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.

4.2 Fair value of derivatives and other financial instruments

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

4.4 Going concern

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

5 CASH AND BALANCES WITH CENTRAL BANK OF OMAN

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
15,740	18,587	Cash	7,156	6,060
1,299	1,299	Capital deposit with Central Bank of Oman	500	500
65	65	ATM deposit with Central Bank of Oman	25	25
304,195	344,577	Clearing account and placement with Central Bank of Oman	132,662	117,115
321,299	364,528		140,343	123,700

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

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
138,377	61,000	Placements	23,485	53,275
18,447	18,927	Nostro account balances	7,287	7,102
156,824	79,927		30,772	60,377

FINANCIAL STATEMENTS OF THE BANK

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

7 LOANS & ADVANCES AND FINANCING, NET

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
		Conventional Banking		
2,064,860	2,071,570	Corporate lending	797,554	794,971
<u>1,371,048</u>	<u>1,349,450</u>	Retail lending	<u>519,538</u>	<u>527,854</u>
<u>3,435,908</u>	<u>3,421,020</u>	Loans & advances, gross	<u>1,317,092</u>	<u>1,322,825</u>
		Islamic Banking		
254,553	264,935	Corporate financing	102,000	98,003
<u>311,265</u>	<u>327,205</u>	Retail financing	<u>125,974</u>	<u>119,837</u>
<u>565,818</u>	<u>592,140</u>	Financing, gross	<u>227,974</u>	<u>217,840</u>
4,001,726	4,013,160	Loans & advances and financing, gross	1,545,066	1,540,665
(34,127)	(33,387)	Loan and financing impairment on portfolio basis	(12,854)	(13,139)
(24,608)	(26,249)	Loan and financing impairment on specific basis (including reserve interest and profit)	(10,106)	(9,474)
<u>3,942,991</u>	<u>3,953,524</u>		<u>1,522,106</u>	<u>1,518,052</u>

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

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
1,682,313	1,676,655	Personal loans	645,512	647,691
684,816	759,112	Construction	292,258	263,654
367,886	403,987	Wholesale and retail trade	155,535	141,636
223,132	212,057	Manufacturing	81,642	85,906
263,086	206,361	Financial institutions	79,449	101,288
203,081	184,810	Services	71,152	78,186
146,291	170,187	Mining and quarrying	65,522	56,322
171,000	115,990	Transport and communication	44,656	65,835
78,974	97,127	Electricity, gas and water	37,394	30,405
84,610	90,356	Non-resident lending	34,787	32,575
<u>96,537</u>	<u>96,518</u>	Other	<u>37,159</u>	<u>37,167</u>
<u>4,001,726</u>	<u>4,013,160</u>		<u>1,545,066</u>	<u>1,540,665</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

7 LOANS & ADVANCES AND FINANCING, NET (continued)

The movement in the loan & financing impairment provision is analysed as below:

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
		Impairment provision on portfolio basis		
29,106	34,127	Balance at beginning of the year	13,139	11,206
5,021	(740)	(Reversal) / Provided during the period	(285)	1,933
<u>34,127</u>	<u>33,387</u>	Balance at the end of the year	<u>12,854</u>	<u>13,139</u>
		Impairment provision on specific basis		
		Impairment provision		
16,253	21,461	Balance at beginning of the year	8,262	6,257
11,956	8,351	Provided during the year	3,215	4,603
(4,652)	(7,236)	Recoveries during the year	(2,786)	(1,791)
(2,096)	(519)	Write offs during the year	(200)	(807)
<u>21,461</u>	<u>22,057</u>	Balance at the end of the year	<u>8,491</u>	<u>8,262</u>
		Reserve interest and profit		
2,152	3,146	Balance at beginning of the year	1,212	829
2,251	2,132	Reserved during the year	821	867
(951)	(917)	Released during the year	(353)	(366)
(306)	(169)	Write offs during the year	(65)	(118)
<u>3,146</u>	<u>4,192</u>	Balance at the end of the year	<u>1,615</u>	<u>1,212</u>
<u>24,607</u>	<u>26,249</u>		<u>10,106</u>	<u>9,474</u>

During the year, an amount of RO 0.008 million equivalent to US\$ 0.020 million (31 December 2015: RO 0.005 million equivalent to US\$ 0.012 million) of loans & advances and financing is directly written off / recovered 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 2016, 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 17.149 million equivalent to US\$ 44.543 million (31 December 2015: RO 16.435 million equivalent to US\$ 42.688 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 2016 amounts to RO 6.924 million equivalent to US\$ 17.985 million (31 December 2015: RO 8.562 million equivalent to US\$ 22.252 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 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.

During the year, impairment provision on specific basis includes provision on re-structured loans as per CBO guidelines.

FINANCIAL STATEMENTS OF THE BANK

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

8 INVESTMENT SECURITIES

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
142,688	221,306	Held for trading investments	85,203	54,935
273,764	237,506	Available for sale investments	91,440	105,399
<u>416,452</u>	<u>458,812</u>		<u>176,643</u>	<u>160,334</u>

a) Held for trading investments comprise:

	Carrying value 2016 RO '000	Cost 2016 RO '000	Carrying value 2015 RO '000	Cost 2015 RO '000
Government Development Bonds - Oman	75,203	75,203	44,935	44,935
Government Sukuks - Oman	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>
	<u>85,203</u>	<u>85,203</u>	<u>54,935</u>	<u>54,935</u>

	Carrying value 2016 US\$ '000	Cost 2016 US\$ '000	Carrying value 2015 US\$ '000	Cost 2015 US\$ '000
Government Development Bonds - Oman	195,332	195,332	116,714	116,714
Government Sukuks - Oman	<u>25,974</u>	<u>25,974</u>	<u>25,974</u>	<u>25,974</u>
	<u>221,306</u>	<u>221,306</u>	<u>142,688</u>	<u>142,688</u>

b) Available for sale investments comprise:

	Carrying value 2016 RO '000	Cost 2016 RO '000	Carrying value 2015 RO '000	Cost 2015 RO '000
Government Development Bonds - Oman	7,464	7,698	-	-
Quoted securities	6,976	7,651	9,149	9,968
Treasury bills	<u>77,000</u>	<u>77,000</u>	<u>96,250</u>	<u>96,250</u>
	<u>91,440</u>	<u>92,349</u>	<u>105,399</u>	<u>106,218</u>
Impairment - quoted securities	-	<u>(1,325)</u>	-	<u>(872)</u>
	<u>91,440</u>	<u>91,024</u>	<u>105,399</u>	<u>105,346</u>

	Carrying value 2016 US\$ '000	Cost 2016 US\$ '000	Carrying value 2015 US\$ '000	Cost 2015 US\$ '000
Government Development Bonds - Oman	19,387	19,995	-	-
Quoted securities	18,119	19,873	23,764	25,891
Treasury bills	<u>200,000</u>	<u>200,000</u>	<u>250,000</u>	<u>250,000</u>
	<u>237,506</u>	<u>239,868</u>	<u>273,764</u>	<u>275,891</u>
Impairment - quoted securities	-	<u>(3,442)</u>	-	<u>(2,265)</u>
	<u>237,506</u>	<u>236,426</u>	<u>273,764</u>	<u>273,626</u>

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

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 2016	7,091	5,884	2,176	8,357	145	770	507	24,930
Additions	-	-	20	170	-	7	373	570
Transferred	-	-	-	403	-	-	(403)	-
Expensed out	-	-	-	-	-	-	-	-
Disposals / scrapped	-	-	-	(4)	-	-	-	(4)
At 31 December 2016	<u>7,091</u>	<u>5,884</u>	<u>2,196</u>	<u>8,926</u>	<u>145</u>	<u>777</u>	<u>477</u>	<u>25,496</u>
Accumulated depreciation:								
At 1 January 2016	-	491	1,409	4,918	99	409	-	7,326
Depreciation	-	235	231	745	21	62	-	1,294
Disposals / scrapped	-	-	-	(4)	-	-	-	(4)
At 31 December 2016	<u>-</u>	<u>726</u>	<u>1,640</u>	<u>5,659</u>	<u>120</u>	<u>471</u>	<u>-</u>	<u>8,616</u>
Net book value as at 31 December 2016								
RO '000	<u>7,091</u>	<u>5,158</u>	<u>556</u>	<u>3,267</u>	<u>25</u>	<u>306</u>	<u>477</u>	<u>16,880</u>
US\$ '000	<u>18,418</u>	<u>13,397</u>	<u>1,444</u>	<u>8,486</u>	<u>65</u>	<u>795</u>	<u>1,239</u>	<u>43,844</u>

	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 2015	7,091	5,884	2,025	7,439	168	777	581	23,965
Additions	-	-	112	788	29	56	701	1,886
Transferred	-	-	209	553	-	-	(762)	-
Expensed out	-	-	-	-	-	-	(13)	(13)
Disposals / scrapped	-	-	(170)	(423)	(52)	(63)	-	(708)
At 31 December 2015	<u>7,091</u>	<u>5,884</u>	<u>2,176</u>	<u>8,357</u>	<u>145</u>	<u>770</u>	<u>507</u>	<u>24,930</u>
Accumulated depreciation:								
At 1 January 2015	-	256	1,333	4,455	120	344	-	6,508
Depreciation	-	235	208	879	31	127	-	1,480
Disposals / scrapped	-	-	(132)	(416)	(52)	(62)	-	(662)
At 31 December 2015	<u>-</u>	<u>491</u>	<u>1,409</u>	<u>4,918</u>	<u>99</u>	<u>409</u>	<u>-</u>	<u>7,326</u>
Net book value as at 31 December 2015								
RO '000	<u>7,091</u>	<u>5,393</u>	<u>767</u>	<u>3,439</u>	<u>46</u>	<u>361</u>	<u>507</u>	<u>17,604</u>
US\$ '000	<u>18,418</u>	<u>14,008</u>	<u>1,992</u>	<u>8,932</u>	<u>119</u>	<u>938</u>	<u>1,317</u>	<u>45,725</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

10 TAXATION

a) Recognised in the statement of comprehensive income

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
		Current tax		
9,808	10,587	- Current year	4,076	3,776
(3,036)	-	- Prior years	-	(1,169)
122	-	Deferred tax	-	47
<u>6,894</u>	<u>10,587</u>		<u>4,076</u>	<u>2,654</u>

b) Tax liability

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
		Current tax		
7,766	10,587	- Current year	4,076	2,990
396	803	- Prior years	309	153
8,162	11,390		4,385	3,143
265	265	Deferred tax	102	102
<u>8,427</u>	<u>11,655</u>		<u>4,487</u>	<u>3,245</u>

c) Deferred tax (liability) / asset

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
(143)	(265)	At 1 January	(102)	(55)
(122)	-	Movement during the year	-	(47)
<u>(265)</u>	<u>(265)</u>	At 31 December	<u>(102)</u>	<u>(102)</u>

d) Relationship between tax expense and accounting profit

The Bank is liable to income tax for the year 2016 in accordance with the income tax laws of the Sultanate of Oman at the rate of 12% (31 December 2015: 12%) on taxable profits in excess of RO 30,000 equivalent to US\$ 78,000 (31 December 2015: RO 30,000 equivalent to US\$ 78,000).

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
78,915	87,347	Accounting profit for the year	33,628	30,381
9,460	10,472	Tax charge @ 12% on accounting profit	4,032	3,642
		Add / (less) tax effects of:		
(96)	(130)	Income not taxable	(50)	(37)
166	192	Non deductible expenses	74	64
148	73	Temporary difference arising due to accelerated depreciation	28	57
(2,784)	(21)	Others	(8)	(1,072)
<u>6,894</u>	<u>10,586</u>	Tax expense	<u>4,076</u>	<u>2,654</u>

The Bank's tax assessment have been completed by the Tax Authorities upto the year 2014.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

11 OTHER ASSETS

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
41,260	18,735	Acceptances	7,213	15,885
1,616	2,447	Prepayments	942	622
919	1,504	Interest and profit receivable	579	354
3,472	10,847	Others	4,176	1,337
<u>47,267</u>	<u>33,533</u>		<u>12,910</u>	<u>18,198</u>

12 DUE TO BANKS

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
316,597	385,501	Inter-bank deposits	148,418	121,890
1,434	17,943	Vostro account balances	6,908	552
247,447	199,875	Borrowings under repurchase agreements	76,952	95,267
<u>565,478</u>	<u>603,319</u>		<u>232,278</u>	<u>217,709</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 2016 amounted to RO 77 million equivalent to US\$ 200 million (31 December 2015: RO 96.250 million equivalent to US\$ 250 million).

13 CUSTOMERS' DEPOSITS

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
2,156,862	1,956,192	Conventional Banking		
820,265	901,904	Time deposits	753,134	830,392
<u>2,977,127</u>	<u>2,858,096</u>	Demand and savings deposits	<u>347,233</u>	<u>315,802</u>
			<u>1,100,367</u>	<u>1,146,194</u>
44,740	30,317	Islamic Banking		
		Current deposits	11,672	17,225
25,465	56,504	Unrestricted investment accounts		
<u>331,465</u>	<u>356,450</u>	- under mudaraba agreement	21,754	9,804
401,670	443,271	- under wakala agreement	137,233	127,614
<u>3,378,797</u>	<u>3,301,367</u>		<u>170,659</u>	<u>154,643</u>
			<u>1,271,026</u>	<u>1,300,837</u>

14 BORROWED FUNDS

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
125,000	130,000	Financial institutions	50,050	48,125

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

15 OTHER LIABILITIES

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
41,260	18,735	Acceptances	7,213	15,885
25,226	39,384	Interest and profit payable	15,163	9,712
9,449	8,590	Accrued expenses	3,307	3,638
4,061	4,195	Staff related liabilities	1,615	1,563
13,684	17,057	Others	6,567	5,268
<u>93,680</u>	<u>87,961</u>		<u>33,865</u>	<u>36,066</u>

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

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
782	787	At 1 January	303	301
309	304	Provided during the year	117	119
(304)	(195)	Payments made during the year	(75)	(117)
<u>787</u>	<u>896</u>	At 31 December	<u>345</u>	<u>303</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 23,442.370 was transferred to the "Investors' Trust Fund" (31 December 2015: Nil).

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.

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
90,909	90,909	Subordinated bonds	35,000	35,000
77,922	77,922	Subordinated loans	30,000	30,000
<u>168,831</u>	<u>168,831</u>		<u>65,000</u>	<u>65,000</u>

Subordinated bonds are listed in the Muscat Securities Market with the tenure of 7 years.. 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 2,500,000,000 shares of 100 baizas each (31 December 2015: 2,500,000,000 shares of 100 baizas each) out of which 1,425,036,144 (31 December 2015: 1,425,036,144 shares) are issued and fully paid up. No bonus shares were issued during the year ended 31 December 2016 (Year ended 31 December 2015: 129,548,740 shares).

Ahli United Bank BSC (AUB) is the only shareholder which owns 10% or more of the Bank's shares. On 31 December 2016 shareholding of AUB was 498,762,642 shares equivalent to 35% (31 December 2015: 498,762,642 shares equivalent to 35%).

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 2.955 million equivalent to US\$ 7.675 million (31 December 2015: RO 2.773 million equivalent to US\$ 7.202 million) was transferred to legal reserve.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

19 DIVIDEND PAID AND PROPOSED

The Board of Directors has recommended 10% cash dividend which is subject to approval of the shareholders at the Annual General Meeting and the regulatory authorities (31 December 2015: 10% cash dividend). The cash dividend proposed for 2015 was approved by the shareholders in annual general meeting and was paid in 2016.

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.

2015	2016		2016	2015
US\$ '000	US\$ '000		RO '000	RO '000
<u>590,345</u>	<u>631,035</u>	Net assets	<u>242,948</u>	<u>227,283</u>
<u>1,425,036</u>	<u>1,425,036</u>	Issued and paid up shares (in 000's) at 31 December	<u>1,425,036</u>	<u>1,425,036</u>
<u>41.4</u>	<u>44.3</u>	Net asset value per share (cents /baizas)	<u>170.5</u>	<u>159.5</u>

21 CONTINGENT LIABILITIES AND COMMITMENTS

2015	2016		2016	2015
US\$ '000	US\$ '000		RO '000	RO '000
468,016	397,818	Financial guarantees	153,160	180,186
78,779	60,205	Letters of credit	23,179	30,330
179,675	89,543	Loan commitments	34,474	69,175
6,384	6,395	Capital commitments	2,462	2,458
		Lease commitments		
158	405	- not later than one year	156	61
1,813	1,016	- more than one year and upto five years	391	698
<u>734,825</u>	<u>555,382</u>		<u>213,822</u>	<u>282,908</u>

22 INTEREST INCOME

2015	2016		2016	2015
US\$ '000	US\$ '000		RO '000	RO '000
153,478	168,847	Loans and advances	65,006	59,089
3,174	6,574	Investments	2,531	1,222
205	345	Due from banks	133	79
<u>156,857</u>	<u>175,766</u>		<u>67,670</u>	<u>60,390</u>

23 INTEREST EXPENSE

2015	2016		2016	2015
US\$ '000	US\$ '000		RO '000	RO '000
31,418	47,491	Time deposits	18,284	12,096
10,506	11,262	Demand and saving deposits	4,336	4,045
9,906	10,823	Borrowings	4,167	3,814
3,301	8,275	Inter-bank deposits	3,186	1,271
<u>55,131</u>	<u>77,851</u>		<u>29,973</u>	<u>21,226</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

24 OTHER OPERATING INCOME

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
21,060	17,943	Fees and commission, net	6,908	8,108
(161)	138	Gain/(Loss) on sale of investments	53	(62)
3,317	3,774	Foreign exchange gain, net	1,453	1,277
919	919	Dividend income	354	354
(91)	-	Loss on sale of property and equipment	-	(35)
52	187	Others	72	20
<u>25,096</u>	<u>22,961</u>		<u>8,840</u>	<u>9,662</u>

The fee and commission income shown above is net of fees and commission paid of RO 0.756 million equivalent to US\$ 1.964 million (31 December 2015: RO 0.720 million equivalent to US\$ 1.870 million).

25 STAFF EXPENSES

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
18,810	18,948	Salaries and wages	7,295	7,242
8,174	8,717	Allowances	3,356	3,147
4,018	3,919	Others	1,509	1,547
<u>31,002</u>	<u>31,584</u>		<u>12,160</u>	<u>11,936</u>

26 OTHER OPERATING EXPENSES

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
13,989	11,173	Operating and administration costs	4,302	5,386
3,413	3,273	Occupancy costs	1,260	1,314
520	520	Board related expenses	200	200
<u>17,922</u>	<u>14,966</u>		<u>5,762</u>	<u>6,900</u>

27 BASIC AND DILUTED EARNINGS PER SHARE

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
72,021	76,760	Profit for the year	29,552	27,727
<u>1,425,036</u>	<u>1,425,036</u>	Weighted average number of outstanding shares during the year (in 000's)	<u>1,425,036</u>	<u>1,425,036</u>
<u>5.1</u>	<u>5.4</u>	Earnings per share (cents /baizas)	<u>20.7</u>	<u>19.5</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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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:

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
		Directors and senior management		
2,327	1,958	Loans & advances and financing, net	754	896
3,119	3,104	Customers' deposits	1,195	1,201
52	174	Prepaid rent	67	20
		Major shareholders and others		
1,979	1,727	Due from banks	665	762
1,236	1,234	Investments securities	475	476
		Other assets		
16	-	- Fair value of forward contracts	-	6
401,094	160,860	Due to banks	61,931	154,421
3	94	Customers' deposits	36	1
		Other liabilities		
-	91	- Fair value of foreign exchange forward contracts	35	-
86	-	- Fair value of swaps	-	33
1,795	2,213	- Accrued expenses	852	691
63,722	57,127	Contingent liabilities and commitments	21,994	24,533

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

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

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
		Directors and senior management		
68	52	Interest income	20	26
57	44	Interest expense	17	22
421	418	Board remuneration proposed	161	162
99	101	Board sitting fees	39	38
83	94	Shariah Supervisory Board expenses	36	32
73	122	Other operating expenses	47	28
		Major shareholders and others		
34	-	Interest income	-	13
2,073	2,818	Interest expense	1,085	798
88	5	Loss on fair value of interest rate swaps	2	34
		Gain / (Loss) on foreign exchange forward contracts		
(177)	148		57	(68)
2,436	2,930	Other operating expenses	1,128	938

The Bank has a technical and support agreement (TMSA) with a major shareholder. In accordance with the agreement, an amount of RO 0.764 million equivalent to US\$ 1.984 million is included in other operating expenses during 2016 (31 December 2015: RO 0.691 million equivalent to US\$ 1.795 million).

The Bank has rented a branch premises from a Director. In accordance with the agreement, an amount of RO 0.047 million equivalent to US\$ 0.123 million was included in the other operating expenses (31 December 2015: RO 0.03 million equivalent to US\$ 0.073 million).

The Bank has a committed line of loans from one of the related parties of RO 38.5 million equivalent to US\$ 100 million (31 December 2015: RO 40 million equivalent to US\$ 103.896 million).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

28 RELATED PARTY TRANSACTIONS (continued)

Compensation of the key management personnel is as follows:

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
2,470	2,938	Salaries and allowances	1,131	951
78	94	End of service benefits	36	30
<u>2,548</u>	<u>3,032</u>		<u>1,167</u>	<u>981</u>

29 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets and financial liabilities, other than those disclosed in the table below and in note 8, approximate their carrying values.

The bank's primary medium and long-term financial liabilities are the borrowed funds and subordinated liabilities. The fair values of these financial liabilities not materially different from their carrying values, since these liabilities are repriced at intervals of three or six months, depending on the terms and conditions of the instrument and the resultant applicable margins approximate the current spreads that would apply for borrowings with similar maturities.

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).

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

	31 December 2016			31 December 2015		
	Level 1	Level 2	Total	Level 1	Level 2	Total
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Financial assets:						
Held for trading investments		85,203	85,203		54,935	54,935
Available for sale investments	14,440	77,000	91,440	9,149	96,250	105,399
<i>Derivative financial instruments</i>						
Interest rate swaps	-	-	-	-	3	3
Forward foreign exchange contracts	1,093	-	1,093	390	-	390
	<u>15,533</u>	<u>162,203</u>	<u>177,736</u>	<u>9,539</u>	<u>151,188</u>	<u>160,727</u>
Financial liabilities						
<i>Derivative financial instruments</i>						
Interest rate swaps	-	-	-	-	189	189
Forward foreign exchange contracts	1,274	-	1,274	468	-	468
	<u>1,274</u>	<u>-</u>	<u>1,274</u>	<u>468</u>	<u>189</u>	<u>657</u>
Financial assets:	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Held for trading investments	-	221,306	221,306	-	142,688	142,688
Available for sale investments	37,506	200,000	237,506	23,764	250,000	273,764
<i>Derivative financial instruments</i>						
Interest rate swaps	-	-	-	-	8	8
Forward foreign exchange contracts	2,839	-	2,839	1,013	-	1,013
	<u>40,345</u>	<u>421,306</u>	<u>461,651</u>	<u>24,777</u>	<u>392,696</u>	<u>417,473</u>
Financial liabilities						
<i>Derivative financial instruments</i>						
Interest rate swaps	-	-	-	-	491	491
Forward foreign exchange contracts	3,309	-	3,309	1,216	-	1,216
	<u>3,309</u>	<u>-</u>	<u>3,309</u>	<u>1,216</u>	<u>491</u>	<u>1,707</u>

No financial instruments are carried at level 3 fair value as on 31 December 2016 (31 December 2015: nil)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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 are normally hedged using interest rate swaps whose repayments dates are the same as of hedge item. These contracts are designated as fair value hedges.

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.

	Nominal cash flows by term to maturity					
	Assets RO '000	Liabilities RO '000	Nominal cash flows Total	Within 3 months RO '000	3 to 12 months RO '000	Over 1 year RO '000
At 31 December 2016						
Derivatives for hedging:						
Interest rate swaps	-	-	-	-	-	-
Derivatives:						
Forward purchase contracts	-	1,274	366,673	176,060	152,113	38,500
Forward sales contracts	1,093	-	366,835	176,428	151,907	38,500
	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Derivatives for hedging:						
Interest rate swaps	-	-	-	-	-	-
Derivatives:						
Forward purchase contracts	-	3,309	952,398	457,299	395,099	100,000
Forward sales contracts	2,839	-	952,819	458,255	394,564	100,000
	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000
At 31 December 2015	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Derivatives for hedging:						
Interest rate swaps	3	189	77	(22)	99	-
Derivatives:						
Forward purchase contracts	-	468	201,794	155,875	45,919	-
Forward sales contracts	390	-	201,848	156,133	45,715	-
	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Derivatives for hedging:						
Interest rate swaps	8	491	200	(57)	257	-
Derivatives:						
Forward purchase contracts	-	1,216	524,140	404,870	119,270	-
Forward sales contracts	1,013	-	524,280	405,540	118,740	-

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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.

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

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
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**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 6 classification categories: High standard, 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 2016

31 FINANCIAL RISK MANAGEMENT (Continued)

31.1 CREDIT RISK (continued)

31.1.2 Exposure to credit risk

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

	2016			2015		
	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
Carrying amount	<u>1,545,066</u>	<u>30,772</u>	<u>176,643</u>	<u>1,540,665</u>	<u>60,377</u>	<u>160,334</u>
Past due but not impaired						
1-30 days	163,440	-	-	113,657	-	-
31-60 days	18,519	-	-	8,488	-	-
61-89 days	3,856	-	-	1,885	-	-
	<u>185,815</u>	<u>-</u>	<u>-</u>	<u>124,030</u>	<u>-</u>	<u>-</u>
Past due and impaired	14,760	-	-	13,649	-	-
Not past due but impaired	2,389	-	-	2,786	-	-
Neither past due nor impaired	<u>1,342,102</u>	<u>30,772</u>	<u>176,643</u>	<u>1,400,200</u>	<u>60,377</u>	<u>160,334</u>

	2016			2015		
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Carrying amount	<u>4,013,160</u>	<u>79,927</u>	<u>458,812</u>	<u>4,001,726</u>	<u>156,824</u>	<u>416,452</u>
Past due but not impaired						
1-30 days	424,519	-	-	295,213	-	-
31-60 days	48,101	-	-	22,047	-	-
61-89 days	10,016	-	-	4,896	-	-
	<u>482,636</u>	<u>-</u>	<u>-</u>	<u>322,156</u>	<u>-</u>	<u>-</u>
Past due and impaired	38,338	-	-	35,452	-	-
Not past due but impaired	6,205	-	-	7,236	-	-
Neither past due nor impaired	<u>3,485,981</u>	<u>79,927</u>	<u>458,812</u>	<u>3,636,882</u>	<u>156,824</u>	<u>416,452</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

31 FINANCIAL RISK MANAGEMENT (Continued)

31.1 CREDIT RISK (continued)

31.1.2 Exposure to credit risk (continued)

Table below shows the gross maximum exposure and net maximum exposure to credit risk for the components of the statement of financial position, including derivatives. Net maximum exposure is after taking into account collateral held or other credit enhancement.

	Net maximum exposure 2015 US\$ '000	Gross maximum exposure 2015 US\$ '000	Net maximum exposure 2016 US\$ '000	Gross maximum exposure 2016 US\$ '000		Gross maximum exposure 2016 RO '000	Net maximum exposure 2016 RO '000	Gross maximum exposure 2015 RO '000	Net maximum exposure 2015 RO '000
	305,559	305,559	345,941	345,941	Balances with Central Bank of Oman	133,187	133,187	117,640	117,640
	156,824	156,824	79,927	79,927	Due from banks	30,772	30,772	60,377	60,377
	2,476,516	4,001,726	2,476,516	4,013,160	Loans & advances and financing	1,545,066	1,032,308	1,540,665	1,045,927
	416,452	416,452	458,812	458,812	Investment securities	176,643	176,643	160,334	160,334
	1,021	1,021	-	-	Derivative financial instruments	-	-	393	393
	3,356,372	4,881,582	3,361,196	4,897,840		1,885,668	1,372,910	1,879,409	1,384,671
	188,030	188,030	97,358	97,359	Commitments	37,483	37,483	72,392	72,392
	502,877	546,795	502,877	458,023	Contingent liabilities	176,339	166,399	210,516	197,157
	690,907	734,825	600,235	555,382		213,822	203,882	282,908	269,549
	4,047,279	5,616,407	3,961,431	5,453,222	Total credit risk exposure	2,099,490	1,576,792	2,162,317	1,654,220

Where financial instruments are recorded at fair value the amounts shown above represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more details on the maximum exposure to credit risk for each class of financial instruments, reference shall be made to the specific notes.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

31 FINANCIAL RISK MANAGEMENT (Continued)

31.1 CREDIT RISK (continued)

31.1.3 Credit rating analysis

The table below shows the distribution of financial assets neither past due nor impaired.

	Total 2016 US\$ '000	Special mention grade 2016 US\$ '000	Standard grade 2016 US\$ '000	High Standard grade 2016 US\$ '000		High Standard grade 2016 RO '000	Standard grade 2016 RO '000	Special mention grade 2016 RO '000	Total 2016 RO '000
345,941	-	-	-	345,941	Balances with Central Bank of Oman	133,187	-	-	133,187
51,870	-	-	57	51,813	Due from banks	19,948	22	-	19,970
					Loans & advances and financing				
2,324,105	21,033	477,553	1,825,519		- Corporate lending	702,825	183,858	8,098	894,781
1,644,509	9,777	1,634,335	397		- Retail lending	153	629,219	3,764	633,136
					Investment securities				
221,306	-	-	221,306		- Held for trading investments	85,203	-	-	85,203
221,057	-	-	221,057		- Available for sale	85,107	-	-	85,107

	Total 2015 US\$ '000	Special mention grade 2015 US\$ '000	Standard grade 2015 US\$ '000	High Standard grade 2015 US\$ '000		High Standard grade 2015 RO '000	Standard grade 2015 RO '000	Special mention grade 2015 RO '000	Total 2015 RO '000
305,559	-	-	-	305,559	Balances with Central Bank of Oman	117,640	-	-	117,640
156,452	-	26	156,426		Due from banks	60,224	10	-	60,234
					Loans & advances and financing				
2,042,734	9,620	508,904	1,524,210		- Corporate lending	586,821	195,928	3,704	786,453
1,594,148	7,808	1,586,340	-		- Retail lending	-	610,741	3,006	613,747
					Investment securities				
142,688	-	-	142,688		- Held for trading investments	54,935	-	-	54,935
251,649	-	-	251,649		- Available for sale	96,885	-	-	96,885

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

31 FINANCIAL RISK MANAGEMENT (Continued)

31.1 CREDIT RISK (continued)

31.1.3 Credit rating analysis (continued)

At 31 December 2016 investments securities classified as available for sale amounting to RO 6.333 million equivalent to US\$ 16.449 million (31 December 2015: RO 8.514 million equivalent to US\$ 22.115 million) and due from banks amounting to RO 10.802 million equivalent to US\$ 28.057 million (31 December 2015: RO 0.143 million equivalent to US\$ 0.371 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 they are not impaired 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. As at 31 December 2016 loans & advances and financing which has been restructured amounted to RO 0.893 million equivalent to US\$ 2.319 million (31 December 2015 : RO 5.610 million equivalent to US\$ 14.571 million)

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	2016		2015	
	Gross RO '000	Net RO '000	Gross RO '000	Net RO '000
Loans & advances and financing (refer note 31.1.2)	<u>17,149</u>	<u>7,043</u>	<u>16,435</u>	<u>6,961</u>
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Loans & advances and financing (refer note 31.1.2)	<u>44,543</u>	<u>18,294</u>	<u>42,688</u>	<u>18,081</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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 counter parties 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 2016 towards loans & advances and financing not impaired amounted to RO 1,003.560 million equivalent to US\$ 2,606.649 million (31 December 2015: RO 999.253 million equivalent to US\$ 2,595.463 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 2016

31 FINANCIAL RISK MANAGEMENT (Continued)

31.1 CREDIT RISK (continued)

31.1.7 Concentration Risk (continued)

	2016			2015		
	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 industry						
Corporate	809,696	-	6,813	770,580	-	9,030
Personal	645,512	-	-	647,691	-	-
Sovereign	89,858	-	169,667	110,144	-	151,185
Banks	-	30,772	163	12,250	60,377	119
Concentration by location						
Oman	1,510,279	-	99,010	1,508,090	14,776	62,953
Other GCC countries	19,587	26,688	633	17,171	32,341	1,131
United Kingdom	-	-	-	-	8,896	-
United States of America	-	3,362	77,000	-	3,819	96,250
Others	15,200	722	-	15,404	545	-
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Concentration by industry						
Corporate	2,103,107	-	17,696	2,001,506	-	23,455
Personal	1,676,655	-	-	1,682,314	-	-
Sovereign	233,397	-	440,693	286,088	-	392,688
Banks	-	79,927	423	31,818	156,824	309
Concentration by location						
Oman	3,922,804	-	257,169	3,917,116	38,379	163,514
Other GCC countries	50,875	69,320	1,643	44,600	84,005	2,938
United Kingdom	-	-	-	-	23,106	-
United States of America	-	8,732	200,000	-	9,919	250,000
Others	39,481	1,875	-	40,010	1,416	-

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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 2015: 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 2016 was 87.5% (31 December 2015: 87.5%).

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

	2015	2014
	Lending ratio	Lending ratio
Year end	82.59%	84.89%
Maximum for the year	87.24%	87.23%
Minimum for the year	82.59%	77.01%
Average for the year	85.66%	85.48%

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

FINANCIAL STATEMENTS OF THE BANK

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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 2016					
Assets					
Cash and balances with Central Bank of Oman	139,818	-	-	525	140,343
Due from banks	30,772	-	-	-	30,772
Loans & advances and financing, net	362,705	92,864	257,415	809,122	1,522,106
Investment securities	140,761	28,401	17	7,464	176,643
Property and equipment	-	-	-	16,880	16,880
Other assets	12,910	-	-	-	12,910
Total assets	686,966	121,265	257,432	833,991	1,899,654
Liabilities and equity					
Due to banks	193,778	-	38,500	-	232,278
Customers' deposits	215,868	473,057	338,757	243,344	1,271,026
Borrowed funds	-	38,500	11,550	-	50,050
Taxation	4,487	-	-	-	4,487
Other liabilities	14,530	10,305	5,642	3,388	33,865
Subordinated liabilities	-	40,000	22,000	3,000	65,000
Shareholders' funds	-	-	-	242,948	242,948
Total liabilities and equity	428,663	561,862	416,449	492,680	1,899,654
Net liquidity gap	258,303	(440,597)	(159,017)	341,311	(0)
31 December 2016	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Assets					
Cash and balances with Central Bank of Oman	363,164	-	-	1,364	364,528
Due from banks	79,927	-	-	-	79,927
Loans & advances and financing, net	942,093	241,205	668,610	2,101,616	3,953,524
Investment securities	365,612	73,769	44	19,387	458,812
Property and equipment	-	-	-	43,844	43,844
Other assets	33,533	-	-	-	33,533
Total assets	1,784,329	314,974	668,654	2,166,211	4,934,168
Liabilities and equity					
Due to banks	503,319	-	100,000	-	603,319
Customers' deposits	560,698	1,228,719	879,888	632,062	3,301,367
Borrowed funds	-	100,000	30,000	-	130,000
Taxation	11,655	-	-	-	11,655
Other liabilities	37,740	26,766	14,655	8,800	87,961
Subordinated liabilities	-	103,896	57,143	7,792	168,831
Shareholders' funds	-	-	-	631,035	631,035
Total liabilities and equity	1,113,412	1,459,381	1,081,686	1,279,689	4,934,168
Net liquidity gap	670,917	(1,144,407)	(413,032)	886,522	-

FINANCIAL STATEMENTS OF THE BANK

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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
	RO '000	RO '000	RO '000	RO '000	RO '000
<i>31 December 2015</i>					
<i>Assets</i>					
Cash and balances with Central Bank of Oman	123,175	-	-	525	123,700
Due from banks	60,377	-	-	-	60,377
Loans & advances and financing, net	384,922	121,463	242,015	769,652	1,518,052
Investment securities	158,922	1,402	10	-	160,334
Property and equipment	-	-	-	17,604	17,604
Other assets	17,864	-	-	334	18,198
<i>Total assets</i>	<u>745,260</u>	<u>122,865</u>	<u>242,025</u>	<u>788,115</u>	<u>1,898,265</u>
<i>Liabilities and equity</i>					
Due to banks	179,209	38,500	-	-	217,709
Customers' deposits	232,986	395,288	409,843	262,720	1,300,837
Borrowed funds	-	9,625	38,500	-	48,125
Taxation	3,245	-	-	-	3,245
Other liabilities	24,644	6,396	3,618	1,408	36,066
Subordinated liabilities	-	-	53,000	12,000	65,000
Shareholders' funds	-	-	-	227,283	227,283
<i>Total liabilities and equity</i>	<u>440,084</u>	<u>449,809</u>	<u>504,961</u>	<u>503,411</u>	<u>1,898,265</u>
<i>Net liquidity gap</i>	<u>305,176</u>	<u>(326,944)</u>	<u>(262,936)</u>	<u>284,704</u>	<u>-</u>
<i>31 December 2015</i>	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<i>Assets</i>					
Cash and balances with Central Bank of Oman	319,935	-	-	1,364	321,299
Due from banks	156,824	-	-	-	156,824
Loans & advances and financing, net	999,797	315,488	628,610	1,999,096	3,942,991
Investment securities	412,784	3,642	26	-	416,452
Property and equipment	-	-	-	45,725	45,725
Other assets	46,399	-	-	868	47,267
<i>Total assets</i>	<u>1,935,739</u>	<u>319,130</u>	<u>628,636</u>	<u>2,047,053</u>	<u>4,930,558</u>
<i>Liabilities and equity</i>					
Due to banks	465,478	100,000	-	-	565,478
Customers' deposits	605,158	1,026,722	1,064,527	682,390	3,378,797
Borrowed funds	-	25,000	100,000	-	125,000
Taxation	8,427	-	-	-	8,427
Other liabilities	64,011	16,614	9,398	3,657	93,680
Subordinated liabilities	-	-	137,662	31,169	168,831
Shareholders' funds	-	-	-	590,345	590,345
<i>Total liabilities and equity</i>	<u>1,143,074</u>	<u>1,168,336</u>	<u>1,311,587</u>	<u>1,307,561</u>	<u>4,930,558</u>
<i>Net liquidity gap</i>	<u>792,665</u>	<u>(849,206)</u>	<u>(682,951)</u>	<u>739,492</u>	<u>-</u>

FINANCIAL STATEMENTS OF THE BANK

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

31 FINANCIAL RISK MANAGEMENT (continued)

31.2 LIQUIDITY RISK (continued)

31.2.2 Exposure to liquidity risk (continued)

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

	Upto three months	Above three months to twelve months	Above one year to five years	More than five years	Total
	RO '000	RO '000	RO '000	RO '000	RO '000
31 December 2016					
Due to banks	194,233	-	40,670	-	234,903
Customers' deposits	216,414	479,036	359,309	267,950	1,322,709
Borrowed funds	-	38,898	12,123	-	51,020
Subordinated liabilities	-	41,291	25,407	3,774	70,472
Total liabilities	410,647	559,225	437,509	271,724	1,679,105
Credit related commitments	24,100	10,374	-	-	34,474
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Due to banks	504,502	-	105,636	-	610,138
Customers' deposits	562,115	1,244,250	933,270	695,974	3,435,609
Borrowed funds	-	101,033	31,487	-	132,520
Subordinated liabilities	-	107,248	65,993	9,804	183,045
Total liabilities	1,066,617	1,452,531	1,136,386	705,778	4,361,312
Credit related commitments	62,597	26,945	-	-	89,542

	Upto three months	Above three months to twelve months	Above one year to five years	More than five years	Total
	RO '000	RO '000	RO '000	RO '000	RO '000
31 December 2015					
Due to banks	179,385	38,689	-	-	218,074
Customers' deposits	233,420	398,969	413,659	265,166	1,311,215
Borrowed funds	-	9,712	38,846	-	48,558
Subordinated liabilities	-	-	54,709	12,387	67,096
Total liabilities	412,805	447,370	507,215	277,553	1,644,943
Credit related commitments	30,025	39,150	-	-	69,175
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Due to banks	465,935	100,491	-	-	566,426
Customers' deposits	606,287	1,036,283	1,074,440	688,744	3,405,754
Borrowed funds	-	25,225	100,900	-	126,125
Subordinated liabilities	-	-	142,102	32,174	174,276
Total liabilities	1,072,222	1,161,999	1,317,442	720,918	4,272,581
Credit related commitments	77,987	101,688	-	-	179,675

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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 200 bps.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

31 FINANCIAL RISK MANAGEMENT (continued)

31.3 MARKET RISK (continued)

31.3.2 Exposure to interest rate risk (continued)

31 December 2016	Effective annual interest rate	Upto three months	Above three months to twelve months	Above one year to five years	More than five years	Non - Sensitive to interest rate	Total
	%	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Assets							
Cash and balances with Central Bank of Oman	1.00%	500	-	-	-	139,843	140,343
Due from banks	0.20%	30,772	-	-	-	-	30,772
Loans & advances and financing, net	4.93%	743,899	109,624	275,832	392,751	-	1,522,106
Investment securities	1.71%	76,999	-	29,313	63,371	6,960	176,643
Property and equipment	-	-	-	-	-	16,880	16,880
Other assets	0.00%	-	-	-	-	12,910	12,910
Total assets		852,170	109,624	305,145	456,122	176,593	1,899,654
Liabilities and equity							
Due to banks	1.88%	193,778	-	38,500	-	-	232,278
Customers' deposits	2.02%	196,770	466,766	406,447	-	201,043	1,271,026
Borrowed funds	1.65%	-	38,500	11,550	-	-	50,050
Taxation	-	-	-	-	-	4,487	4,487
Other liabilities	0.00%	-	197	-	-	33,668	33,865
Subordinated liabilities	5.16%	-	-	-	-	65,000	65,000
Shareholders' funds	-	-	-	-	-	242,948	242,948
Total liabilities and equity		390,548	505,463	456,497	-	547,146	1,899,654
Total interest rate sensitivity gap		461,622	(395,839)	(151,352)	456,122	(370,553)	0
Cumulative interest rate sensitivity gap		461,622	65,783	(85,569)	370,553	0	0

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

31 FINANCIAL RISK MANAGEMENT (continued)

31.3 MARKET RISK (continued)

31.3.2 Exposure to interest rate risk (continued)

31 December 2016	Effective annual interest rate	Upto three months US\$ '000	Above three months to twelve months US\$ '000	Above one year to five years US\$ '000	More than five years US\$ '000	Non - Sensitive to interest rate US\$ '000	Total US\$ '000
Assets							
Cash and balances with Central Bank of Oman	1.00%	1,299	-	-	-	363,229	364,528
Due from banks	0.20%	79,927	-	-	-	-	79,927
Loans & advances and financing, net	4.93%	1,932,207	284,738	716,447	1,020,132	-	3,953,524
Investment securities	1.71%	199,997	-	76,138	164,599	18,078	458,812
Property and equipment	-	-	-	-	-	43,844	43,844
Other assets	0.25%	-	-	-	-	33,533	33,533
Total assets		2,213,430	284,738	792,585	1,184,731	458,684	4,934,168
Liabilities and equity							
Due to banks	1.88%	503,319	-	100,000	-	-	603,319
Customers' deposits	2.02%	511,092	1,212,379	1,055,706	-	522,190	3,301,367
Borrowed funds	1.65%	-	100,000	30,000	-	-	130,000
Taxation	-	-	-	-	-	11,655	11,655
Other liabilities	0.00%	-	510	-	-	87,451	87,961
Subordinated liabilities	5.16%	-	-	-	-	168,831	168,831
Shareholders' funds	-	-	-	-	-	631,035	631,035
Total liabilities and equity		1,014,411	1,312,889	1,185,706	-	1,421,162	4,934,168
Total interest rate sensitivity gap		1,199,019	(1,028,151)	(393,121)	1,184,731	(962,478)	-
Cumulative interest rate sensitivity gap		1,199,019	170,868	(222,253)	962,478	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

31 FINANCIAL RISK MANAGEMENT (continued)

31.3 MARKET RISK (continued)

31.3.2 Exposure to interest rate risk (continued)

31 December 2015	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	1.00%	500	-	-	-	123,200	123,700
Due from banks	0.20%	60,377	-	-	-	-	60,377
Loans & advances and financing, net	4.63%	704,687	232,503	225,175	355,687	-	1,518,052
Investment securities	0.76%	158,922	1,402	10	-	-	160,334
Property and equipment		-	-	-	-	17,604	17,604
Other assets	0.25%	-	-	-	-	18,198	18,198
Total assets		924,486	233,905	225,185	355,687	159,002	1,898,265
Liabilities and equity							
Due to banks	0.79%	179,209	-	38,500	-	-	217,709
Customers' deposits	1.49%	258,538	379,081	446,857	2	216,359	1,300,837
Borrowed funds	1.44%	-	9,625	38,500	-	-	48,125
Taxation		-	-	-	-	3,245	3,245
Other liabilities	2.02%	6,165	-	-	-	29,901	36,066
Subordinated liabilities	5.16%	-	-	-	-	65,000	65,000
Shareholders' funds		-	-	-	-	227,283	227,283
Total liabilities and equity		443,912	388,706	523,857	2	541,788	1,898,265
Total interest rate sensitivity gap		480,574	(154,801)	(298,672)	355,685	(382,786)	-
Cumulative interest rate sensitivity gap		480,574	325,773	27,101	382,786	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

31 FINANCIAL RISK MANAGEMENT (continued)

31.3 MARKET RISK (continued)

31.3.2 Exposure to interest rate risk (continued)

31 December 2015	Effective annual interest rate	Upto three months US\$ '000	Above three months to twelve months US\$ '000	Above one year to five years US\$ '000	More than five years US\$ '000	Non - Sensitive to interest rate US\$ '000	Total US\$ '000
Assets							
Cash and balances with Central Bank of Oman	1.00%	1,299	-	-	-	320,000	321,299
Due from banks	0.20%	156,824	-	-	-	-	156,824
Loans & advances and financing, net	4.63%	1,830,355	603,904	584,870	923,862	-	3,942,991
Investment securities	0.76%	412,784	3,642	26	-	-	416,452
Property and equipment	-	-	-	-	-	45,725	45,725
Other assets	0.25%	-	-	-	-	47,267	47,267
Total assets		2,401,262	607,546	584,896	923,862	412,992	4,930,558
Liabilities and equity							
Due to banks	0.79%	465,478	-	100,000	-	-	565,478
Customers' deposits	1.49%	671,527	984,626	1,160,668	5	561,971	3,378,797
Borrowed funds	1.44%	-	25,000	100,000	-	-	125,000
Taxation	-	-	-	-	-	8,427	8,427
Other liabilities	2.02%	16,014	-	-	-	77,666	93,680
Subordinated liabilities	5.16%	-	-	-	-	168,831	168,831
Shareholders' funds	-	-	-	-	-	590,345	590,345
Total liabilities and equity		1,153,019	1,009,626	1,360,668	5	1,407,240	4,930,558
Total interest rate sensitivity gap		1,248,243	(402,080)	(775,772)	923,857	(994,248)	-
Cumulative interest rate sensitivity gap		1,248,243	846,163	70,391	994,248	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

31 FINANCIAL RISK MANAGEMENT (continued)

31.3 MARKET RISK (continued)

31.3.2 Exposure to interest rate risk (continued)

Exposure and sensitivity analysis

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

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
3,026	8,530	Impact of +200 bps interest rate increase	3,284	3,297
(3,026)	(8,530)	Impact of -200 bps interest rate decrease	(3,284)	(3,297)

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.

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;

2015 US\$ '000	2016 US\$ '000	Security as per country	2016 RO '000	2015 RO '000
769	735	MSM - Oman +5% impact	283	296
(769)	(735)	MSM - Oman -5% impact	(283)	(296)
112	44	Other GCC countries +5% impact	17	43
(112)	(44)	Other GCC countries -5% impact	(17)	(43)

Currency risk

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

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

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
79,923	81,470	US Dollar	31,366	30,770
26	18	Euro	7	10
849	2,548	UAE Dirham	981	327
26	8	GBP Sterling	3	10
18,459	696	Others	268	7,107

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 2016 on net assets is considered negligible.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

31 FINANCIAL RISK MANAGEMENT (continued)

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.

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 2015: 12.625% including capital conservation buffer of 0.625%). The capital adequacy ratio working is as follows:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

31 FINANCIAL RISK MANAGEMENT (continued)

31.5 CAPITAL MANAGEMENT

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
534,992	575,065	Common Equity Tier 1 (CET1)	221,400	205,972
-	-	Additional Tier 1	-	-
534,992	575,065	Tier 1	221,400	205,972
115,787	104,405	Tier 2	40,196	44,578
650,779	679,470	Total regulatory capital	261,596	250,550
		Risk weighted assets		
4,133,304	4,059,956	Credit risk	1,563,083	1,591,322
128,644	209,010	Market risk	80,469	49,528
232,286	249,670	Operational risk	96,123	89,430
4,494,234	4,518,636	Total risk weighted assets	1,739,675	1,730,280
		Capital adequacy ratio		
11.90%	12.73%	CET1 capital expressed as a percentage of total risk-weighted assets	12.73%	11.90%
11.90%	12.73%	Total tier I capital expressed as a percentage of total risk-weighted assets	12.73%	11.90%
2.58%	2.31%	Tier II capital expressed as a percentage of total risk-weighted assets	2.31%	2.58%
14.48%	15.04%	Total regulatory capital expressed as a percentage of total risk-weighted assets	15.04%	14.48%

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.

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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

32 SEGMENT INFORMATION

Segment information is as follows:

	2016			2015		
	Retail banking	Corporate banking, Treasury & Investment	Total	Retail banking	Corporate banking, Treasury & Investment	Total
	RO '000	RO '000	RO '000	RO '000	RO '000	RO '000
Net interest income	15,492	22,205	37,697	18,509	20,655	39,164
Net income from islamic financing and investments	<u>2,720</u>	<u>4,315</u>	<u>7,035</u>	<u>3,057</u>	<u>4,090</u>	<u>7,147</u>
Net interest income and income from islamic financing and investments	18,212	26,520	44,732	21,566	24,745	46,311
Other operating income	<u>1,257</u>	<u>7,583</u>	<u>8,840</u>	<u>2,298</u>	<u>7,364</u>	<u>9,662</u>
Net operating income	19,469	34,103	53,572	23,864	32,109	55,973
Loans and financing impairment, net of recoveries	(601)	449	(152)	(3,170)	(1,580)	(4,750)
Impairment for investments	-	(576)	(576)	-	(526)	(526)
Operating expenses	<u>(10,243)</u>	<u>(8,973)</u>	<u>(19,216)</u>	<u>(10,983)</u>	<u>(9,333)</u>	<u>(20,316)</u>
Profit before taxation	8,625	25,003	33,628	9,711	20,670	30,381
Tax expense	<u>(1,035)</u>	<u>(3,041)</u>	<u>(4,076)</u>	<u>(1,159)</u>	<u>(1,495)</u>	<u>(2,654)</u>
Segment profit for the year	<u>7,590</u>	<u>21,962</u>	<u>29,552</u>	<u>8,552</u>	<u>19,175</u>	<u>27,727</u>
Segment assets	<u>633,945</u>	<u>1,265,709</u>	<u>1,899,654</u>	<u>639,586</u>	<u>1,258,679</u>	<u>1,898,265</u>
Segment liabilities	<u>181,335</u>	<u>1,475,371</u>	<u>1,656,706</u>	<u>172,215</u>	<u>1,498,767</u>	<u>1,670,982</u>
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Net interest income	40,239	57,676	97,915	48,076	53,649	101,725
Net income from islamic financing and investments	<u>7,065</u>	<u>11,207</u>	<u>18,272</u>	<u>7,940</u>	<u>10,625</u>	<u>18,565</u>
Net interest income and income from islamic financing and investments	47,304	68,883	116,187	56,016	64,274	120,290
Other operating income	<u>3,265</u>	<u>19,696</u>	<u>22,961</u>	<u>5,969</u>	<u>19,127</u>	<u>25,096</u>
Net operating income	50,569	88,579	139,148	61,985	83,401	145,386
Loans and financing impairment, net of recoveries	(1,561)	1,166	(395)	(8,234)	(4,103)	(12,337)
Impairment for investments	-	(1,496)	(1,496)	-	(1,366)	(1,366)
Operating expenses	<u>(26,605)</u>	<u>(23,305)</u>	<u>(49,910)</u>	<u>(28,527)</u>	<u>(24,241)</u>	<u>(52,768)</u>
Profit before taxation	22,403	64,944	87,347	25,224	53,691	78,915
Tax expense	<u>(2,688)</u>	<u>(7,899)</u>	<u>(10,587)</u>	<u>(3,010)</u>	<u>(3,884)</u>	<u>(6,894)</u>
Segment profit for the year	<u>19,715</u>	<u>57,045</u>	<u>76,760</u>	<u>22,214</u>	<u>49,807</u>	<u>72,021</u>
Segment assets	<u>1,646,610</u>	<u>3,287,558</u>	<u>4,934,168</u>	<u>1,661,262</u>	<u>3,269,296</u>	<u>4,930,558</u>
Segment liabilities	<u>471,000</u>	<u>3,832,133</u>	<u>4,303,133</u>	<u>447,312</u>	<u>3,892,901</u>	<u>4,340,213</u>

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FINANCIAL STATEMENTS OF
AL HILAL ISLAMIC
BANKING SERVICES
FOR THE YEAR ENDED 31 DECEMBER 2016

AL HILAL ISLAMIC BANKING SERVICES, AHLI BANK SAOG SHARI'A SUPERVISORY BOARD REPORT

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

Shari'a Supervisory Board (Board) has reviewed the products and the contracts relating to the transactions which were made by the Bank during the period (01/01/2016 to 31/12/2016) ended 2016 and they complied with rules and principles of Islamic Shari'a and with the Fatawa issued by the Board.

The Bank's management is responsible for ensuring that the Bank conducts its business in accordance with rules and principles of Islamic Shari'a and the Board is responsible to form an independent opinion, on the operations. The Board conducted review and audit of the transactions and the relevant documentation and procedures adopted

by the Bank, in this regard, and ensured their compliance with the requirement. The Board has obtained all the necessary information and explanations which assures non-compliance with Islamic Shari'a rules and principles.

In opinion of the Board:

- The contracts, transactions and dealings entered into by the Bank during the year ended 2016 are in compliance with Shari'a rules and principles.
- 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 Shari'a rules and principles.
- All earning that has been realized from sources or by means prohibited by Islamic Shari'a principles have been disposed of to charitable causes,
- The calculation of Zakah is in compliance with Shari'a rules and principles.

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

Shari'a Supervisory Board



Dr. Ahmed Mohiyeldin Ahmed
(Chairman)



**Dr. Mohammed Tahir
Mohammed Al Ibrahim**



Dr. Mustaien Ali Abdulhameed
(Members)



**Dr. Abdulrauf Abdullah
Hamood Al Tubi**

FINANCIAL STATEMENTS OF AL HILAL ISLAMIC BANKING SERVICES

FOR THE YEAR ENDED 31 DECEMBER 2016

Resolutions Issued by SSB during Year 2016

SR.	SSB Meeting	Resolution No.	Subject
1	SSB 13th Meeting on 6-April-2016	2 - SSB - 13 - 2016	Legal Documents of Diminishing Musharaka Product for Ready Property
		3 - SSB - 13 - 2016	Legal Documents of Diminishing Musharaka Product for Asset under Construction
		4 - SSB - 13 - 2016	Changes proposed in the vehicles Murabaha and goods Murabaha contracts which were approved by SSB at earlier
		5 - SSB - 13 - 2016	Review and Opinion on Shari'a Audit Reports for the Period of the 4th Quarter 2015: 1. Sharia Audit Report- Corporate Banking Financing Contracts 2. Sharia Audit Report-SME Financing Contracts 3. Sharia Audit Report- Retail Banking Deposit and Financing Contracts 4. Sharia Audit Report- Investment Contracts of Treasury 5. Shari'a Audit Report of Trade Finance
		6 - SSB - 13 - 2016	Ahli Bank SAOG Management Proposal to Change Ijara Rentals of all the Ijara MBT Financing Contracts
		7 - SSB - 13 - 2016	Retail Banking Service Ijara Product Paper
		8 - SSB - 13 - 2016	Changes in the Retail Banking Product's Paper
		9 - SSB - 13 - 2016	Ahli Bank SAOG Management Proposal for Disbursement of Charity Fund form Charity Account
2	SSB 14th Meeting on 14-June-2016	2 - SSB - 14 - 2016	Retail Banking Proposal for Personal Financing Promotion Campaign
		3 - SSB - 14 - 2016	Islamic Prize Account Product Paper
		4 - SSB - 14 - 2016	Bancassurance Product Paper of Al Hilal Islamic Banking
		5 - SSB - 14 - 2016	Al Hilal MENA Fund List of Companies for Investment
		6 - SSB - 14 - 2016	Shari'a Audit Reports of 1stQuarter 2016: 1. Shari'a Audit Report of Corporate Banking 2. Shari'a Audit Report of Retail Banking 3. Shari'a Audit Report of SME 4. Shari'a Audit Report of Trade Finance 5. Shari'a Audit Report of Treasury
		7 - SSB - 14 - 2016	Marketing and Distribution Agreement of Takaful Oman
		8 - SSB - 14 - 2016	Al Hilal Islamic Retail Banking Wakala Agreement for Deposits

FINANCIAL STATEMENTS OF AL HILAL ISLAMIC BANKING SERVICES

FOR THE YEAR ENDED 31 DECEMBER 2016

3	SSB 15th Meeting on October 16, 2016	2 - SSB - 15 - 2016	Proposal for Donation of Charity Amount Accumulated till September 2016
		4 - SSB - 15 - 2016	Shari'a Audit Reports of 2 nd Quarter 2016 1. Shari'a Audit Report of Corporate Banking 2. Shari'a Audit Report of Retail Banking 3. Shari'a Audit Report of SME 4. Shari'a Audit Report of Trade Finance 5. Shari'a Audit Report of Treasury 6. Shari'a Audit Report of Al Hilal MENA Fund
		5 - SSB - 15 - 2016	Al Hilal Islamic Banking Services Ijara Product Paper
		6 - SSB - 15 - 2016	Additions in the SSB Approved Prize Account Product Paper
		7 - SSB - 15 - 2016	Final Draft of Service Ijara Agreement for Approval
		8 - SSB - 15 - 2016	Diminishing Musharaka Documents for Ready Asset Documents
		9 - SSB - 15 - 2016	Diminishing Musharaka Documents for Under Construction Asset
		10 - SSB - 15 - 2016	SSB Advice on (1) Percentage Contribution of Customer in Diminishing Musharaka Agreement and (2) Sale Price of Units under Diminishing Musharaka Agreement
		11 (SSB-15-2016)	IT System Shari'a Review Report by Deloitte (External Firm)
		12 (SSB-15-2016)	Fatwa of Al Nama Account Deposit Product Fatwa of Credit Cards Product Fatwa of Diminishing Musharaka for Ready Assets Product Fatwa of Diminishing Musharaka for under Construction Assets Product
		13 - SSB - 15 - 2016	Corporate Islamic Banking Request to Arrange Conventional Insurance for: 1. Al-Hadah Real Estate Establishment 2. Sh. Salim Ghazali & First Logistics Services
		14 - SSB - 15 - 2016	Corporate Banking Query about Transfer of Customer Share in the Asset
4	SSB 16th Meeting on December 29, 2016	2 - SSB - 16 - 2016	Corporate Islamic Banking Syndicated Financing Documents for the Customer NDGC and Proposal to Take Fee for the Services of Syndicated Financing
		4 - SSB - 16 - 2016	Shari'a Audit Reports of 3 rd Quarter 2016 1. Shari'a Audit Report of Corporate Banking 2. Shari'a Audit Report of Retail Banking 3. Shari'a Audit Report of SME 4. Shari'a Audit Report of Trade Finance 5. Shari'a Audit Report of Treasury 6. Shari'a Audit Report of Al Hilal MENA Fund
		5 - SSB - 16 - 2016	Al Hilal Shari'a Audit Plan for Year 2017
		6 - SSB - 16 - 2016	Shari'a Training Plan for Year 2017
		7 - SSB - 16 - 2016	Prize Account Terms and Conditions
		8 - SSB - 16 - 2016	Offer and Acceptance Notifications for Services Ijara
		9 - SSB - 16 - 2016	Presentation to SSB on Services Ijara and Prize Account Products Modules
		10 - SSB - 16 - 2016	Query Pertaining to Early Release (Partial or Full) of the Assets under Musharaka cum Forward Ijara and Ijara MBT Based Financings
		11 - SSB - 16 - 2016	Annexure to Musharaka Contract for Construction of Asset, Annexure to Forward Ijara Contract and Annexure to Ijara MBT Contract
		12 - SSB - 16 - 2016	Takaful Insurance arrangements Progress Report by Corporate Banking
		13 - SSB - 16 - 2016	Query about Offer of Complementary Insurance by Seller of Asset
		14 - SSB - 16 - 2016	Report on Control Procedures Relating to Shari'a Compliance and Governance of Al Hilal Islamic Banking Services, Ahli Bank SAOG for the Year 2016

FINANCIAL STATEMENTS OF AL HILAL ISLAMIC BANKING SERVICES

FOR THE YEAR ENDED 31 DECEMBER 2016

In the Name of Allah, the Merciful, the Compassionate

Fatwa of Shari'a Supervisory Board

12-a (SSB – 15– 2016)

Subject: Fatwa of Al Namaa Account Deposit Product

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

On Sunday the 14 Muharram 1438 that corresponds to October 16, 2016, the Shari'a Supervisory Board (SSB) of Al Hilal Islamic Banking Services, Ahli Bank SAOG (the "Bank") issued Fatwa of the Al Namaa Account Deposit Product of the Bank that contains the following details:

Shari'a Structure:

Al Hilal Islamic Banking Services Al Namaa Account Deposit Product is based on the Shari'a principles of Mudaraba. According to the structure of the product, by investing in Al Hilal Islamic Banking deposit accounts the depositor (Rabb ul-Mal) authorizes the Al Hilal Islamic Banking (Mudarib) to invest account holders funds under the unrestricted Mudaraba contract. The Bank collects these deposits in

its Mudaraba pool along with the equity of shareholders and invests the capital into profitable business in a Shari'a compliant way. The profit on the Mudaraba pool is distributed amongst the investors, taking into consideration the tenor, amount of the deposit and profit payment frequency for the account.

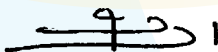
Al Namaa account is an investment account that is linked to a current account, for transactional purpose. The product have the feature of online sweep facility, where the balance will be held in savings account of high weightage and in case the customer wishes to withdraw funds, either partly or fully, the linked current account will fetch funds from savings account on real time basis, allowing customer to make the withdrawal.

The SSB Opinion:

Having reviewed the Al Namaa Account Deposit product's paper, terms and conditions and profit distribution policy, we the Shari'a Supervisory Board of the Bank confirm that the Al Namaa Account Deposit Product is according to the dictates of Shari'a.

And all praise is due to Allah.

Shari'a Supervisory Board



Dr. Ahmed Mohiyeldin Ahmed
(Chairman)



**Dr. Mohammed Tahir
Mohammed Al Ibrahim**



Dr. Mustaien Ali Abdulhameed

(Members)



**Dr. Abdulrauf Abdullah
Hamood Al Tubi**

FINANCIAL STATEMENTS OF AL HILAL ISLAMIC BANKING SERVICES

FOR THE YEAR ENDED 31 DECEMBER 2016

In the Name of Allah, the Merciful, the Compassionate
Fatwa of Shari'a Supervisory Board
12-b (SSB – 15– 2016)

Subject: Fatwa of Credit Cards Product

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

On Sunday the 14 Muharram 1438 that corresponds to October 16, 2016, the Shari'a Supervisory Board (SSB) of Al Hilal Islamic Banking Services, Ahli Bank SAOG (the "Bank") issued Fatwa of the Credit Cards Product of the Bank that contains the following details:

Shari'a Structure:

The Credit Cards Product of the Bank is based on the Shari'a principles of Qard according to which the Bank cannot charge any over or excess on the Qard amount. The

Customers are required to pay back Qard amount without any delay. The Bank can charge the Customer with a fee for the administrative services and not for any Qard amount.

The Bank has Platinum and Signature cards, each one contains unique properties stated in the SSB approved Credit Cards Guide Book that is given to each Customer along with the Credit Card.

Legal Documents:

1. Credit Card Application and terms and conditions
2. Credit Cards Guide Book

The SSB Ruling:

Having reviewed the Credit Cards product's structure and the legal documents as stated above, we confirm that the Credit Cards Product of the Bank is in accordance with the dictates of Shari'a.

And all praise is due to Allah.

Shari'a Supervisory Board



Dr. Ahmed Mohiyeldin Ahmed
(Chairman)



**Dr. Mohammed Tahir
Mohammed Al Ibrahim**



Dr. Mustaien Ali Abdulhameed
(Members)



**Dr. Abdulrauf Abdullah
Hamood Al Tubi**

FINANCIAL STATEMENTS OF AL HILAL ISLAMIC BANKING SERVICES

FOR THE YEAR ENDED 31 DECEMBER 2016

In the Name of Allah, the Merciful, the Compassionate

Fatwa of Shari'a Supervisory Board

12-c (SSB – 15– 2016)

Subject: Fatwa of Diminishing Musharaka Product for Existing Assets

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

On Sunday the 14 Muharram 1438 that corresponds to October 16, 2016, the Shari'a Supervisory Board (SSB) of Al Hilal Islamic Banking Services, Ahli Bank SAOG (the "Bank") issued Fatwa of the Diminishing Musharaka Product of the Bank (for Retail, SME and Corporate Banking) that contains the following structure, process flow and legal documents:

Structure:

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

Accordingly, through DM Agreement the Bank and the Customer will jointly purchase an asset (real estate property, machinery and etc.) and co-own the asset in proportion to their contribution towards the purchase price. On the other hand, Ijara is a lease contract in which usufruct of the asset is transferred to the lessee (Customer) for a specific period in consideration of an agreed rental.

Process Flow:

- The Customer approaches the Bank to avail the DM based financing facility and provides full details of the asset which he/she/it wishes to get financed.

- After internal approvals the Customer will provide a security deposit (where applicable), which would be adjusted as his share in the property at the time of execution of DM Agreement.
- The Sale and Purchase Contract will be executed between the Bank and the owner of asset to purchase the asset.
- The Bank and the Customer enter into a DM Agreement, specifying respective shares of both the parties in the Musharaka and number of units of properties.
- The Customer and the Bank then enter into a Lease Agreement through which the Bank leases its part in the asset to the Customer on agreed rentals.
- Along with Lease Agreement, the Customer shall sign Title Agency Declaration, Service Agency Agreement and Purchase Undertaking.
- The Bank executes a Sale Undertaking in favor of the Customer to sell its part in the Musharaka to the Customer.

Financing Documents:

1. Finance Application/Letter
2. Sale and Purchase Contract
3. Diminishing Musharakah Agreement
4. Ijara Agreement
5. Purchase Undertaking
6. Sale Undertaking
7. Service Agency Agreement
8. Title Agency Agreement (if applicable)
9. Schedule A: Additional Representations and Warranties (for SME and Corporate Banking)
10. Schedule B: Additional Undertakings (for SME and Corporate Banking)

The SSB Ruling:

Having reviewed the Bank's Diminishing Musharaka product's structure, process flow and the legal documents as stated above, we confirm that the Diminishing Musharaka product of the Bank is in accordance with the dictates of Shari'a.

And all praise is due to Allah.

Shari'a Supervisory Board



Dr. Ahmed Mohiyeldin Ahmed
(Chairman)



**Dr. Mohammed Tahir
Mohammed Al Ibrahim**



Dr. Mustaien Ali Abdulhameed

(Members)



**Dr. Abdurauaf Abdullah
Hamood Al Tubi**

FINANCIAL STATEMENTS OF AL HILAL ISLAMIC BANKING SERVICES

FOR THE YEAR ENDED 31 DECEMBER 2016

In the Name of Allah, the Merciful, the Compassionate **Fatwa of Shari'a Supervisory Board** 12-d (SSB – 15 – 2016)

Subject: Fatwa of the Diminishing Musharaka Product for Under Construction Assets

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

On Sunday the 14 Muharram 1438 that corresponds to October 16, 2016 the Shari'a Supervisory Board (SSB) of Al Hilal Islamic Banking Services, Ahli Bank SAOG (the "Bank") issued Fatwa of the Diminishing Musharaka Product for Under Construction Assets (for Retail, SME and Corporate Banking) of the Bank that contains the following structure, process flow and legal documents:

Structure:

Diminishing Musharaka for Under Construction Asset (s) is formed between the Customer and the Bank to create co-ownership in an agreed proportion whereby the Customer undertakes to buy periodically the proportionate share of the Bank. The customer can contribute by an asset (such as plot) as well as construction cost, while the Bank can finance plot and/or construction cost. Furthermore during the facility, the Bank leases out its share in the asset to the other co-owner through Forward Lease Agreement.

Process Flow:

- The Customer approaches the Bank to avail the financing facility in accordance with Shari'a rules and principles of Diminishing Musharaka plus Forward Lease and provides full details of the asset which the Customer wishes to get financed.

- After internal approvals the Customer will provide a security deposit (where applicable), which would be adjusted as his share in the asset at the time of execution of DM Agreement.
- The Bank and the Customer enter into a Diminishing Musharaka Agreement for Construction of Asset, specifying respective shares of each party, terms and conditions of asset construction and division of asset into agreed No. of units for their sale to the customer.
- The Customer and the Bank then enter into a Forward Lease Agreement.
- Along with Lease Agreement, the Customer shall sign Title Agency Declaration, Management Agreement and Purchase Undertaking.
- The Bank executes a Sale Undertaking in favor of the Customer to sell its part in the Musharaka to the Customer.

Financing Documents:

1. Finance Application/Letter
2. Diminishing Musharaka Agreement
3. Forward Lease Agreement
4. Management Agreement
5. Purchase Undertaking
6. Sale Undertaking
7. Title Agency Agreement (if applicable)
8. Schedule A: Additional Representations and Warranties (for SME and Corporate Banking)
9. Schedule B: Additional Undertakings

SSB Ruling:

Having reviewed the structure, process flow and the legal documents of Diminishing Musharaka Product for Under Construction Assets (as stated above) of the Bank, we confirm that the product is in accordance with the dictates of Shari'a.

And all praise is due to Allah.

Shari'a Supervisory Board



Dr. Ahmed Mohiyeldin Ahmed
(Chairman)



**Dr. Mohammed Tahir
Mohammed Al Ibrahim**



Dr. Mustaien Ali Abdulhameed

(Members)



**Dr. Abdulrauf Abdullah
Hamood Al Tubi**

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 2016, 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 2016, 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.

Ernst & Young LLC

Sanjay

Sanjay Kawatra
27 February 2017
Muscat



FINANCIAL STATEMENTS OF AL HILAL ISLAMIC BANKING SERVICES

FOR THE YEAR ENDED 31 DECEMBER 2016

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

2015 US\$ '000	2016 US\$ '000		Note	2016 RO '000	2015 RO '000
ASSETS					
64,538	76,964	Cash and balances with Central Bank of Oman	5	29,631	24,847
8,634	395	Due from banks	6	152	3,324
83,314	113,025	Murabaha receivables	7	43,515	32,076
139,496	127,400	Musharaka receivables	8	49,049	53,706
26,481	26,472	Investment securities	9	10,192	10,195
333,704	341,377	Ijarah assets - Ijarah Muntahia Bittamleek	10	131,430	128,476
3,449	3,278	Property and equipment	11	1,262	1,328
2,895	3,889	Other assets	12	1,497	1,115
<u>662,511</u>	<u>692,800</u>	TOTAL ASSETS		<u>266,728</u>	<u>255,067</u>
LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY					
170,031	150,057	Due to banks	13	57,772	65,462
331,465	356,449	Wakala deposits	14	137,233	127,614
44,740	30,317	Customers' current accounts		11,672	17,225
9,174	12,728	Other liabilities	15	4,900	3,532
555,410	549,551	TOTAL LIABILITIES		211,577	213,833
25,465	56,504	Equity of investment account holders	16	21,754	9,804
<u>580,875</u>	<u>606,055</u>	TOTAL LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS		<u>233,331</u>	<u>223,637</u>
64,935	64,935	Share capital	17	25,000	25,000
(68)	20	Investment fair value reserve		8	(26)
16,769	21,790	Retained earnings		8,389	6,456
81,636	86,745	TOTAL OWNERS' EQUITY		<u>33,397</u>	<u>31,430</u>
<u>662,511</u>	<u>692,800</u>	TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY		<u>266,728</u>	<u>255,067</u>
<u>3,766</u>	<u>1,133</u>	Contingent liabilities and commitments	19	<u>436</u>	<u>1,450</u>

The financial statements on pages 115 to 141 were approved by the Board of Directors on 25 January 2017 and signed on their behalf by:



Hamdan Ali Nasser Al Hinai
Chairman



Lloyd Maddock
Chief Executive Officer

Report of the Auditors - page 114.

FINANCIAL STATEMENTS OF AL HILAL ISLAMIC BANKING SERVICES

FOR THE YEAR ENDED 31 DECEMBER 2016

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

2015 US\$ '000	2016 US\$ '000		Note	2016 RO '000	2015 RO '000
25,132	28,810	Income from financing activities	20	11,092	9,676
158	961	Income from investing activities	21	370	61
1,790	696	Other operating income	22	268	689
(2,605)	(122)	Financing impairment on portfolio and specific basis	24	(47)	(1,003)
-	(96)	Impairment on available for sale investments		(37)	-
24,475	30,249			11,646	9,423
(522)	(1,538)	Return to investment account holders		(592)	(201)
348	1,060	Islamic Windows' share as Mudarib		408	134
(174)	(478)	Return to investment account holders before zakah		(184)	(67)
		Islamic Window's share in income from financing and investing activities (as Mudarib and Fund owner)		11,462	9,356
275	252	Other operating income from banking services	23	97	106
(2,455)	(2,704)	Profit paid on due to banks		(1,041)	(945)
(3,761)	(8,317)	Profit paid on wakala deposits		(3,202)	(1,448)
18,360	19,002	Net operating income		7,316	7,069
(2,379)	(3,047)	Staff expenses	25	(1,173)	(916)
(766)	(662)	Depreciation	11	(255)	(295)
(2,327)	(2,195)	Other operating expenses	26	(845)	(896)
(5,472)	(5,904)	Total expenses		(2,273)	(2,107)
12,888	13,098	Profit before taxation		5,043	4,962
(2,436)	(1,584)	Taxation		(610)	(938)
10,452	11,514	Profit for the year		4,433	4,024

The notes and other explanatory information on pages 120 to 141 form an integral part of these financial statements.

Report of the Auditors - page 114.

FINANCIAL STATEMENTS OF AL HILAL ISLAMIC BANKING SERVICES

FOR THE YEAR ENDED 31 DECEMBER 2016

STATEMENT OF CHANGES IN OWNERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital RO '000	Investment fair value reserve RO '000	Retained earnings RO '000	Total RO '000
At 1 January 2016	25,000	(26)	6,456	31,430
Profit for the year	-	-	4,433	4,433
Cumulative changes in fair value	-	34	-	34
Cash Dividend paid	18	-	(2,500)	(2,500)
At 31 December 2016	<u>25,000</u>	<u>8</u>	<u>8,389</u>	<u>33,397</u>
At 31 December 2016 (US\$ '000)	<u>64,935</u>	<u>20</u>	<u>21,790</u>	<u>86,745</u>

	Share capital RO '000	Investment fair value reserve RO '000	Retained earnings RO '000	Total RO '000
At 1 January 2015	25,000	(25)	2,432	27,407
Profit for the year	-	-	4,024	4,024
Cumulative changes in fair value	-	(1)	-	(1)
At 31 December 2015	<u>25,000</u>	<u>(26)</u>	<u>6,456</u>	<u>31,430</u>
At 31 December 2015 (US\$ '000)	<u>64,935</u>	<u>(68)</u>	<u>16,769</u>	<u>81,636</u>

The notes and other explanatory information on pages 120 to 141 form an integral part of these financial statements.

Report of the Auditors - page 114.

FINANCIAL STATEMENTS OF AL HILAL ISLAMIC BANKING SERVICES

FOR THE YEAR ENDED 31 DECEMBER 2016

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

2015 US\$ '000	2016 US\$ '000		Note	2016 RO '000	2015 RO '000
		CASH FLOWS FROM OPERATING ACTIVITIES			
12,888	13,098	Profit for the year		5,043	4,962
		<i>Adjustments for:</i>			
766	662	Depreciation - property and equipment	11	255	295
18,901	19,558	Depreciation - Ijarah Muntahia Bittamleek	10	7,530	7,277
114	-	Loss on sale of property and equipment		-	44
8	-	Loss on sale of investment		-	3
2,605	122	Financing impairment, net of recoveries	24	47	1,003
-	95	Impairment on available for sale investments		37	-
35,282	33,535	Operating profit before change in operating assets and liabilities		12,912	13,584
(52,470)	(31,170)	Increase in Murabaha receivables		(12,001)	(20,201)
(33,475)	12,644	Decrease/(increase) in Musharaka receivables		4,868	(12,888)
(25,975)	-	Investment in securities at fair value through income statement		-	(10,000)
(767)	(994)	Increase in other assets		(382)	(296)
(33,556)	-	Decrease in due to banks		-	(12,919)
189,982	24,984	Increase in Wakala deposits		9,619	73,143
17,964	(14,423)	(Decrease) / Increase in customers' current accounts		(5,553)	6,916
182	3,576	Increase in other liabilities		1,376	70
11,935	31,039	Increase in equity of investment account holders		11,950	4,595
109,102	59,191	Cash from operations		22,789	42,004
(834)	(1,603)	Tax paid		(617)	(321)
108,268	57,588	Net cash from operating activities		22,172	41,683
		CASH FLOWS FROM INVESTING ACTIVITIES			
(77,938)	(26,442)	Investment in Ijarah assets - Ijarah Muntahia Bittamleek		(10,180)	(30,006)
(23)	(8)	Increase in investment securities (excluding securities at fair value through income statement)		(3)	(9)
(455)	(514)	Purchase of property and equipment	11	(198)	(175)
-	30	Proceeds from Sale of property and equipment		11	-
(78,416)	(26,934)	Net cash used in investing activities		(10,370)	(30,190)
		CASH FLOWS FROM FINANCING ACTIVITY			
-	(6,494)	Dividends paid		(2,500)	-
-	(6,494)	Net cash used in financing activity		(2,500)	-
29,852	24,160	NET CHANGE IN CASH AND CASH EQUIVALENTS		9,302	11,493
(26,711)	3,141	Cash and cash equivalents at 1 January		1,209	(10,284)
3,141	27,301	CASH AND CASH EQUIVALENTS AT 31 DECEMBER (Refer below)		10,511	1,209

CASH AND CASH EQUIVALENT COMPRISES OF THE FOLLOWING:

2015 US\$ '000	2016 US\$ '000			2016 RO '000	2015 RO '000
64,538	76,964	Cash and current balances with Central Bank of Oman	5	29,631	24,847
8,634	395	Due from banks	6	152	3,324
(70,031)	(50,058)	Due to banks		(19,272)	(26,962)
3,141	27,301	Cash and cash equivalents		10,511	1,209

The notes and other explanatory information on pages 120 to 141 form an integral part of these financial statements.

Report of the Auditors - page 114.

FINANCIAL STATEMENTS OF AL HILAL ISLAMIC BANKING SERVICES

FOR THE YEAR ENDED 31 DECEMBER 2016

STATEMENT OF SOURCES AND USES OF CHARITY FUND FOR THE YEAR ENDED 31 DECEMBER 2016

2015 US\$ '000	2016 US\$ '000	Note	2016 RO '000	2015 RO '000
Sources of charity fund				
11	11	Fund at the beginning of the year	4	4
28	28	Penalties to customer for late payment	11	11
3	19	Contribution from credit card income	7	1
<u>42</u>	<u>58</u>		<u>22</u>	<u>16</u>
Uses of charity fund				
31	47	Distributed to charity organizations	18	12
31	47	Total uses of charity fund during the year	18	12
11	11	Undistributed charity fund at the end of the year 15	<u>4</u>	<u>4</u>

The notes and other explanatory information on pages 120 to 141 form an integral part of these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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 60 employees as at 31 December 2016 (31 December 2015: 57 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.

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

These financial statements have been prepared using accounting policies, which are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2015, except for adoption for FAS - 27 Investment Accounts.

2.5.1 FAS 27 – Investment Accounts

The Islamic Window has adopted FAS 27 which has replaced FAS 5 - 'Disclosures of Bases for Profit Allocation between Owner's Equity and Investment Account Holders' and FAS 6 - 'Equity of Investment Account Holders and their Equivalent'. This standard has enhanced certain disclosures with respect to investment account holders and bases of profit allocation without having any impact on the financial statements of the Islamic Window.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2 BASIS OF PREPARATION (continued)

2.5 New and amended standards and interpretations (continued)

2.5.2 Standard issued but not yet effective

There are no new standards issued by AAOIFI during the period which may impact the financial statements of the Islamic Window.

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 fair value through income statement, 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Investments (continued)

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.

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	5-10
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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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, however the funds of current accounts are treated as equity for the purpose of profit calculation for investments account holders and any profit earned / loss incurred on those funds are allocated to the equity of the Window.

3.13 Equity of investment account holders

Equity of investment account holders are funds held by the Window in unrestricted investment accounts, which it can invest at its own discretion. The investment account holder authorises the Window to invest the account holders' funds in a manner which the Window deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. The Window charges management fee (Mudarib fees) to investment account holders.

Of the total income from investment accounts, the income attributable to customers is allocated to investment accounts after setting aside provisions, reserves (Profit equalization reserve and Investment risk reserve) and deducting the Window's share of income as a Mudarib. The allocation of income is determined by the management of the Window within the allowed profit sharing limits as per the terms and conditions of the investment accounts. Administrative expenses incurred in connection with the management of the funds are borne directly by the Window and are not charged separately to investment accounts. Investment accounts are carried at their book values and include amounts retained towards profit equalisation and investment risk reserves, if any. Profit equalisation reserve is the amount appropriated by the Window out of the Mudaraba income, before allocating the Mudarib share, in order to maintain a certain level of return to the deposit holders on the investments. Investment risk reserve is the amount appropriated by the Window out of the income of investment account holders, after allocating the Mudarib share, in order to cater against future losses for investment account holders. Creation of any of these reserves results in an increase in the liability towards the pool of unrestricted investment accounts.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14 Revenue recognition (continued)

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 accountholders 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.

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 calculated and paid by the Bank on an overall basis. Taxation expense in these financial statements represents allocation of such taxation to the Islamic Window.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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; or
- 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.

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

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

3.26 Commingling of funds

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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.

4.2 Impairment of investments at fair value through equity

The Islamic Window treats investments carried at fair value through equity as impaired when there is a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Islamic Window evaluates factors, such as the historical share price volatility for comparable quoted equities and future cash flows and the discount factors for comparable unquoted equities.

4.3 Useful life of property and equipment and Ijarah Muntahia Bittamleek

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

5 CASH AND BALANCES WITH CENTRAL BANK OF OMAN

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
2,465	3,414	Cash	1,314	949
62,073	73,550	Clearing account with Central Bank of Oman	28,317	23,898
64,538	76,964		29,631	24,847

6 DUE FROM BANKS

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
7,792	-	Wakala placements	-	3,000
842	395	Nostro account balances	152	324
8,634	395		152	3,324

FINANCIAL STATEMENTS OF AL HILAL ISLAMIC BANKING SERVICES

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

7 MURABAHA RECEIVABLES

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
40,917	51,494	Vehicles	19,825	15,753
57,982	80,145	Personal financing	30,856	22,323
130	3,997	Corporate	1,539	50
99,029	135,636	Gross receivables	52,220	38,126
(14,873)	(20,310)	Deferred profits	(7,819)	(5,726)
84,156	115,326		44,401	32,400
(842)	(2,267)	Impairment on portfolio basis	(873)	(324)
-	(34)	Impairment on specific basis	(13)	-
83,314	113,025		43,515	32,076

8 MUSHARAKA RECEIVABLES

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
141,301	128,657	Musharaka receivables	49,533	54,401
(1,805)	(1,257)	Impairment on portfolio basis	(484)	(695)
139,496	127,400		49,049	53,706

9 INVESTMENT SECURITIES

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
		At fair value through income statement		
25,974	25,974	Oman Sovereign sukuks	10,000	10,000
		At fair value through equity		
507	498	Unlisted Islamic open end mutual fund	192	195
26,481	26,472		10,192	10,195

10 IJARAH ASSETS - IJARAH MUNTAHIA BITTAMLEEK

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
366,982	393,424	Cost	151,468	141,288
(28,782)	(48,340)	Accumulated depreciation	(18,611)	(11,081)
338,200	345,084	Book value	132,857	130,207
(4,382)	(3,595)	Impairment on portfolio basis	(1,384)	(1,687)
(114)	(112)	Impairment on specific basis	(43)	(44)
333,704	341,377	Net book value	131,430	128,476

Ijarah assets includes RO 62.317 million equivalent to US\$ 161.862 which are jointly financed by the islamic window and investment account holders (31 December 2015 RO 56.968 million equivalent to US\$ 147.969).

FINANCIAL STATEMENTS OF AL HILAL ISLAMIC BANKING SERVICES

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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 2016	477	456	990	85	73	2,081
Additions	-	-	77	2	119	198
Transferred from the Bank	-	-	190	-	(190)	-
Disposals / scrapped	-	(4)	(6)	(1)	-	(11)
At 31 December 2016	477	452	1,251	86	2	2,268
Accumulated depreciation:						
At 1 January 2016	40	196	466	49	-	751
Depreciation	19	90	138	8	-	255
Disposals / scrapped	-	-	-	-	-	-
At 31 December 2016	59	286	604	57	-	1,006
Net book value as at						
At 31 December 2016	418	166	647	29	2	1,262
At 31 December 2016 (US\$ '000)	1,086	431	1,681	75	5	3,278

	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 2015	477	433	851	79	138	1,978
Additions	-	10	45	6	114	175
Transferred from the Bank	-	77	102	-	(179)	-
Disposals / scrapped	-	(64)	(8)	-	-	(72)
At 31 December 2015	477	456	990	85	73	2,081
Accumulated depreciation:						
At 1 January 2015	22	138	293	33	-	486
Depreciation	19	87	173	16	-	295
Disposals / scrapped	-	(27)	(1)	-	-	(28)
At 31 December 2015	41	198	465	49	-	753
Net book value as at						
At 31 December 2015	436	258	525	36	73	1,328
At 31 December 2015 (US\$ '000)	1,132	670	1,363	94	190	3,449

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

12 OTHER ASSETS

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
1,530	2,130	Profit receivable on financing	820	589
148	144	Profit receivable on sukuks	56	57
629	941	Credit card receivable	362	242
135	484	Prepayments	186	52
453	190	Others	73	175
<u>2,895</u>	<u>3,889</u>		<u>1,497</u>	<u>1,115</u>

13 DUE TO BANKS

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
170,000	150,000	Wakala acceptances	57,750	65,450
31	57	Vostro account balances	22	12
<u>170,031</u>	<u>150,057</u>		<u>57,772</u>	<u>65,462</u>

14 WAKALA DEPOSITS

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
239,927	275,055	Financial institutions	105,896	92,372
91,538	81,394	Others	31,337	35,242
<u>331,465</u>	<u>356,449</u>		<u>137,233</u>	<u>127,614</u>

15 OTHER LIABILITIES

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
3,210	7,340	Profit payable	2,826	1,236
4,416	3,371	Accrued expenses and payable	1,298	1,700
919	660	Unearned fee income	254	354
11	11	Charity payable	4	4
618	1,346	Others	518	238
<u>9,174</u>	<u>12,728</u>		<u>4,900</u>	<u>3,532</u>

16 EQUITY OF INVESTMENT ACCOUNT HOLDERS

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
		By type:		
25,465	56,504	Saving accounts	21,754	9,804
<u>25,465</u>	<u>56,504</u>		<u>21,754</u>	<u>9,804</u>

The average profit rate for the investment account holders during the year was 1.27% (2015 : 0.86%). Profit sharing ratio of mudarib during the year remained at 70% (2015: 70%)

During the period there is no appropriation to profit equalisation reserve and investment risk reserve and no provision has been charged to income attributable to investment account holders.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

17 SHARE CAPITAL

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

18 DIVIDEND PAID AND PROPOSED

The Board of Directors has recommended 10% cash dividend which is subject to approval of the shareholders at the Annual General Meeting and the regulatory authorities (31 December 2015: 10% cash dividend). The cash dividend proposed for 2015 was approved by the shareholders in annual general meeting and was paid in 2016.

19 CONTINGENT LIABILITIES AND COMMITMENTS

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
976	1,036	Guarantees	399	376
2,790	97	Letter of credits	37	1,074
<u>3,766</u>	<u>1,133</u>		<u>436</u>	<u>1,450</u>

20 INCOME FROM FINANCING ACTIVITIES

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
6,592	6,638	Musharaka	2,556	2,538
15,514	16,704	Rental income on ijarah assets	6,431	5,973
3,026	5,468	Murabaha	2,105	1,165
<u>25,132</u>	<u>28,810</u>		<u>11,092</u>	<u>9,676</u>

21 INCOME FROM INVESTING ACTIVITIES

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
148	909	Income from investments	350	57
10	52	Income from wakala placements	20	4
<u>158</u>	<u>961</u>		<u>370</u>	<u>61</u>

22 OTHER OPERATING INCOME

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
1,603	696	Fee and commission, net	268	617
187	-	Others	-	72
<u>1,790</u>	<u>696</u>		<u>268</u>	<u>689</u>

23 OTHER OPERATING INCOME FROM BANKING SERVICES

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
275	252	Other operating income	97	106

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

24 PROVISION FOR FINANCING IMPAIRMENT

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

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
		Impairment provision on portfolio basis		
4,496	7,028	Balance at the beginning of the year	2,706	1,731
<u>2,532</u>	<u>91</u>	Provided during the year	<u>35</u>	<u>975</u>
<u>7,028</u>	<u>7,119</u>	Balance at the end of the year	<u>2,741</u>	<u>2,706</u>
		Impairment provision on specific basis		
42	114	Balance at the beginning of the year	44	16
114	36	Provided during the year	14	44
<u>(42)</u>	<u>(5)</u>	Recoveries during the year	<u>(2)</u>	<u>(16)</u>
<u>114</u>	<u>145</u>	Balance at the end of the year	<u>56</u>	<u>44</u>

25 STAFF EXPENSES

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
1,457	1,688	Salaries and wages	650	561
<u>922</u>	<u>1,359</u>	Allowances	<u>523</u>	<u>355</u>
<u>2,379</u>	<u>3,047</u>		<u>1,173</u>	<u>916</u>

26 OTHER OPERATING EXPENSES

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
1,429	1,465	Operating and administration costs	564	550
745	655	Occupancy costs	252	287
70	23	Advertisement costs	9	27
<u>83</u>	<u>52</u>	Shariah Supervisory Board related expenses	<u>20</u>	<u>32</u>
<u>2,327</u>	<u>2,195</u>		<u>845</u>	<u>896</u>

27 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 2016

28 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:

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
		Directors, Shariah Supervisory Board and senior management		
36	88	Financing assets	34	14
3	16	Customers' deposits	6	1
52	175	Prepaid rent	67	20
		Major shareholders and others		
21	44	Nostro account balances	17	8
506	499	Investment securities	192	195
170,000	150,000	Due to banks - Wakala acceptances	57,750	65,450

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

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
		Directors, Shariah Supervisory Board and senior management		
3	5	Profit earned	2	1
83	94	Shariah Supervisory Board related expenses	36	32
91	176	Other operating expenses	68	35
		Major shareholders and others		
1,925	2,566	Profit paid on due to banks	988	741
70	242	Other operating expenses	93	27

The Islamic window has rented a branch premises from one of the Director. In accordance with the agreement, an amount of RO 0.047 million equivalent to US\$ 0.123 million was included in the other operating expenses (31 December 2015: RO 0.03 million equivalent to US\$ 0.073).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

29 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 2016 is RO 0.192 million equivalent to US\$ 0.499 million (31 December 2015: RO 0.195 million equivalent to US\$ 0.506 million) with cost amounts to RO 0.221 million equivalent to US\$ 0.574 million (31 December 2015: RO 0.221 million equivalent to US\$ 0.574 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:

	2016			2015		
	RO '000 Level 1	RO '000 Level 2	RO '000 Total	RO '000 Level 1	RO '000 Level 2	RO '000 Total
Financial assets						
Investment - at fair value through income statement	-	10,000	10,000	-	10,000	10,000
Investment - at fair value through equity	192	-	192	195	-	195
	<u>192</u>	<u>10,000</u>	<u>10,192</u>	<u>195</u>	<u>10,000</u>	<u>10,195</u>
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Financial assets						
Investment - at fair value through income statement	-	25,974	25,974	-	25,974	25,974
Investment - at fair value through equity	498	-	498	506	-	506
	<u>498</u>	<u>25,974</u>	<u>26,472</u>	<u>506</u>	<u>25,974</u>	<u>26,480</u>

No financial instruments are carried at level 2 and level 3 fair values as on 31 December 2016 (31 December 2015: Nil).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

30 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

30.1 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.

30.1.1 TYPE OF CREDIT RISK

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

30.1.1.1 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.

30.1.1.2 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.

30.1.1.3 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.

30.1.1.4 IMPAIRED FINANCING

As at 31 December 2016, financing amounting to RO 0.217 million equivalent to US\$ 0.564 million (31 December 2015: RO 0.178 million equivalent to US\$ 0.463 million) has been impaired. The collateral held against impaired financing is RO 0.221 million equivalent to US\$ 0.574 million (31 December 2015: RO 0.278 million equivalent to US\$ 0.722 million). Profit amounting to RO 0.004 million equivalent to US\$ 0.011 million (31 December 2015 : RO 0.002 million equivalent to US\$ 0.005 million) has been held as reserve against these impaired financings.

30.2 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

30 RISK MANAGEMENT (continued)

30.2 LIQUIDITY RISK (continued)

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

	Upto three months 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 2016					
Assets					
Cash and balances with Central Bank of Oman	29,631	-	-	-	29,631
Due from banks	152	-	-	-	152
Financing assets	4,281	8,024	42,210	169,479	223,994
Investment securities	6,859	3,333	-	-	10,192
Property and equipment	-	-	-	1,262	1,262
Other assets	661	836	-	-	1,497
Total assets	41,584	12,193	42,210	170,741	266,728
Liabilities, equity of investment account holders and owners' equity					
Due to banks	19,272	-	38,500	-	57,772
Customers' deposits	33,516	62,895	43,223	31,025	170,659
Other liabilities	1,618	1,657	942	683	4,900
Shareholder's fund	-	-	-	33,397	33,397
Total liabilities, equity of investment account holders and owners' equity	54,406	64,552	82,665	65,105	266,728
Net liquidity gap	(12,822)	(52,359)	(40,455)	105,636	-

FINANCIAL STATEMENTS OF AL HILAL ISLAMIC BANKING SERVICES

FOR THE YEAR ENDED 31 DECEMBER 2016

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

30 RISK MANAGEMENT (continued)

30.2 LIQUIDITY RISK (continued)

	Upto three months US\$ '000	Above three months to twelve months US\$ '000	Above one year to five years US\$ '000	More than five years US\$ '000	Total US\$ '000
31 December 2016					
Assets					
Cash and balances with Central Bank of Oman	76,964	-	-	-	76,964
Due from banks	395	-	-	-	395
Financing assets	11,119	20,842	109,636	440,205	581,802
Investment securities	17,815	8,657	-	-	26,472
Property and equipment	-	-	-	3,278	3,278
Other assets	1,718	2,171	-	-	3,889
Total assets	108,011	31,670	109,636	443,483	692,800
Liabilities, equity of investment account holders and owners' equity					
Due to banks	50,057	-	100,000	-	150,057
Customers' deposits	87,054	163,364	112,268	80,584	443,270
Other liabilities	4,203	4,304	2,447	1,774	12,728
Shareholder's fund	-	-	-	86,745	86,745
Total liabilities, equity of investment account holders and owners' equity	141,314	167,668	214,715	169,103	692,800
Net liquidity gap	(33,303)	(135,998)	(105,079)	274,380	-

	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 2015					
Assets					
Cash and balances with Central Bank of Oman	24,847	-	-	-	24,847
Due from banks	3,324	-	-	-	3,324
Financing assets	8,654	14,468	38,129	153,007	214,258
Investment securities	10,195	-	-	-	10,195
Property and equipment	-	-	-	1,328	1,328
Other assets	1,115	-	-	-	1,115
Total assets	48,135	14,468	38,129	154,335	255,067
Liabilities, equity of investment account holders and owners' equity					
Due to banks	26,962	38,500	-	-	65,462
Customers' deposits	39,659	35,186	42,364	37,434	154,643
Other liabilities	3,532	-	-	-	3,532
Shareholder's fund	-	-	-	31,430	31,430
Total liabilities, equity of investment account holders and owners' equity	70,153	73,686	42,364	68,864	255,067
Net liquidity gap	(22,018)	(59,218)	(4,235)	85,471	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

30 RISK MANAGEMENT (continued)

30.2 LIQUIDITY RISK (continued)

	Upto three months US\$ '000	Above three months to twelve months US\$ '000	Above one year to five years US\$ '000	More than five years US\$ '000	Total US\$ '000
31 December 2015					
Assets					
Cash and balances with Central Bank of Oman	64,538	-	-	-	64,538
Due from banks	8,634	-	-	-	8,634
Financing assets	22,479	37,579	99,036	397,420	556,514
Investment securities	26,481	-	-	-	26,481
Property and equipment	-	-	-	3,449	3,449
Other assets	2,895	-	-	-	2,895
Total assets	125,027	37,579	99,036	400,869	662,511
Liabilities, equity of investment account holders and owners' equity					
Due to banks	70,031	100,000	-	-	170,031
Customers' deposits	103,010	91,393	110,036	97,231	401,670
Other liabilities	9,174	-	-	-	9,174
Shareholder's fund	-	-	-	81,636	81,636
Total liabilities, equity of investment account holders and owners' equity	182,215	191,393	110,036	178,867	662,511
Net liquidity gap	(57,188)	(153,814)	(11,000)	222,002	-

30.3 MARKET RISK

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

30.3.1 PROFIT RATE RISK

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

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

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

	2016 RO '000	2016 US\$ '000	2015 RO '000	2015 US\$ '000
Net profit earned	7,035	18,272	7,277	18,900
Impact of +200 bps profit rate increase	301	782	614	1,595
Impact of -200 bps profit rate decrease	(301)	(782)	(614)	(1,595)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

30 RISK MANAGEMENT (continued)

30.3 MARKET RISK (continued)

30.3.2 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:

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
7,378	4,139	US Dollar	1,594	2,840
6	8	Euro	3	2
66	77	UAE Dirham	30	26
8	7	GBP Sterling	3	3
291	34	Others	13	112

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 2016 on net assets is considered negligible

30.3.3 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.

30.4 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.

30.5 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

30 RISK MANAGEMENT (continued)

30.5 CONCENTRATION RISK (continued)

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.

	2016				
	Murabaha, gross RO '000	Musharaka, gross RO '000	Ijarah Muntahia Bittamleek RO '000	Due from banks RO '000	Investment securities RO '000
Concentration by industry					
Sovereign	-	-	-	-	10,000
Corporate	1,527	49,533	50,133	-	192
Personal	42,874	-	82,724	-	-
Banks	-	-	-	152	-
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Sovereign	-	-	-	-	25,974
Corporate	3,965	128,657	130,216	-	498
Personal	111,361	-	214,868	-	-
Banks	-	-	-	395	-

	2015				
	RO '000	RO '000	RO '000	RO '000	RO '000
Concentration by industry					
Sovereign	-	-	-	-	10,000
Corporate	50	54,401	42,989	-	195
Personal	32,350	-	87,218	-	-
Banks	-	-	-	3,324	-
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Sovereign	-	-	-	-	25,975
Corporate	130	141,301	111,660	-	506
Personal	84,026	-	226,540	-	-
Banks	-	-	-	8,634	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

30 RISK MANAGEMENT (continued)

30.5 CONCENTRATION RISK (continued)

	2016				
	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	44,401	49,533	130,030	-	10,192
Other GCC countries	-	-	2,827	50	-
Unites States of America	-	-	-	-	-
Others	-	-	-	102	-
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Oman	115,326	128,657	337,740	-	26,472
Other GCC countries	-	-	7,344	130	-
Unites States of America	-	-	-	-	-
Others	-	-	-	265	-

	2015				
Concentration by location					
Oman	32,400	54,401	126,244	3,000	10,195
Other GCC countries	-	-	3,963	41	-
Unites States of America	-	-	-	-	-
Others	-	-	-	283	-
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Oman	84,156	141,301	327,906	7,793	26,481
Other GCC countries	-	-	10,294	106	-
Unites States of America	-	-	-	-	-
Others	-	-	-	735	-

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.

30.6 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.

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 2016 is 12% (31 December 2015: 12%). The Capital buffers are maintained at the Bank level in accordance with BM 1140 'Concept paper on capital buffer requirements under Basel III' dated 30 December 2015.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

30 RISK MANAGEMENT (continued)

30.6 CAPITAL MANAGEMENT (continued)

2015 US\$ '000	2016 US\$ '000		2016 RO '000	2015 RO '000
71,185	75,210	Common Equity Tier 1 (CET1)	28,956	27,406
-	-	Additional Tier 1	-	-
71,185	75,210	Tier 1	28,956	27,406
5,353	6,004	Tier 2	2,311	2,061
<u>76,538</u>	<u>81,214</u>	Total regulatory capital	<u>31,267</u>	<u>29,467</u>
		Risk weighted assets		
428,248	479,675	Credit risk	184,675	164,876
17,325	14,444	Market risk	5,561	6,670
17,834	24,512	Operational risk	9,437	6,866
<u>463,407</u>	<u>518,631</u>	Total risk weighted assets	<u>199,673</u>	<u>178,412</u>
		Capital adequacy ratio		
15.36%	14.50%	CET1 capital expressed as a percentage of total risk weighted assets	14.50%	15.36%
15.36%	14.50%	Total tier I capital expressed as a percentage of total risk weighted assets	14.50%	15.36%
1.16%	1.16%	Tier II capital expressed as a percentage of total risk weighted assets	1.16%	1.16%
16.52%	15.66%	Total regulatory capital expressed as a percentage of total risk weighted assets	15.66%	16.52%

31 SOCIAL RESPONSIBILITY

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

Report of the Auditors - page 114.

**BASEL II PILLAR III &
BASEL III REPORT OF
AL HILAL ISLAMIC
BANKING SERVICES**
FOR THE YEAR ENDED 31 DECEMBER 2016

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 OF AL HILAL ISLAMIC BANKING SERVICES

We have performed the procedures agreed with you and as prescribed in Title 5 of the Islamic Banking Regulatory Framework and Central Bank of Oman's (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 as at and for the year ended 31 December 2016. 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.

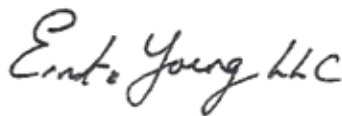
We report our findings as follows:

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 2016 and does not extend to any financial statements of the Bank or its Islamic Window, taken as a whole or to any other reports of the Bank or its Islamic Window.



27 February 2017
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 Sharia 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%. The Capital buffers are maintained at the Bank level in accordance with BM 1140 'Concept paper on capital buffer requirements under Basel III' dated 30 December 2015.
- 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.

- 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. The Bank 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:	F3
	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	28,956
Tier II capital	2,311
Total	31,267

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 2015-2019.

4. RISK MANAGEMENT OF THE BANK

Risk Management Principles

The Bank has an independent Risk Management Department (RMD) 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 the Bank to identifying the various associated risks.

Having identified the risks, the RMD 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 Committees:

- Audit and Compliance Committee
- Executive & Credit Committee
- Executive Risk Committee
- Nomination and Remuneration Committee

Management Committees:

- Special Assets Committee
- Assets and Liabilities Committee
- Operational Risk Committee
- IT Steering Committee
- New Product Committee
- Credit & Investment Committee
- Credit Risk Management 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 & 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:

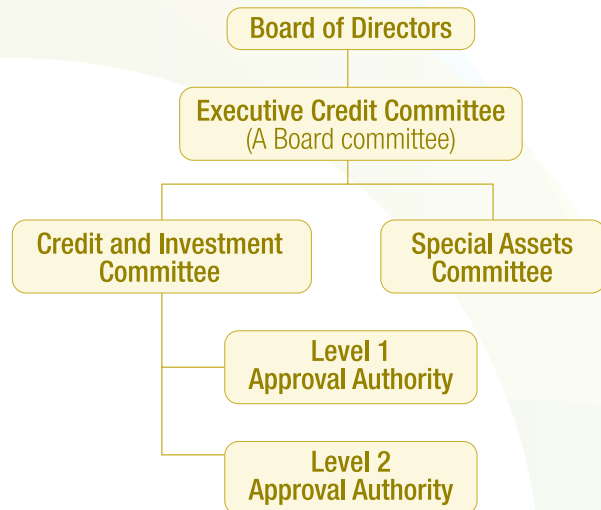
- concentration of exposure in geographies, sectors, groups, counter-parties or rating categories;
- interaction with other risks such as Rate of Return risk, FX risk, and broader economic risk;
- trends in portfolio quality (customers' risk migration, non-performing assets).

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 amendments thereafter.

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 2016, 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 2016 is RO 191,729 with cost amounts to RO 220,733.

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 Sharia 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.

Further, as per the CBO circular BM 1127 dated December 24, 2014 on Basel III Liquidity Coverage Ratio (LCR), the bank has maintained adequate level of LCR

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. Total administrative expenses for profit distribution purposes are borne by the Al Hilal Islamic Banking Services.

During the year ended December 2016 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 30.2 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 2016 (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 Sharia Supervisory Board, notify the Shareholders of their pro-rata share of the Zakah payable annually, if any. Payment of Zakah on the Investment Accounts and other Accounts is the responsibility of Investments Account Holders

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 2016, no income has been credited to charity account being prohibited by Shari'a.

15. COMPENSATION POLICY AND REMUNERATION OF SHARI'A Supervisory BOARD (SSB)

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

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

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

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

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

Details of shari'a supervisory board and meetings attended during the year has been disclosed in corporate governance report.

16. Disclosure tables

1. Capital Adequacy Disclosures (RO '000)

As on 31 December 2016				
Sl. No	Details	Gross balances (book value)	Net balances (book value)	Risk weighted assets
1	On-balance sheet items	259,530	266,728	184,468
2	Off-balance sheet items	436	436	207
3	Total	259,966	267,164	184,675
4	Tier 1 Capital			28,956
5	Tier 2 Capital			2,311
6	Tier 3 Capital			-
7	Total Regulatory Capital			31,267
7.1	Capital requirement for credit risk			22,161
7.2	Capital requirement for market risk			667
7.3	Capital requirement for operational risk			1,132
8	Total required capital			23,960
9	Tier 1 Ratio			14.50%
10	Total Capital Ratio			15.66%

2. Capital Break (RO '000)

As on 31 December 2016		
Sl. No	Elements of capital	Amount
	Tier I Capital	
1	Paid-up capital	25,000
2	Share premium	-
3	Legal reserves	-
4	General reserves	-

As on 31 December 2016

Sl. No	Elements of capital	Amount
5	Subordinated loan reserve	-
6	Stock dividend	-
7	Retained earnings	3,956
8	Non-cumulative perpetual preferred stock	-
9	Other non-distributable Reserve	-
	Total Gross Tier I Capital	28,956
	Deductions	
10	Goodwill	-
11	Deferred Tax Asset	-
12	Intangible Assets, including losses, cumulative unrealised losses recognised directly in equity	-
13	Reciprocal crossholding of bank capital, artificially designed to inflate the capital position of banks	-
	sub-total	-
14	Tier I capital after the above deductions	28,956
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	28,956
	Tier II Capital	
20	Undisclosed reserves	-
21	Revaluation reserves / cumulative fair value gains or losses on investments at AFVTE	3
22	General loan loss provisions / Collective provision	2,308
23	Subordinated debt	-
24	Hybrid debt capital instruments	-
25	Total Tier II capital	2,311
	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)	2,311
30	Tier III Capital (eligible)	-
31	Total Regulatory Capital	31,267

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

As on 31 December 2016

Sl. No	Elements of capital	As on 31 December 2016 Simple Approach	Sl. No	Elements of capital	Simple Approach
			9	ii) Tier II Capital required for banking book and operational risk	2,311
1	Tier I Capital (after supervisory deductions)	28,956	10	Tier I capital available for supporting trading book	7,974
2	Tier II capital (after supervisory deductions and up to eligible limits)	2,311	11	Tier II capital available for supporting trading book	-
3	Tier III Capital (up to a limit where Tier II and Tier III does not exceed Tier I)	-	12	Risk Weighted Assets – trading book	5,561
4	Of which, total eligible tier III capital	-	13	Total capital required to support trading book	667
5	Risk weighted assets – banking book	184,675	14	Minimum Tier I capital required for supporting trading book	190
6	Risk weighted assets – operational risk	9,437	15	Used Eligible Tier III Capital	-
7	Total Risk Weighted Assets – Banking Book + Operational Risk	194,112	16	Total Regulatory Capital	31,267
8	Minimum required capital to support RWAs of banking book and operational risk	23,293	17	Total Risk Weighted Assets – Whole bank	199,673
	i) Minimum required Tier I Capital for banking book and operational risk	20,982	18	BIS Capital Adequacy Ratio	15.66%
				Unused but eligible Tier III Capital	-

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

As on 31 December 2016

Sl. No	Type of credit exposure	Average Gross Exposure			Total Gross Exposure		
		31-Dec-16	31-Dec-15	% of total financing	31-Dec-16	31-Dec-15	% of total financing
1	Musharaka	47,561	57,559	22%	49,533	54,401	22%
2	Ijarah	128,046	125,867	59%	132,857	130,207	59%
3	Murabaha	42,184	21,804	19%	44,401	32,400	19%
		<u>217,791</u>	<u>205,230</u>	<u>100%</u>	<u>226,791</u>	<u>217,008</u>	<u>100%</u>

Type of credit exposure	Gross Balance	Net Balance	Risk Weighted Assets
Musharaka	49,533	49,049	48,698
Murabaha	44,401	43,515	43,515
Ijarah	132,857	131,430	89,146
Total	<u>226,791</u>	<u>223,994</u>	<u>181,359</u>

Type of credit exposure		Net Balance	Risk Weighted Assets
Musharaka	SME	3,322	2,492
	Corporate	45,188	45,188
Murabaha	Corporate	1,512	1,512
	Retail	42,003	42,003
Ijarah	SME	7,209	5,406
	Corporate	42,994	42,994
	Retail	81,766	41,764
Total		<u>223,994</u>	<u>181,359</u>

BASEL II PILLAR III & BASEL III REPORT OF AL HILAL ISLAMIC BANKING SERVICES

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

Sl. No	Economic sector	Ijarah	Murabaha	Musharaka	Total	As on 31 December 2016
						Off-balance sheet exposures *
1	Construction	36,738	25	35,654	72,417	38
2	Manufacturing	4,115	-	2,474	6,589	-
3	Service	3,900	-	30	3,930	265
4	Wholesale and retail trade	5,380	1,502	11,375	18,257	133
5	Personal financing	82,724	42,874	-	125,598	-
	Total	132,857	44,401	49,533	226,791	436

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

6. Credit risk maturity exposure (RO '000)

Sl. No	Time Band	Ijarah	Murabaha	Musharaka	Total	As on 31 December 2016
						Off-balance sheet exposures *
1	Up to 1 month	656	37	423	1,116	64
2	1 - 3 months	949	1,650	568	3,167	1
3	3 - 6 months	1,467	157	535	2,159	2
4	6 - 9 months	1,595	155	993	2,743	232
5	9 - 12 months	2,113	228	794	3,135	-
6	1 - 3 years	13,021	1,325	9,664	24,010	131
7	3 - 5 years	10,631	1,014	6,555	18,200	1
8	Over 5 years	102,425	39,835	30,001	172,261	5
	Total	132,857	44,401	49,533	226,791	436

7. Gross exposure: Provisioning distribution (RO '000)

Sl. No	Economic sector	Gross financing	of which NPLs	Portfolio based provision / reserves	Specific provision held	Reserve profit	As on 31 December 2016
							Provision / reserve made during the year
1	Construction	72,417	-	724	-	-	218
2	Manufacturing	6,589	-	66	-	-	(16)
3	Service	3,930	-	39	-	-	(21)
4	Trading	18,257	-	183	-	-	160
5	Personal financing	125,598	217	1,729	56	4	(292)
	Total	226,791	217	2,741	56	4	49

8. Financings: Geographical Impairment Distribution (RO '000)

Sl. No	Countries	Gross financing	Of which, NPLs	Portfolio - based provision	Specific provisions held	Reserve profit	As on 31 December 2016
							Provisions/ reserve made during the year
1	Oman	223,964	217	2,713	56	4	61
2	Other GCC Countries	2,827	-	28	-	-	(12)
	Total	226,791	217	2,741	56	4	49

9. Movements in gross financings during the year (RO '000)

Sl. No	Details	Performing financings	Sub- Standard	Doubtful	Loss	As on 31 December 2016
						Total
1	Opening balance	216,830	125	53	-	217,008
2	Migration / changes (+/-)	(39)	(103)	142	-	-
3	New financings	31,936	-	-	-	31,936
4	Recovery of financings	(22,153)	-	-	-	(22,153)
5	Financings written off	-	-	-	-	-
6	Closing balance	226,574	22	195	-	226,791
7	Provisions / reserves	2,741	5	51	-	2,797
8	Reserve Profit	-	-	4	-	4

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

		As on 31 December 2016
Sl. No	Type	Amount
1	Saving accounts	21,754
2	Term accounts	-
	Total	<u>21,754</u>

11. Equity of Investment Accountholders – Ratios

		As on 31 December 2016		
RO in '000		2016	2015	2014
Ratios and Returns				
ROA (Net income before IA's distribution / total assets)		1.7%	1.6%	1.5%
ROE (Net income after IA's distribution / Shareholders equity)		13.3%	12.8%	9.8%
PSR - Average Profit Paid				
Profit sharing ratio (Mudarib : Investment Accountholders)		70:30	70:30	70:30
Average Profit paid to investment accountholders		1.27%	0.86%	0.57%
Average Profit distributed per type of IAH				
Savings (RO 100 – RO 999.999)		0.22%	0.22%	0.27%
Savings (RO 1,000 – RO 9,999.999)		0.33%	0.33%	0.42%
Savings (above RO 10,000)		0.55%	0.55%	0.64%
Call accounts		0.33%	0.33%	-
Al Nama Smart Saving (RO 100 – RO 2,499.99)		0.22%	0.22%	-
Al Nama Smart Saving (RO 2,500 – RO 49,999.99)		1.32%	1.32%	1.53%
Al Nama Smart Saving (RO 50,000 – RO 499,999.99)		1.54%	1.54%	1.78%
Al Nama Smart Saving (Above RO 500,000)		1.76%	1.71%	-
Time deposits (Below RO 25,000)		-	0.51%	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 2016	Published financial statements	Under Regulatory scope of consolidation	Reference
Assets			
Cash and balances with CBO	29,631	29,631	
Due from banks	152	152	
Financings – Net, of which:	223,994	223,994	
- Loans and advances to domestic customers	-	226,791	
- Provision against financings, of which:	-	(2,797)	
- Specific provision	-	(56)	
- General provisions, of which	-	(2,741)	
- Amount eligible for T2	-	(2,308)	a
- Amount ineligible for T2	-	(433)	
Investments, of which	10,192	10,192	
- At fair value through income statement	10,000	10,000	
- At fair value through equity	192	192	
Fixed assets	1,262	1,262	
Other assets	1,497	1,497	
Total Assets	266,728	266,728	
Capital & Liabilities			
Paid-up Capital, of which:	25,000	25,000	
- Amount eligible for CET1	-	25,000	b
Reserves & Surplus; of which	8,397	8,397	
- Accumulated gains brought forward (CET1 adjustment)	-	3,956	c
- Amount eligible for T2 (Investments Fair value gains)	8	3	d
- AFS investments fair value gain unutilized	-	5	
- Current year unaudited profit not eligible for CET1	-	4,433	
Total Capital	33,397	33,397	
Deposits	170,659	170,659	
Due to banks	57,772	57,772	
Other liabilities & provisions	4,900	4,900	
TOTAL	266,728	266,728	

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17.1 The 3 step approach to reconciliation (continued)

Step 3: Step Reconciliation of Regulatory Capital:

Common Equity Tier 1 capital: instruments and reserves		(RO' 000)	Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation from step 2
	Component of regulatory capital reported by Bank		
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	25,000	b
2	Retained earnings	3,956	c
3	Common Equity Tier 1 capital before regulatory adjustments	28,956	
4	Total regulatory adjustments to Common equity Tier 1	-	d
5	Common Equity Tier 1 capital (CET1)	28,956	
Additional Tier 1 capital: instruments			
6	Additional Tier 1 capital (AT1)	-	
	Tier 1 capital (T1 = CET1 + AT1)	28,956	
Tier 2 capital: instruments and provisions			
7	Provisions	2,308	a
8	Fair value reserve of AFS investments	3	
	Tier 2 capital before regulatory adjustments	2,311	
	Tier 2 capital: regulatory adjustments	-	
	Tier 2 capital (T2)	2,311	
Total capital (TC = T1 + T2)		31,267	

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)	
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	Floating
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	Yes
31	If write-down, write-down trigger(s)	Statutory approach
32	If write-down, full or partial	Write down fully
33	If write-down, permanent or temporary	Permanent
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	NA

*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	Retained earnings	3,956
3	Accumulated other comprehensive income (and other reserves)	-
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-
	Public sector capital injections grandfathered until 1 January 2018	-
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	28,956
Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments(AFS investments fair value loss)	-
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	-

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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)	
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	-	
29 Common Equity Tier 1 capital (CET1)	28,956	
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	-	
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	-	

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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)	
43 Total regulatory adjustments to Additional Tier 1 capital	-	
44 Additional Tier 1 capital (AT1)	-	
45 Tier 1 capital (T1 = CET1 + AT1)	28,956	
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	2,311	
51 Tier 2 capital before regulatory adjustments	2,311	
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	-	
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)	2,311	
59 Total capital (TC = T1 + T2)	31,267	
RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	199,673	
OF WHICH: [INSERT NAME OF ADJUSTMENT]		
OF WHICH: ...		
60 Total risk weighted assets (60a+60b+60c)	199,673	
60a <i>Of which: Credit risk weighted assets</i>	184,675	
60b <i>Of which: Market risk weighted assets</i>	5,561	
60c <i>Of which: Operational risk weighted assets</i>	9,437	
Capital Ratios		
61 Common Equity Tier 1 (as a percentage of risk weighted assets)	14.50%	
62 Tier 1 (as a percentage of risk weighted assets)	14.50%	
63 Total capital (as a percentage of risk weighted assets)	15.66%	
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)	7.00%	
65 <i>of which: capital conservation buffer requirement</i>	-	
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)	3.66%	
National minima (if different from Basel III)		
69 National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	7.00%	
70 National Tier 1 minimum ratio (if different from Basel 3 minimum)	9.00%	

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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)	
71 National total capital minimum ratio (if different from Basel 3 minimum)	12.00%	
Amounts below the thresholds for deduction (before risk weighting)		
72 Non-significant investments in the capital of other financials	192	
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)	2,741	
77 Cap on inclusion of provisions in Tier 2 under standardised approach	2,308	
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)	-	

18. Basel III LIQUIDITY DISCLOSURE

The below liquidity disclosure is prepared in accordance with the requirements of the CBO Circular BM 1127 'Basel III – Framework on Liquidity Coverage Ratio (LCR) and LCR disclosure standard' issued on 24 December 2014.

LIQUIDITY COVERAGE RATIO (LCR) Common Disclosure Template

	Total Unweighted Value (average)	(RO '000) Total Weighted Value (average)
High Quality Liquid Assets		
1 Total High Quality Liquid Assets (HQLA)		<u>37,699</u>
Cash Outflows		
2 Retail deposits and deposits from small business customers, of which:	26,434	1,830
3 Stable deposits	12,554	580
4 Less stable deposits	13,880	1,250
5 Unsecured wholesale funding, of which:	53,851	30,742
6 Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7 Non-operational deposits (all counterparties)	36,983	14,793
8 Unsecured debt	16,868	15,949
9 Secured wholesale funding		-
10 Additional requirements, of which	-	-
11 Outflows related to derivative exposures and other collateral requirements	-	-
12 Outflows related to loss of funding on debt products	-	-
13 Credit and liquidity facilities	-	-
14 Other contractual funding obligations	3,133	313
15 Other contingent funding obligations	38	2
16 TOTAL CASH OUTFLOWS		<u>32,887</u>
Cash Inflows		
17 Secured lending (e.g. reverse repos)	691	346
18 Inflows from fully performing exposures	734	367
19 Other cash inflows	2,946	50
20 TOTAL CASH INFLOWS	<u>4,370</u>	<u>763</u>
		Total Adjusted Value
21 TOTAL HQLA		37,699
22 TOTAL NET CASH OUTFLOWS		32,124
23 LIQUIDITY COVERAGE RATIO (%)		117.36%

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: 25th January 2017

MANAGEMENT COMMITTEE OF AHLI BANK



Lloyd Maddock
Chief Executive Officer



Chandrashekhar Chetty
DCEO – Support Services



Said Abdullah Al Hatmi
Senior General Manager –
Risk, Finance, Legal and Compliance



Abdullah Salim Al Jabri
Senior General Manager – Operations,
IT and General Services



Sulaiman Ali Al Hinai
General Manager – Treasury,
Investments and FI



Bilal Anwar
General Manager – Corporate Banking



Abhik Goswami
General Manager – Risk Management

MANAGEMENT COMMITTEE OF AHLI BANK



Hana Mohammed Al Kharousi
Deputy General Manager -
Corporate Banking



Abdul Majeed Al Hooti
Deputy General Manager -
General Services



Said Al Hamdani
Deputy General Manager -
Head of Human Resources



Yousuf Salim Al Rawahi
Deputy General Manager -
Head of Branch Transformation



Zaliya Lal Bakhsh Al Balushi
Assistant General Manager -
Head of Mid-Market



Azzan Abdul Amir Hameed Al Saleh
Assistant General Manager -
SME Business Corporate Banking



Ghada Abdul Latif Al Balushi
Assistant General Manager -
Head of Credit Review



Ibrahim Salim Al Maamari
Assistant General Manager -
Legal & Compliance



Dur Mohammed Lal Al Balushi
Assistant General Manager -
Head of Information Technology



Fahad Khalfan Al Shuaili
Assistant General Manager -
Head of Internal Audit

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